



National Audit Office

# Improving the efficiency of central government's office property

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 8 Session 2007-2008 | 28 November 2007

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**22 November 2007**

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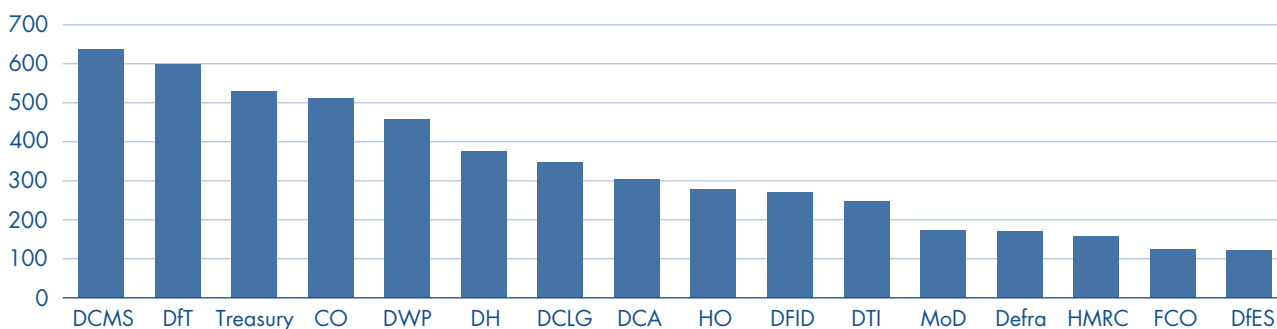
# KEY DATA

Our analysis is for departmental spending in 2005-06. A specific exercise was required to collect spending data. At the time of our analysis 2005-06 was the most recent year for which a full set of audited accounts data was available across all departments.

## 1 Central government departments' accommodation costs per square metre

Accommodation costs per square metre range from £123 to £636.

Accommodation cost per square metre 2005-06 (£)

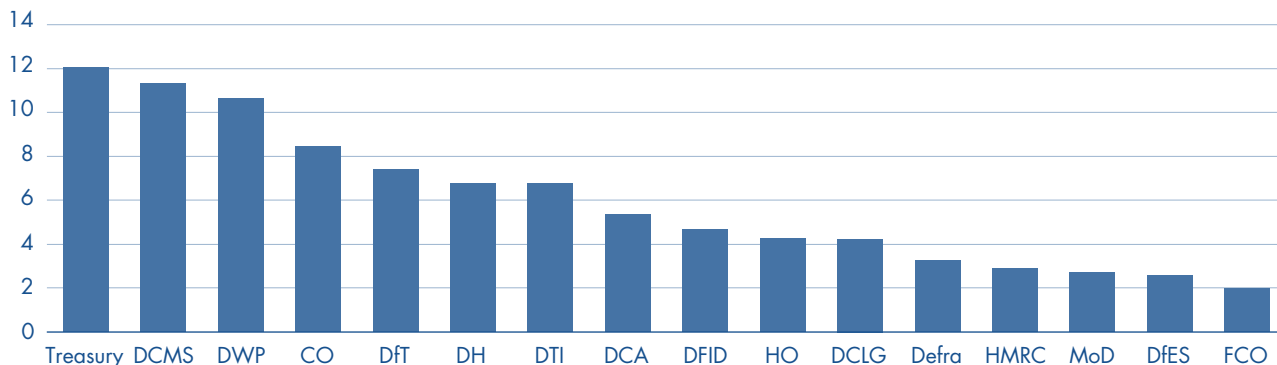


Source: National Audit Office

## 2 Central government departments' accommodation costs per employee

There is a £10,000 range in departments' accommodation costs per person.

Accommodation cost per person 2005-06 (£000)

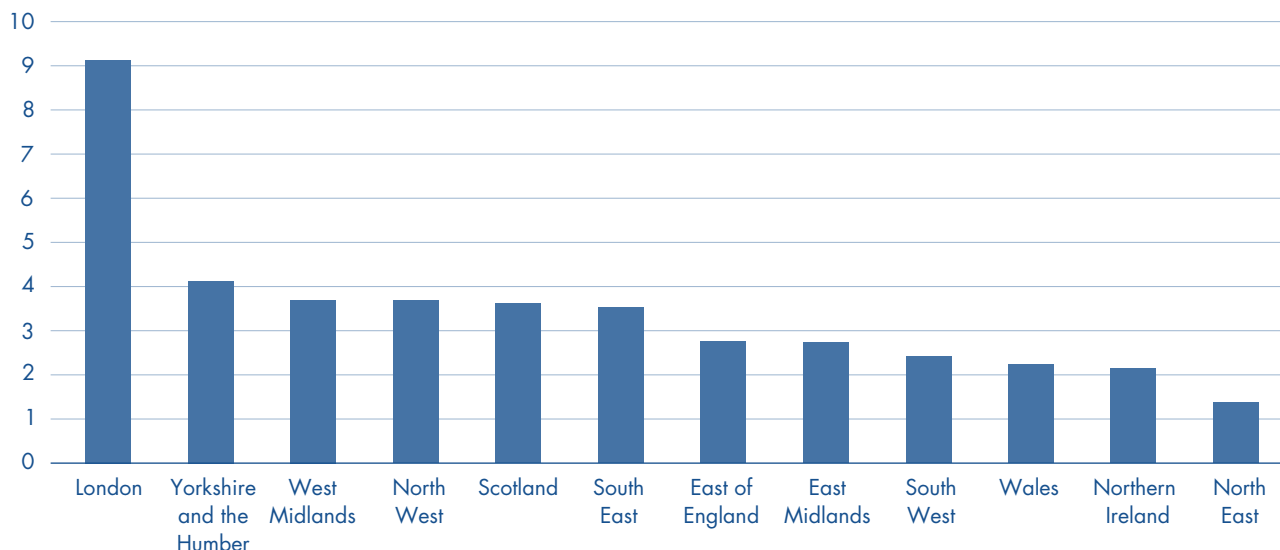


Source: National Audit Office

### 3 Cost per employee by region

Accommodation cost per person ranges from £1,400 in the North East to £9,100 in London.

Accommodation cost per person 2005-06 (£000)

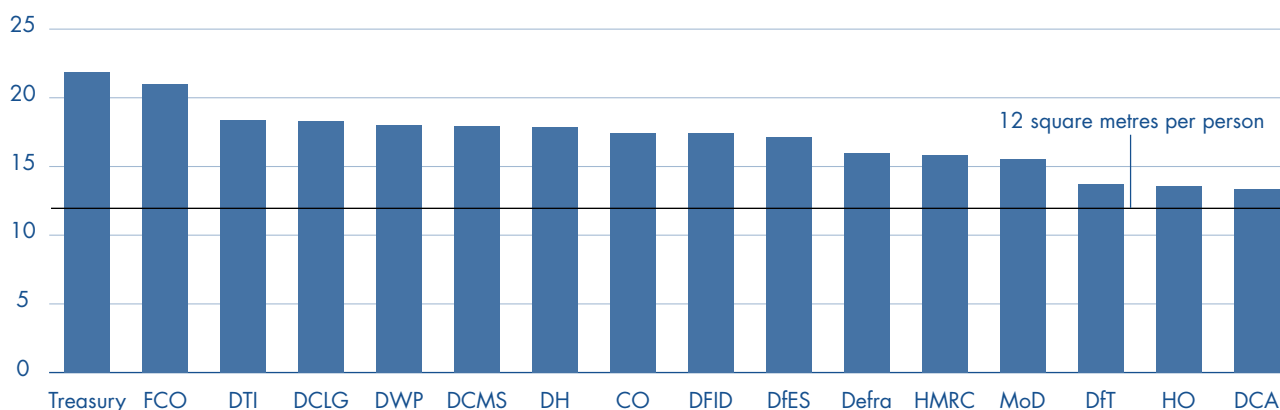


Source: National Audit Office

### 4 Department allocation of space per employee

All departments have scope to improve occupation density in line with suggested space standards.

Space per person 2005-06 (square metres)



Source: National Audit Office

#### NOTES TO FIGURES 1 TO 4

1 These charts are not yet able to show the impact of the more recent changes that departments have made to their office property. For example the Department for Culture, Media and Sport has since vacated two buildings and part of another, and made its head office open plan. Once its rationalisation exercise is complete the Department estimates that its accommodation costs per person will reduce from £12,707 to £6,429 and the accommodation costs per square metre from £636 to £469. The Treasury has co-located the Office of Government Commerce (OGC) within the main Treasury building and disposed of, or re-assigned the lease for, two buildings.

2 Three new departments were set up as a result of machinery of government changes on 28 June 2007. They replace the Department for Education and Skills and the Department of Trade and Industry and are the Department for Children, Schools and Families, Department for Innovation, Universities and Skills and the Department for Business, Enterprise and Regulatory Reform.

3 9 May 2007. Responsibilities of the Department for Constitutional Affairs transferred to the Ministry of Justice.

## 5 Improving space efficiency presents the biggest opportunity for departmental gross savings

Potential savings against private sector benchmark buildings based on 2005-06 data

Source of savings	Gross saving value (£ million)
Space	237
Accommodation cost	118
Total <sup>1</sup>	326

Source: National Audit Office

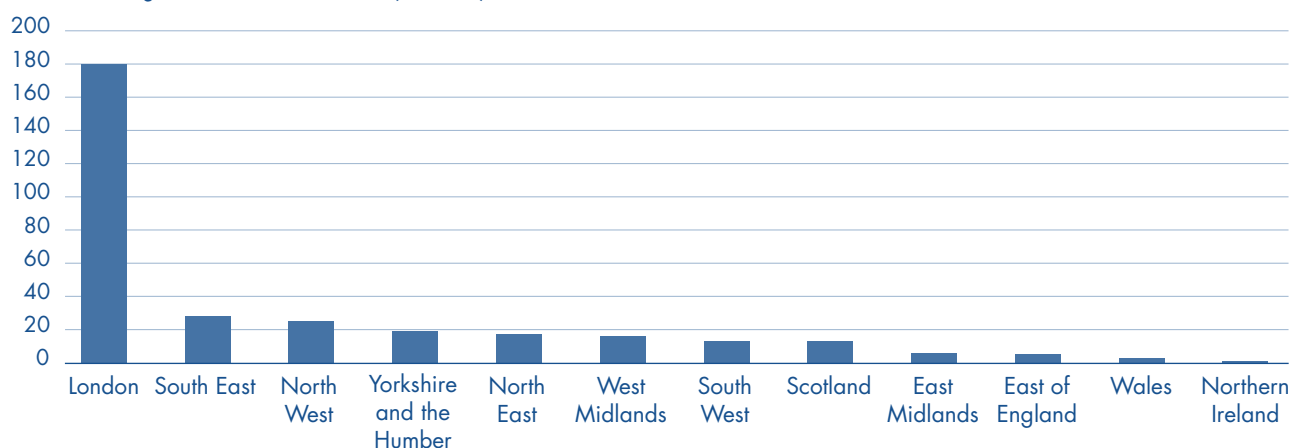
### NOTES

- 1 Total potential savings decline as space is reduced. Therefore total savings do not simply equal space efficiencies plus cost efficiencies.
- 2 Gross savings do not take account of any investment costs.

## 6 Regional spending and potential gross savings

Half of the potential gross savings can be achieved in London alone.

Potential saving based on 2005-06 data (£ million)



Source: National Audit Office

### NOTE

Gross savings do not take account of any investment costs.



# SUMMARY

**1** Following previous efforts that have lacked real commitment and leadership, there is now a renewed focus on the contribution that office property can make to improving government efficiency. The government civil property estate, estimated to be worth £30 billion and costing around £6 billion a year to run, is substantial and presents significant opportunities for savings.<sup>1</sup> Central government departments' office property alone is estimated to be responsible for almost £1 billion of the annual running costs.<sup>2</sup> On an office estate of such size much can be done to control costs and improve the efficiency of office property. If not corrected, inappropriate decisions regarding office property can soon prove costly due to the long term nature of property decisions and the impact that these decisions can have on the ability to deliver effective public services.

**2** The Office of Government Commerce (OGC), through its High Performing Property initiative launched in November 2006, is looking to improve efficiency from the civil property estate and realise £1 billion to £1.5 billion of annual efficiency savings by 2013.<sup>3</sup> This report is designed to add impetus to the drive to make government office property more cost-efficient and, if successfully delivered, High Performing Property will facilitate the delivery of the potential efficiencies that we have identified. The 'Transforming Government Procurement' initiative, launched in January 2007, gives OGC an increased remit to set standards, undertake monitoring and to intervene where necessary and provides a framework within which High Performing Property can be a success.

**3** Our study presents, for the first time, a consolidated view of the performance of central government departments' UK office property. As departments do not routinely hold data showing their performance against the key property metrics we had to mount a specific exercise to collect it. At the time of our analysis 2005-06 was the most recent year for which a full set of audited accounts data was available across all departments. Our assessment, based on our census of 16 departments and a detailed review of departments' office strategies and planning processes, is that departments' performance is sub-optimal and that there are a number of key areas for improvement. If departments could bring the performance of individual buildings into line with private sector benchmark buildings<sup>4</sup>, Government would reduce gross annual expenditure on offices by around £326 million. Further gains could be achieved through relocation to cheaper regions.

**4** Office efficiency can be analysed using a small number of key metrics. Our analysis shows that central government departments' accommodation costs per square metre range from £123 to £636 and accommodation costs per person vary by up to £10,000 (Figure 1 and Figure 2).<sup>5</sup> The largest element of cost is rent and in 2005-06 departments paid £618 million for rent on 3 million square metres of space, equivalent to a median of £234 per square metre. The actual rents vary by Government Office region going from the highest average in London of £397 per square metre to the lowest average of £63 per square metre in the South West.

<sup>1</sup> OGC High Performing Property Implementation Plan January 2006.

<sup>2</sup> NAO census of 16 government departments June 2007. The census includes all UK office property occupied by these departments as at financial year 2005-06 but excludes the office property of their Arm's Length Bodies.

<sup>3</sup> High Performing Property was launched by OGC in November 2006. The initiative describes a programme of activity, with associated milestones, to transform the Government estate and realise annual efficiency savings of up to £1.5 billion by 2013.

<sup>4</sup> The benchmark compares each building against the private sector average space and operating cost for the same type of building in the same location. Where a building occupies more space and, or, has operating costs above the benchmark the cost of the additional space or the higher operating cost has been calculated.

<sup>5</sup> Accommodation cost includes, where applicable, rent, utilities, facilities management and other operating costs (such as reprographics, telephones and archiving), or the PFI unitary charge.

**5** Central Government departments employ approximately 188,000 people in 877 offices around the UK, with 47,000 working in London. Departmental buildings in London have the highest accommodation cost per square metre at £507 followed by Yorkshire and Humber at £252 and Scotland at £243. The North East has the lowest accommodation cost per square metre at £133. **Figure 3** shows that London (£9,133), Yorkshire and the Humber (£4,124) and the West Midlands (£3,698) have the highest accommodation costs per person and the North East is again the lowest at £1,371.

**6** Accommodation costs will be higher where there is more space allocated per person, so departments need to manage their occupation density in order to be efficient. The amount of space allocated per person is 17.1 square metres on average but some departments manage with less, for example the Department for Constitutional Affairs<sup>6</sup> at 13.3 square metres, while others have considerably more, for example HM Treasury at 21.9 square metres (**Figure 4**).<sup>7</sup> In regions where space costs less per square metre, our benchmarking of property performance shows that there is a tendency to be more profligate with space and so lose some of the gains made possible by locating in areas with lower rental costs.

**7** The departments with the largest portfolios have the greatest opportunities to improve performance but all departments can do better. From our benchmarking of each building we estimate that over time departments can make gross savings of an estimated 38 per cent of current expenditure (£326 million in 2005-06 terms<sup>8</sup>) if they can bring existing buildings up to the same space and cost standards as average private sector comparator buildings (**Figure 5**).<sup>9</sup> In addition there are further opportunities to make savings by relocating from areas with high rental costs, such as London and the South East, to cheaper locations elsewhere in the country. Further savings are likely from the wider public sector office estate, for example NHS and the devolved administrations, and more generally across the non-office estate of all public sector organisations.

**8** Departments will not be able to realise all of the potential savings but will be able to achieve a substantial proportion of the anticipated savings in most cases.<sup>10</sup> Creating modern, flexible and sustainable offices and achieving ongoing savings will require initial upfront implementation costs. It is difficult to estimate the likely investment costs as these will vary on a building by building basis. Each building will have different terms of occupation, particularly those on leasehold contracts, and varying costs associated with individual building lease break clauses and dilapidation payments. Before embarking on projects to achieve potential efficiency savings, departments require a separate, robust business case for each building, that fully costs each element of the project including any associated relocation costs and justifies the proposed changes by meeting the business needs and aligning property, IT and Human Resources. The nature of property, and in particular the terms of leasehold contracts, means that savings are more likely to accumulate over the medium to long term rather than immediately.

**9** Our analysis identifies that there are opportunities for improving efficiency within both a departmental and geographical context. The five departments with the largest property portfolios could generate potential gross savings of up to £248 million from 76 per cent of the central government portfolio. **Figure 6** shows that the majority of the potential savings are likely to be generated from office property in London – in total half of the potential savings. In both a geographical and departmental context improving the use of space presents most opportunity for efficiency savings.

**10** Although our analysis is restricted to central departments there are potential savings across Arm's Length Bodies, including Executive Agencies<sup>11</sup> and Non-Departmental Public Bodies.<sup>12</sup> If the performance of Arm's Length Bodies is consistent with that of central government departments, then Government could achieve gross savings of between 14 to 50 per cent<sup>13</sup> of current expenditure across Arm's Length Bodies. This equates to potential gross savings of between £278 million and £1 billion.<sup>14</sup>

<sup>6</sup> 9 May 2007. Responsibilities of the Department for Constitutional Affairs transferred to the Ministry of Justice.

<sup>7</sup> HM Treasury is aware of the potential for better space utilisation and has since consolidated staff into fewer buildings.

<sup>8</sup> Differences in calculating proxy values for missing data account for the discrepancies between headline figures.

<sup>9</sup> Space standards are improved if there is better utilisation of space and a reduction in the overall space required for the number of employees. Cost standards are improved if an organisation reduces operating costs such as rent, maintenance and security.

<sup>10</sup> Savings can be made from space savings or cost savings alone, or from a combination of the two sources. However the total potential saving for a given building does not always equal the sum of the space saving component and the cost saving because you do not make cost savings on space you have released.

<sup>11</sup> The Highways Agency is an example of an Executive Agency.

<sup>12</sup> Examples of Non-Departmental Public Bodies include the Learning and Skills Council and English Heritage.

<sup>13</sup> 14 and 50 per cent represent maximum and minimum potential savings that central government departments could achieve against current expenditure (paragraph 5.11).

<sup>14</sup> The potential to achieve the total potential savings will, as with the central departments, be influenced by implementation costs and external factors such as the property market.

**11** In addition to providing a snapshot of current property performance our report also assesses departments' ability to manage and maintain, or improve delivery of property asset management. Some departments are well on their way towards having a structured and strategic approach to property asset management and the governance, policy, capability, and data enablers that underpin it. Our assessment shows that the Department for Work and Pensions, Ministry of Defence, HM Revenue & Customs, Department for International Development, Department for Transport and the Department for Education and Skills<sup>15</sup> currently demonstrate the best overall property asset management. However we have found that, for the most part, departments:

- do not have an accurate and up-to-date understanding of all of those data elements that feature in improving building efficiency, in particular the number of people, the occupation level (how many people are actually in the building at any given time), the number of work stations and the environmental performance of the building; and
- do not have strategic property asset management plans that cover the whole department family and they often struggle to engage effectively with their Arm's Length Bodies.

**12** In other areas our assessment of departments' asset management strategies shows that departments are committing effort to the High Performing Property programme and developing an approach to property which is driven by business needs. Departments are also demonstrating good practice in delivering property projects that have been subject to adequate business case development, which comply with Treasury accounting rules and result in improvements to occupation density and staff working conditions.

**13** Centrally, OGC has made good progress in the early stages of its High Performing Property initiative.<sup>16</sup> Both OGC and departments have met the early milestones of the initiative. Departments have nominated property champions; property asset management boards are being put in place and benchmarking of all buildings has recently become mandatory.

**14** Overall, this examination shows that central government departments are a long way from achieving full value for money from their office estate. There are encouraging signs of engagement with the issue, evidence of performance improvement and we judge that progression is in a generally positive direction however there is still a vast amount of change required.

## Recommendations

**15** Our analysis has identified a number of areas where departments and OGC can improve the way in which they strategically plan, occupy and manage their office property requirements. OGC anticipates that High Performing Property, and the implementation of departments' asset management plans, will achieve a more efficient portfolio of office property across Government. To improve value for money we recommend that:

**i** Issue: Departments do not routinely hold the required key management information to effectively manage their office property. **Departments should have better data on the efficiency of individual buildings and their building portfolio.** Departments should have a clear understanding of how information will be collected, reported and managed. Accurate data on building location, costs, occupation density, day to day occupation level, and key environmental metrics is necessary for the proper understanding of performance. Departments' property asset management boards should use this information to pursue continuing improvement in performance. This approach should extend to all business units and Arm's Length Bodies.<sup>17</sup>

**ii** Issue: Departments cannot judge how well they are performing in relation to other organisations. A sense of relative performance is required to target improvements for individual buildings and across departments. **Departments should actively engage with OGC's High Performing Property benchmarking service to identify buildings with outlying performance, to understand why building performance is comparatively poor and take steps to improve performance.** All departments will have a small number of buildings which have comparatively

<sup>15</sup> Our analysis is for department spending in 2005-06. Three new departments were set up as a result of machinery of government changes on 28 June 2007 in part replacing the Department for Education and Skills.

<sup>16</sup> High Performing Property was launched by OGC in November 2006. The initiative describes a programme of activity, with associated milestones, to transform the Government estate and realise annual efficiency savings of up to £1.5 billion by 2013.

<sup>17</sup> This report uses the term 'Arm's Length Bodies' to describe, collectively, a department's Non-Departmental Public Bodies and Agencies.

poor performance. Departments should make the effort to identify and monitor these buildings and take remedial action where it is both possible and desirable to do so. The introduction of the benchmarking service across the whole of government will make departments more aware of outlying buildings but it is for departments to do something about it. Benchmarking will allow departments to understand their building and portfolio performance not only in comparison with other public sector organisations but also with the private sector. OGC's benchmarking service offers departments the opportunity to identify poor performance and to aim for higher performance standards and subsequent efficiency gains.

**iii** Issue: Departments are using space inefficiently. **Departments should actively challenge existing occupation density and working practices to improve space utilisation.** Departments can consider improving space utilisation by moving away from a ratio of one person to one desk, towards a ratio of 0.7 desks per person<sup>18</sup>, through the introduction of flexible working arrangements, such as desk sharing and remote working. Better space utilisation is also made possible by moving towards open plan offices and the specification of approved space standards. In 2007 OGC commissioned a study which suggests moving towards a 'standard' of 12 square metres per person. Consultation with departments is currently underway on the potential for implementing such a 'standard' effectively.

**iv** Issue: There is significant difference in regional accommodation costs. **Departments can achieve cost savings by locating in less expensive regions. Departments should challenge existing office property costs by fully exploring options for locating in cheaper regions and still meeting the business needs.** For illustrative purpose, if government moved 10,000 posts from the most expensive region (London) to the cheapest region (the North East) this would reduce gross annual costs by £78 million even without improving the space efficiency.<sup>19, 20</sup> Relocation incurs implementation and other associated costs such as redundancy payments, individuals' relocation expenses and dilapidations on surrendered leases.

**v** Issue: Departments are missing opportunities for better co-ordination and improved value for money across department families. **Departments need to ensure their Arm's Length Bodies adopt a strategic, value for money approach to property management using all levers available to them including funding and approval mechanisms.** The autonomy of Arm's Length Bodies does not prevent sponsoring departments requiring maximum effective use of public funds. This includes adopting space and efficiency standards and opportunities for co-location when they arise. Departments require the appropriate skills capacity and capability to work effectively with their Arm's Length Bodies.

**vi** Issue: Departments need more practical help to understand and implement opportunities to improve efficiency by coordinating activity with other departments. **OGC should offer stronger guidance and practical help on improving the efficiency of individual building and property portfolios. OGC can be more proactive in coordinating a joined up approach so that departments realise opportunities for co-location and relocations.** Departments already value the advice and assistance they obtain from OGC in finding space or partners for subletting but would welcome more practical help. In particular departments are looking to OGC to actively identify and facilitate joined up relocation and co-location efforts. OGC and Treasury need to provide greater clarity about their expectations concerning co-location and relocation. There is scope to accelerate some of the High Performing Property objectives by providing early, and improved, clarity on potential strategic and tactical delivery models to achieve government's property requirements, for example how to achieve efficiencies from individual segments of the property estate such as freehold and leasehold, and incorporating early lessons from departments' responses to the Varney report.<sup>21</sup> Some of this will require OGC to have a stronger hand in shaping government's property decision making processes. Additionally OGC can achieve co-location objectives by making more use of their increased remit to set standards, undertake monitoring and to intervene where necessary. OGC can more strongly challenge departments on key performance metrics such as the application of space 'standards'.

<sup>18</sup> An appropriate desk ratio depends upon the nature of the business unit. Our fieldwork shows that most business units can adopt some elements of flexible working. Departments can pursue lower ratios when a substantial amount of work is not location specific.

<sup>19</sup> Based on accommodation costs per person of £9,133 in London and £1,371 in North East region as collected in our survey of departments.

<sup>20</sup> The pre-budget report 2007 reports that 13,300 posts have been relocated out of London and the South East.

<sup>21</sup> *Service transformation: A better service for citizens and businesses, a better deal for the taxpayer.* Sir David Varney, December 2006.

# PART ONE

## The importance of office property

### The scope of the study

**1.1** This report aims to provide accountability to Parliament on the use of public funds and to identify opportunities for improving government's use of office space. Our definition of office space is where the primary function of the office is the development and implementation of policy or the carrying out of administrative processes and functions.<sup>22</sup> This report does not consider buildings where the primary function is dealing directly with members of the public, archiving or conducting research.

**1.2** The report assesses whether departments are effectively managing and achieving value for money from their own office space. It also considers whether departments have the necessary systems in place to ensure their agencies and Arm's Length Bodies also deliver value for money. We do not make an assessment of the quality of office property. The report focuses on four main areas:

- An analysis of current spending on property and office sustainability issues within 16 central government departments; (part 2)
- An analysis of the quality of asset management strategies and the capability of departments to deliver their strategies; (part 3)
- An assessment of the role of the Office of Government Commerce (OGC) in improving efficiency from office accommodation; (part 4)
- An analysis of the potential efficiency savings across central government from improved use of office space. (part 5)

**1.3** The three main strands of our methodology were a census of the entire office property<sup>23</sup> portfolio of 16 central government departments<sup>24</sup>, for which we received information on 877 out of a total of 896<sup>25</sup> buildings, a review of their current asset management strategies and benchmarking to assess building performance. We used the census to collect key information on the components that determine property efficiency including size of office estates, cost and utilisation of office space. This data was used to produce a baseline of performance and identify where efficiency improvements can be made.

### The context

**1.4** Government expenditure can be split into the money spent on services, wages and benefits and the money spent on assets, such as land, buildings and computers. The National Asset Register records the totality of fixed assets owned by central government. First produced and published in 1997 it has since been updated twice – firstly in 2001 and, most recently, in January 2007. The threshold for inclusion on the register has been raised from £1,000 to £1 million in the latest version, although aggregate figures for lower value items are also included. The register shows a picture of the gross movement of acquisitions and disposals but does not examine the efficiency or effectiveness of the way in which the assets are used. Land and buildings figure heavily on the register and a proportion of these holdings will be office accommodation.

<sup>22</sup> Mixed use buildings with more than 50 per cent of floor space used for public access are not included.

<sup>23</sup> Mixed use buildings with more than 50 per cent of floor space used for public access are not included.

<sup>24</sup> See table 30 in the Appendix for participating departments.

<sup>25</sup> Data requested on 896 buildings – responses received for 877.



**1.5** The exact expenditure on office accommodation for the whole of Government is poorly understood. OGC estimates that the Government Civil Estate has an annual cost estimated at £6 billion and covers some 13 million square metres of floor space.<sup>26</sup> Current databases of government estate are known to be flawed and to have a restricted data set that does not fully address issues of costs, occupation density or effectiveness measures. Current projects, such as the OGC led property benchmarking service should go a long way towards rectifying this lack of comprehensive understanding.

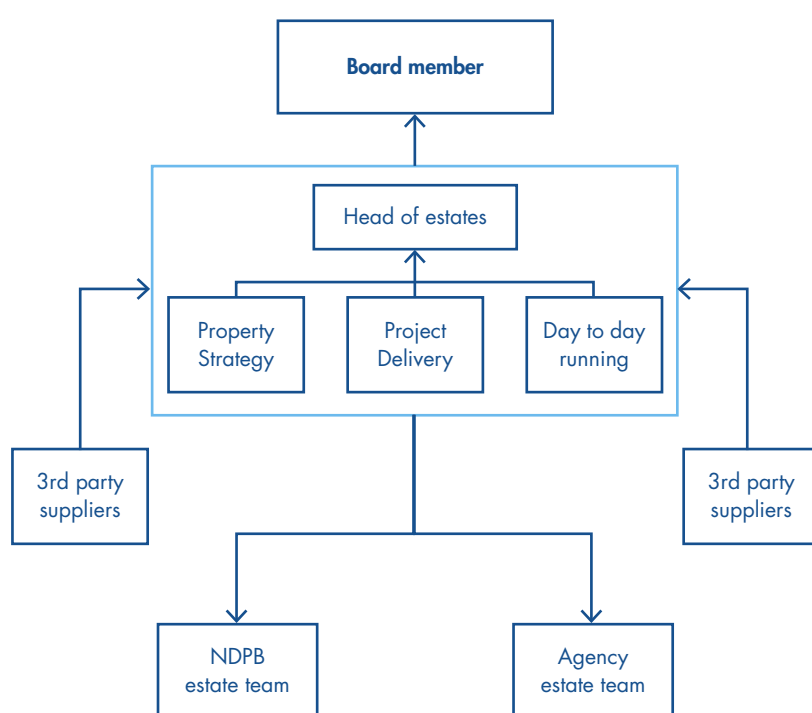
## The increasing focus on efficiency from office property

**1.6** This study is timely as a number of recently published reviews and reports highlight the role of accommodation in improving efficiency. All central government departments are seeking to achieve greater

efficiency savings in response to the Gershon and Lyons Reviews and the 2006 Budget Report also identifies asset management as a key component of the 2007 Comprehensive Spending Review<sup>27</sup> (Appendix 1). As a consequence the efficiency of office property is being given higher profile at board level within departments. This increasing focus within departments is reflected in the typical departmental governance structure and the associated roles and responsibilities for delivering value for money from property (**Figure 7**).

**1.7** OGC is taking a proactive role in encouraging departments to take a strategic approach to the use of property, including office property, to improve effectiveness and reduce costs. The cornerstone of this is High Performing Property which sets out good practice enablers that OGC expects will lead to substantial improvement in the management of the Government estate.

### 7 Example of departmental governance structure and responsibilities for office property



A board member is nominated as the Department's property champion and represents the Department on OGC's High Performing Property initiative.

The size, and importance of the office property estate to delivering the Department's business objectives will partly determine the make up of the estates team and the degree to which it delivers estate functions in-house.

A Department's estate team can typically have 3rd party suppliers advising on specific projects, providing day to day services, such as facilities management, or helping with a strategic review of a property portfolio.

Department's estate teams provide varying levels of advice, guidance and review of their Arm's Length Bodies management of office property. The level of direct interaction between a Department's and an Arm's Length Body's Estate teams can vary. Sometimes all interaction is led by the sponsored body's partner team in the Department. Depending on the size of the Arm's Length Body the structure of the estate team will reflect more or less that of a department.

Source: National Audit Office

<sup>26</sup> OGC High Performing Property p3.

<sup>27</sup> Economic and Fiscal Strategy Report and Financial Statement and Budget Report March 2006.

## The challenges to using office property efficiently

**1.8** The main efficiency drivers in the use of office accommodation are the location of the property, the age of the property, whether it has air-conditioning and modern heating systems, the building's general state of repair and the configuration of the property. All organisations face these problems but the public sector, with its legacy of

listed buildings, poor record on building maintenance and fluid staffing demands can find effective property asset management particularly demanding. However these are not insurmountable problems (**Figure 8**). Departments must also ensure that they meet the requirements of the Disability Discrimination Act. The Act requires employers to make "reasonable adjustments" for a disabled person put at a substantial disadvantage by a provision, criterion or practice, or a physical feature of premises.

### 8

#### Common challenges and opportunities to achieving efficient use of office accommodation

Challenge	Why is this challenging?	How can organisations overcome this challenge?
Listed buildings	Listed buildings can be difficult to reconfigure leading to apparent inefficient use of space and low occupation densities. They can also require much more expensive maintenance regimes.	The Foreign and Commonwealth Office, Ministry of Defence, HM Treasury and Cabinet Office have all recently refurbished listed property converting the buildings to modern flexible workspace.
Security	Some Departments have a higher requirement for security than either the private sector or other Government Departments – this increases costs and reduces opportunities for co-location of offices.	Security considerations are important. However in most instances security does not prevent the majority of government organisations from co-locating.
Frequent reconfiguration of departments and long leases	Departments frequently alter size and configuration as machinery of government changes are often reflected in the creation, merging or disbanding of departments or Arm's Length Bodies. In addition, the need to respond to emerging crises (for example foot and mouth) can place great demands upon an estate's flexibility. Departments usually plan in detail for the current spending round or the life of a single Parliament. Despite this known fluidity in the lifetime and needs of departments and their Arm's Length Bodies buildings leases are typically acquired for periods of 15 years or more. This makes future proofing office property decisions difficult as business strategies and property strategies are currently operating within different planning horizons.	Departments can use flexible managed office space <sup>1</sup> to manage uncertainty or the unpredictability of their demand for space. A co-ordinated approach to flexible managed offices across government, and locations, can provide flexibility and reduce long term liabilities. <sup>2</sup>
Funding restraints and efficiency targets	Building maintenance is one of the easiest areas of planned expenditure to focus on when spending cuts are necessary. However this eventually catches up with departments as buildings' performance deteriorates or the end of leases requires large dilapidation repairs to be funded.	By fully costing the impact of under investing, departments can rigorously challenge cost cutting proposals.
Location constraints	There may be constraints on where offices can be located – for example ministerial offices must be within a prescribed travelling time of the Houses of Parliament.	Departments need to challenge preconceptions that certain roles are location specific. Departments can also make use of technology, such as video and teleconferencing, to overcome perceived barriers to choosing alternative locations.  Departments can identify which staff must be in the same office as the minister and make accommodation decisions on this basis.

Source: National Audit Office

#### NOTES

1 Occupiers' requirements for space, including facilities management, are provided under a single short-term contract and unitary charge.

2 The flexible managed office concept and its potential application across government is more fully discussed in *Getting the Best from public sector office accommodation*, NAO, June 2006.

# PART TWO

## An analysis of central government's spending on office property

**2.1** We collected information on central government's UK office property estate using OGC's ePIMS<sup>28</sup> property database supplemented by a survey of each department.<sup>29</sup> Despite being mandatory the ePIMS system was not completely up-to-date and some departments with large estates make little or no use of the ePIMS system, preferring their own bespoke databases instead. Some departments were unable to supply all the information that we requested, citing reasons including the time and costs associated with collecting the information, difficulties in extracting property costs from PFI<sup>30</sup> unitary charge payments and the complexities of MOTO<sup>31</sup> arrangements.<sup>32</sup>

**2.2** We found that often departments did not know key management data on their buildings. Out of 896 buildings, in 665 cases departments could not provide details on the proportion of building space that is cellular and open plan and in 58 cases were unable to provide a detailed breakdown of operating costs. In 60 cases departments did not know how many people were based in the building and so could not calculate an accurate occupation density despite this being the prime consideration in determining the cost of offices and the potential for savings. Data on sustainability issues was poor overall – in 544 cases departments did not know if the building had a recycling scheme, despite the Government's emphasis on improving sustainability.<sup>33</sup>

### Total central government expenditure on office property across the UK

**2.3** Central government departments spent just under £1 billion on accommodation costs in 2005-06.<sup>34, 35</sup> Rent accounts for £618 million of the accommodation costs and operating costs £228 million.<sup>36</sup> The 16 central government departments responding to our survey occupy three million square metres, in 896 buildings providing workspace for an estimated 188,000<sup>37</sup> people (full time equivalents) and an estimated 194,000 workstations.<sup>38</sup> Across central government the median average accommodation cost per square metre is £412 and the median average cost per person is £7,392.

### Regional Analysis

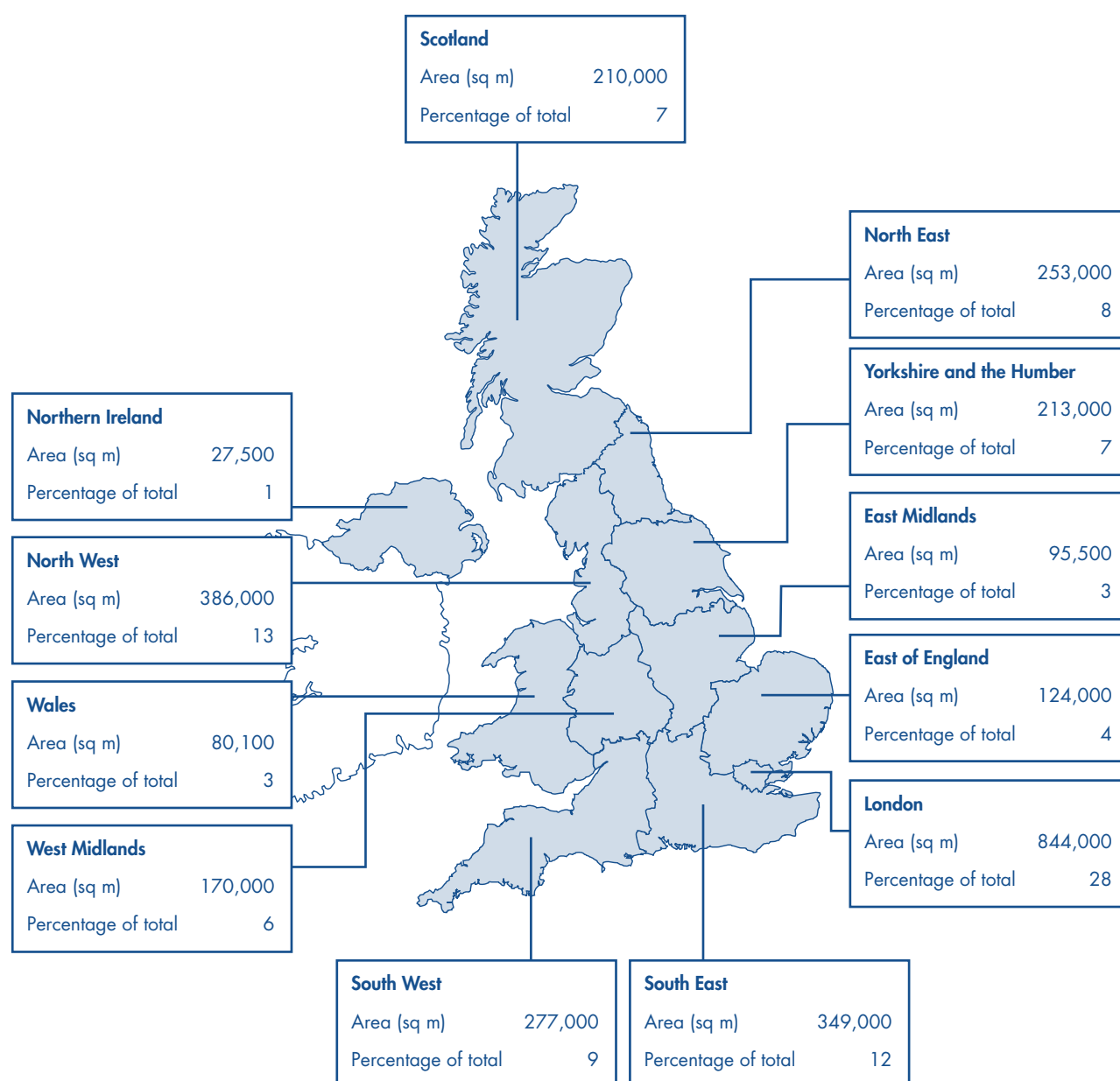
Departments are slowly increasing their presence in the regions but London still dominates

**2.4** Of the 877 buildings we surveyed, 119 were in London and 127 in the South East (a combined 28 per cent of the total number of buildings). London is the region with the highest rental and land values. **Figure 9** shows the regional distribution of office space and **Figure 10 overleaf** shows the number of people located in each region's buildings.

- <sup>28</sup> The electronic Property Mapping Information Service (ePIMS) is a database administered by OGC which holds information on government office property.
- <sup>29</sup> The census includes all UK office property occupied by the 16 departments during 2005-06 but excludes the estate of any of their Arm's Length Bodies at that point in time.
- <sup>30</sup> PFI can offer access to capital funds, risk transfer, greater cost certainty, and flexibility all of which is paid for through the unitary charge. This can make PFI buildings appear more costly than conventionally procured buildings. PFI unitary charges can also include extra elements such as childcare provision or building depreciation.
- <sup>31</sup> Memorandum of Terms of Occupation – in effect a type of sub-letting arrangement.
- <sup>32</sup> The Department for Work and Pensions has invested effort in property data collection and analysis and can extract property costs from its building PFI charges.
- <sup>33</sup> See Supporting Paper 1 – Methodology for a full breakdown of metrics with missing data or don't know responses. Available via National Audit Office website at <http://www.nao.org.uk>.
- <sup>34</sup> Foreign and Commonwealth Office was given an imputed value for operating costs on the basis that utilities account on average for 16 per cent of operating costs. See Supporting Paper 1 – Methodology available via National Audit Office website at <http://www.nao.org.uk>.
- <sup>35</sup> Accommodation costs is defined as rent plus operating costs. See Supporting Paper 1 – Methodology available via National Audit Office website at <http://www.nao.org.uk>.
- <sup>36</sup> Operating costs include utilities, waste disposal, building maintenance and repairs and business support. Operating costs are included in the unitary charge for Her Majesty's Revenue & Customs and, for the purpose of this report, have not been recorded as separate spending.
- <sup>37</sup> Data on the number of people is missing for approximately five per cent of buildings.
- <sup>38</sup> Department for Work and Pensions was given an imputed value for the number of workstations on the basis of the group average of 1.07 workstations per person.

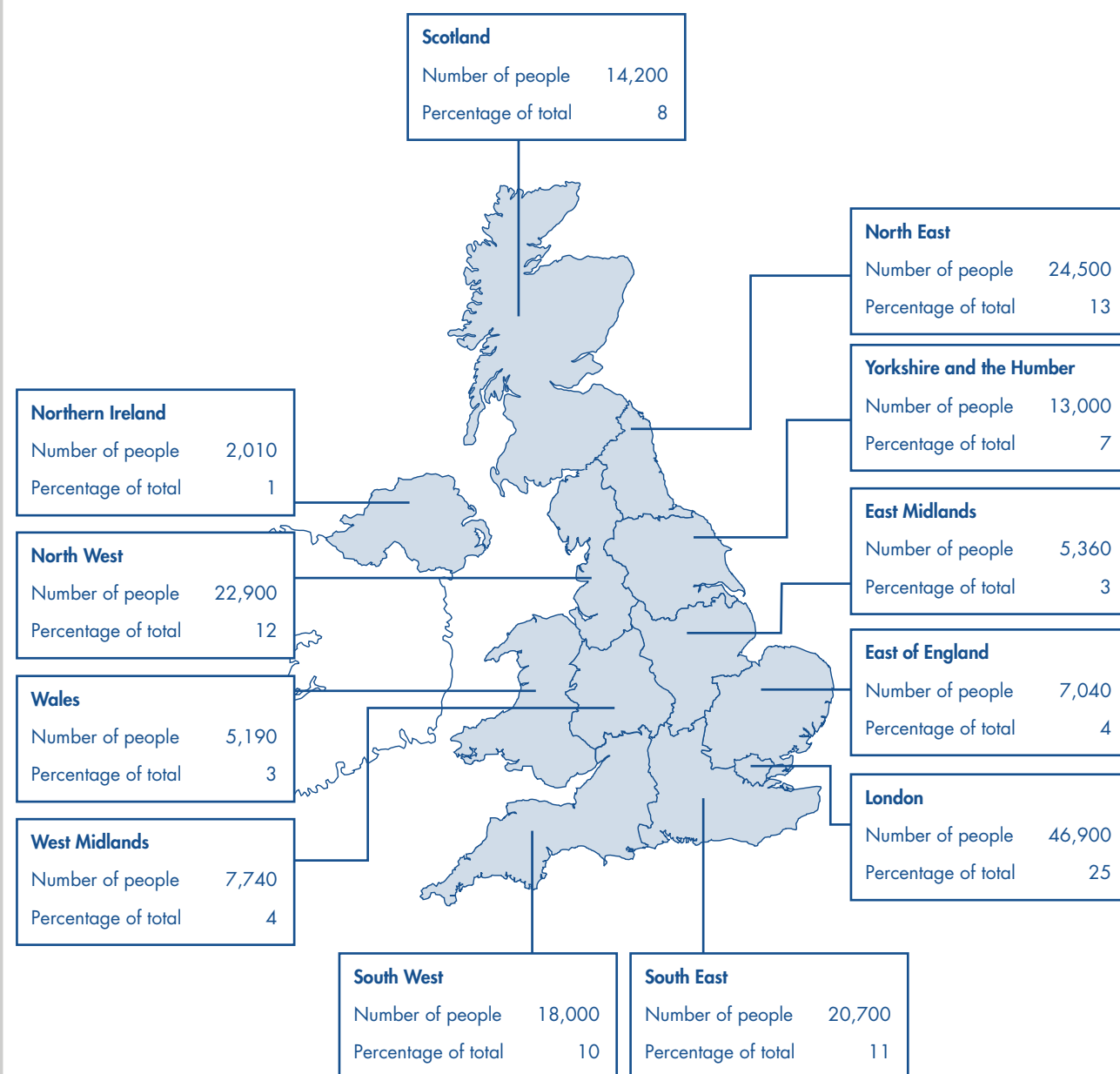


## 9 More than a quarter of departments' office space is located in London (based on 2005-06 data)



Source: National Audit Office

## 10 Twenty five per cent of departments' employees are located in London (based on 2005-06 data)



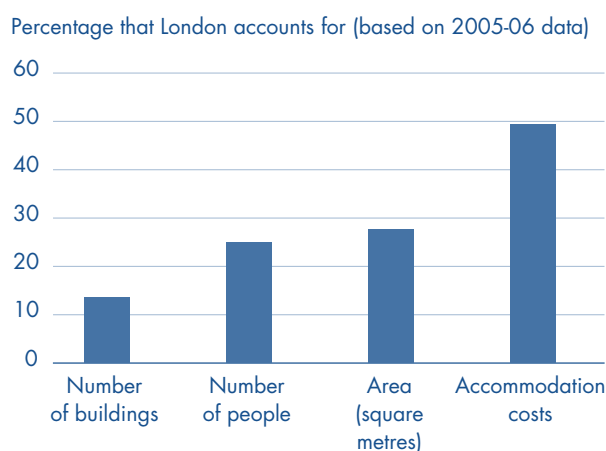
Source: National Audit Office

**2.5** London's 119 buildings cover a net internal area of 844,023 square metres accommodating 47,000 people. London accounts for around half of the accommodation costs despite accounting for only approximately 14 per cent of buildings<sup>39</sup> (Figure 11). There is currently, in effect, a moratorium on acquiring new leases in London and departments are all tasked with reducing the number of posts they have located in London and the South East.

**2.6** Figure 12 overleaf shows that departmental buildings in London have the highest accommodation cost per square metre at £507 followed by Yorkshire and the Humber at £252 and Scotland at £243. The North East has the lowest cost per square metre at £133. Figure 13 overleaf shows that London (£9,133), Yorkshire and the Humber (£4,124) and the West Midlands (£3,698) have the highest accommodation costs per person and the North East is again the lowest at £1,371.

<sup>39</sup> Accommodation cost includes, where applicable, rent, utilities, facilities management and other operating costs (such as reprographics, telephones, archiving etc), or the PFI unitary charge.

## 11 Departments' buildings in London account for a significant proportion of office area, staff and accommodation costs



Source: National Audit Office

**2.7** Figure 14 on page 20 shows the regional distribution of department staff for the six departments with the largest number of full time equivalents. Most departments have a spread of staff across all regions but the Department for Education and Skills have managed to consolidate their staff into only four regions.<sup>40</sup>

## Analysis of key metrics on a departmental basis

**2.8** Departments need to understand building costs and performance on both an individual basis and across their whole office property portfolio to identify where problems exist and take remedial action. To understand performance departments need to know how much their space costs,

how well the space is occupied and the per person cost of the space occupied. In some cases departments may decide that paying for increased flexibility in their estate offers value for money that enables them to more easily react to and meet changing business needs. The cost of the flexibility is incorporated into the cost of the estate and is illustrated, for example, by Department for Work and Pensions' PRIME contract, which incorporates a reasonable cost for the department's required flexibility.<sup>41</sup>

## Accommodation costs per square metre vary widely

**2.9** Cost per square metre is the normal basis of rental charge and is calculated with reference to the net internal area of the floor space (after taking out those parts of the building that are used in common with other occupiers, for example entrance halls, atria, landings, stairs and lift wells). Rental costs plus operating costs are referred to as accommodation costs and can also be calculated per square metre.<sup>42</sup>

**2.10** Figure 15 on page 22 shows that the lowest median accommodation costs are found in the former Department for Education and Skills with £123 per square metre and Her Majesty's Revenue & Customs at £157 per square metre.<sup>43</sup> By contrast the Department for Culture, Media and Sport has the highest median accommodation cost per square metre at £636<sup>44</sup> which is based on only four buildings, all of which are in London. Since 2005-06 the Department for Culture, Media and Sport has taken steps to rationalise its estate by refurbishing its head office and providing open plan accommodation. The Department has vacated two buildings, part of another, which it has plans to vacate, and expects that this will significantly reduce its accommodation costs.

<sup>40</sup> Three new departments were set up as a result of machinery of government changes on 28 June 2007. They replace the Department for Education and Skills and the Department of Trade and Industry and are: Department for Children, Schools and Families, Department for Innovation, Universities and Skills and Department for Business, Enterprise and Regulatory Reform.

<sup>41</sup> Accommodation services for the Department for Work and Pensions: *Transfer of property to the private sector under the expansion of the PRIME Contract*, National Audit Office, HC 181, 2004-05.

<sup>42</sup> Accommodation cost includes, where applicable, rent, utilities, facilities management and other operating costs (such as reprographics, telephones archiving etc), or the PFI unitary charge.

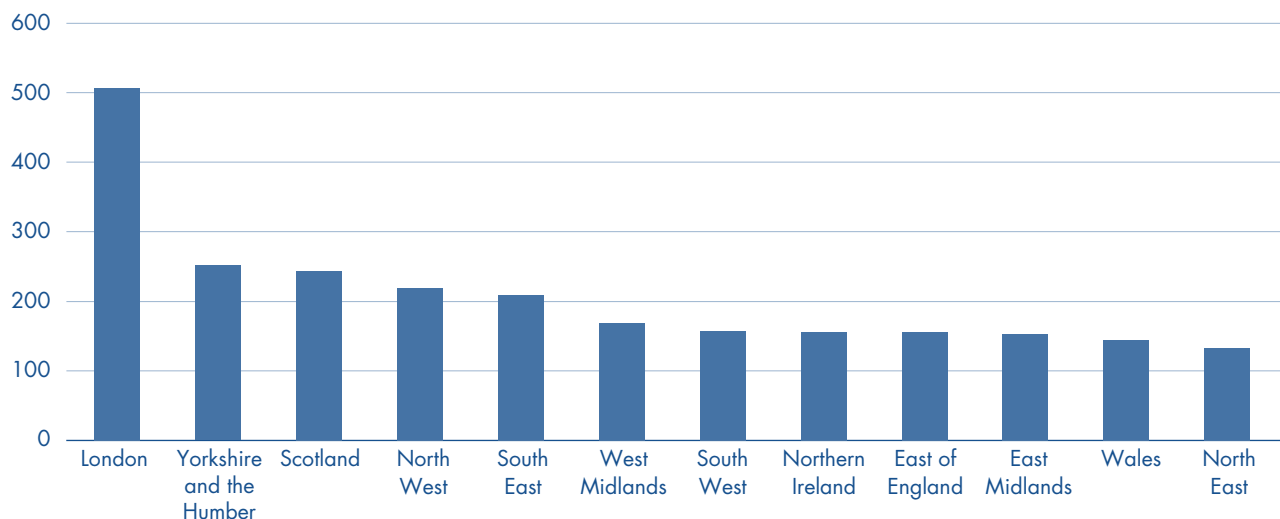
<sup>43</sup> We used median values to analyse departmental performance to avoid outlying buildings skewing the analysis. See Supporting Paper I – Methodology for more detail.

<sup>44</sup> It should be noted that some departments may not be completely represented due to lack of data for operating costs; number of buildings with a don't know response to operating cost – Department for Constitutional Affairs 7/19, Department for Environment Food and Rural Affairs 15/128, Department for Transport 7/10, Foreign and Commonwealth Office 4/5 and Home Office 9/82.

## 12 Regional accommodation costs per square metre

Accommodation cost per square metre ranges from £133 in the North East to £507 in London.

Accommodation costs per square metre 2005-06 (£)

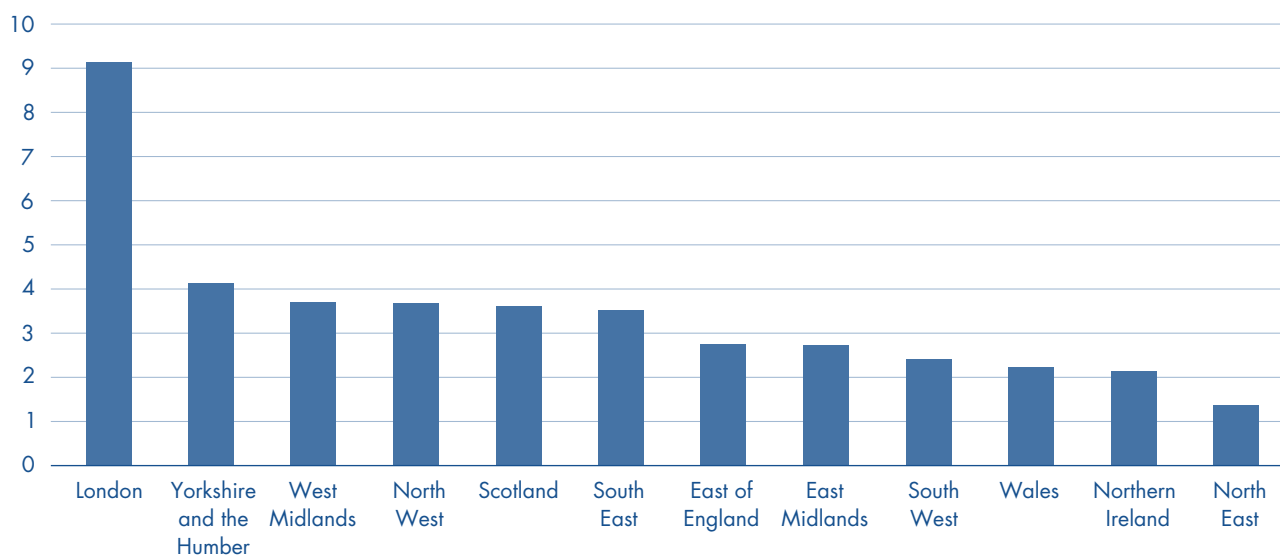


Source: National Audit Office

## 13 Regional accommodation costs per person

Accommodation cost per person ranges from £1,400 in the North East to £9,100 in London.

Accommodation cost per person 2005-06 (£000)



Source: National Audit Office

**2.11** Headquarters<sup>45</sup> buildings cost more per square metre than other buildings. The 16 central government departments classify 131 buildings as headquarters buildings. Accommodation cost per square metre for these buildings (£427) is more than double the amount for buildings not classified as headquarters (£191). This is probably due to a number of factors including the concentration of headquarters in London (62 buildings out of 131), the likelihood that headquarters are impressive but expensive buildings with infrastructure issues which reduce usable space (for example listed buildings) and the need to accommodate higher ranking individuals, such as ministers and permanent secretaries, who often have a greater space allocation per person.

## Costs per person

**2.12** Another important metric is cost per person (**Figure 16 on page 23**). The Treasury's estate, with a median cost of £12,041 per person, has the highest reported cost, followed closely by Department for Culture, Media and Sport at £11,336. The Department for Education and Skills is a good performer with cost per person at £2,592.

## Cost per person versus cost per square metre

**2.13** **Figure 17 on page 24** shows a comparison of accommodation cost per person against the accommodation cost per square metre. Most departments follow the general trend that as costs per square metre increase so does the cost per person. However, there are exceptions. The Treasury's cost per person is higher than may be expected when compared to its cost per square metre. This suggests that the Treasury has excess capacity

in its buildings which is not currently being utilised; the Treasury is aware of this and has since relocated staff from the Office of Government Commerce into one of its existing buildings reducing the total number of buildings occupied and improving its overall space utilisation. The Ministry of Defence, Her Majesty's Revenue & Customs and the Department for Education and Skills appear to be performing well. Factors affecting departments' performance include the number of buildings that are occupied on a freehold basis – for which departments do not pay rent.<sup>46</sup> However although half of the departments in our survey hold some property on a freehold basis, freehold accounts for only six per cent of all office property in our census.

## Occupation Density

**2.14** Occupation density is a measure of the allocation of building space per person. Efficient and effective configuration of the building permits a lower space allocation per person while still preserving a feeling of comfort for staff and complying with health and safety and disability legislation. There is currently no definitive space standard for space usage in public sector offices but the British Council for Offices (BCO) suggests a good practice range of between 12–17 square metres per person.<sup>47</sup> In 2007 OGC commissioned a study to recommend a standard for the use of office space and to comment on how such a standard might be introduced. The study suggests a 'standard' of 12 square metres per person and OGC is consulting departments on the next steps to implementing a standard. Most departments are currently performing above the recommended standard and can work towards reducing occupation density towards 12 square metres per person (**Figure 18 on page 24**).

<sup>45</sup> For the purpose of our survey, Headquarters is defined as the office(s) that serves as the administrative centre for the organisation.

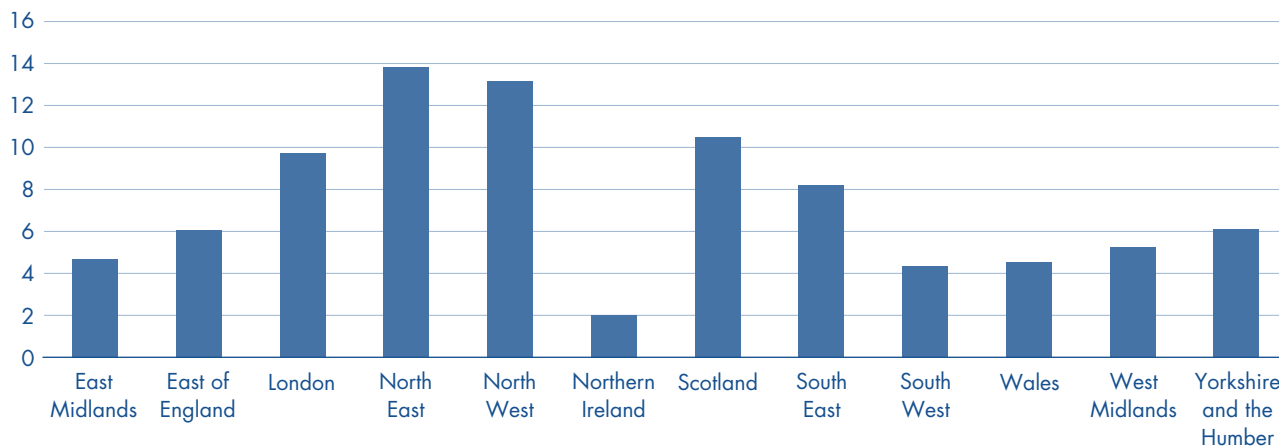
<sup>46</sup> Current Government accounting regulations require departments to account for an annual cost of capital charge of 3.5 per cent on the value of their net assets. Freehold property forms part of this category of assets and so will incur the cost of capital charge. For the purposes of this review we have not attempted to account for the cost of capital but have restricted our analysis to rental and operating expenditure with a cash value.

<sup>47</sup> British Council for Offices Guide 2005: Best Practice in the specification for offices.

## 14 Regional distribution of department staff for the six departments with the largest population of office-based full time equivalent staff (2005-06)

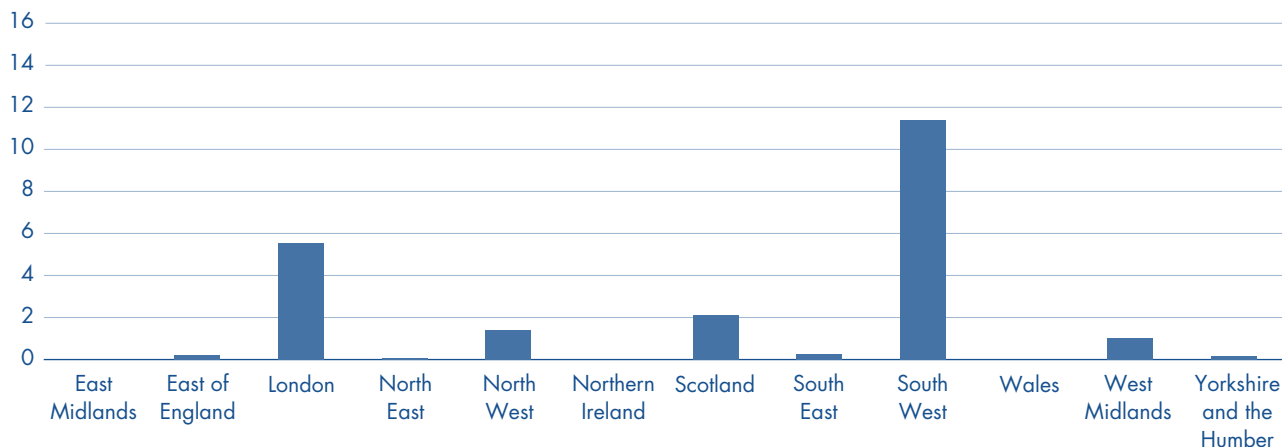
### Staff location analysis HMRC

Number of full time equivalents 000s



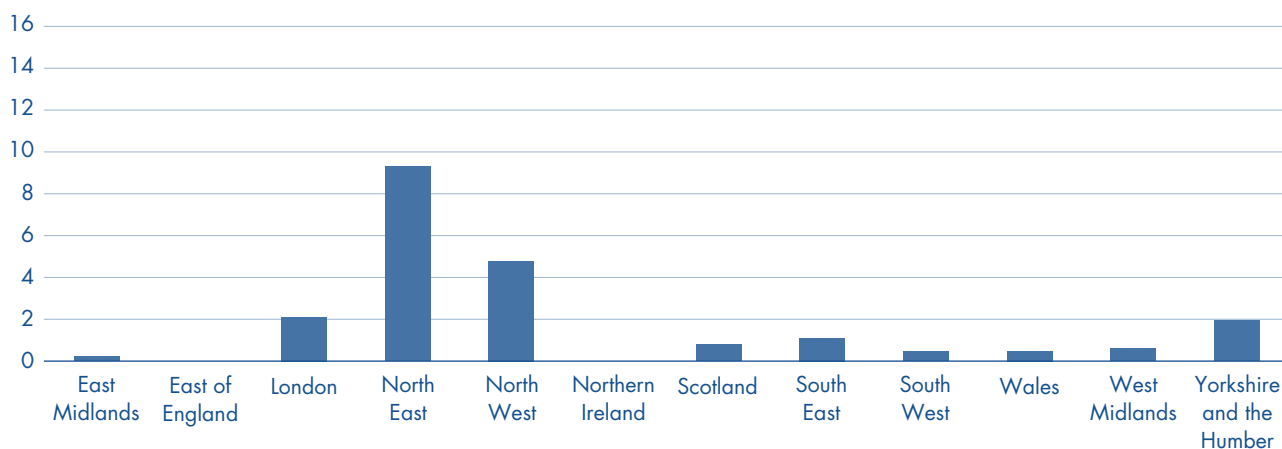
### Staff location analysis MoD

Number of full time equivalents 000s



### Staff location analysis DWP

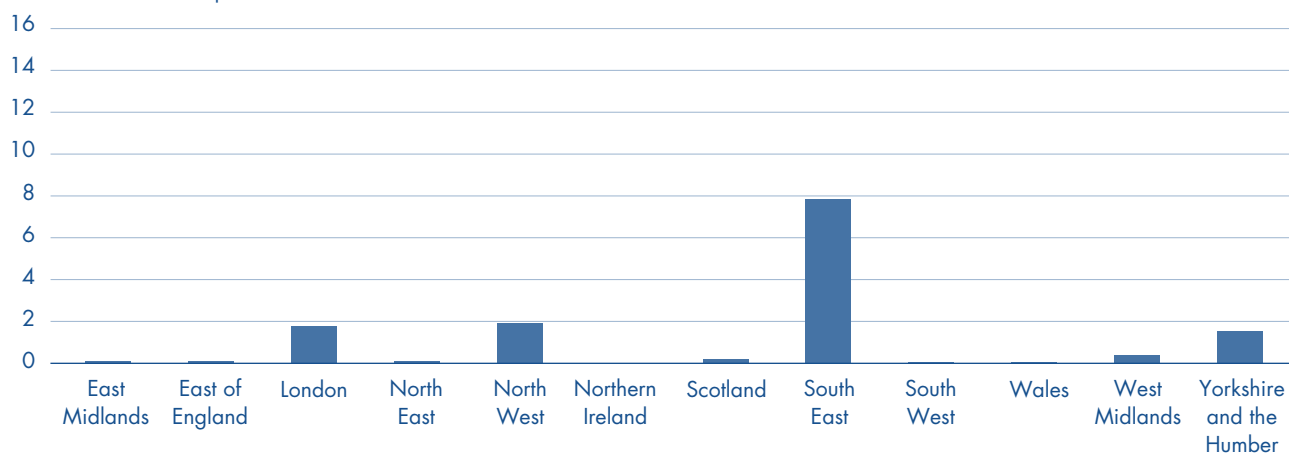
Number of full time equivalents 000s



Source: National Audit Office

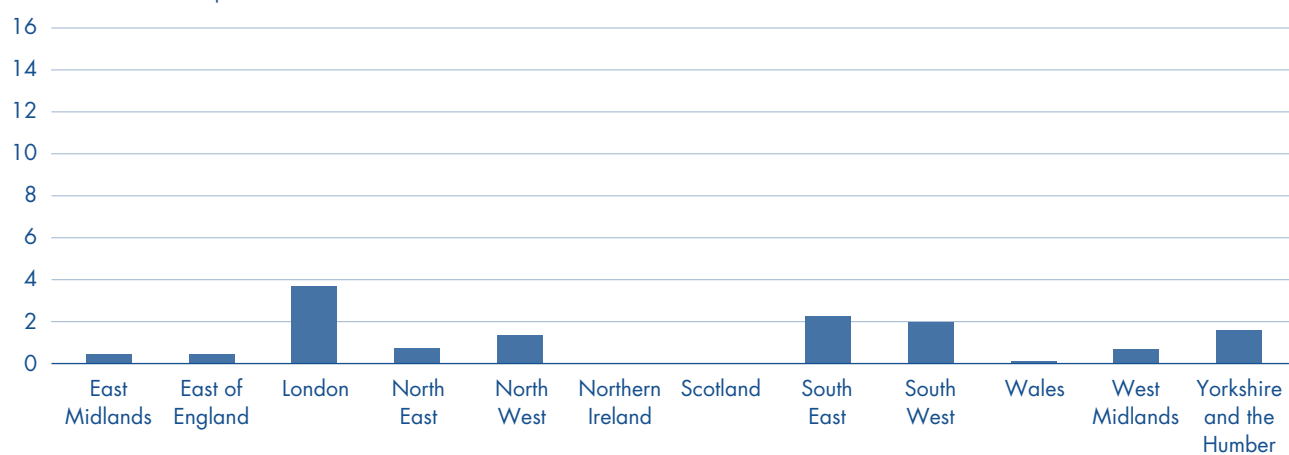
### Staff location analysis Home Office

Number of full time equivalents 000s



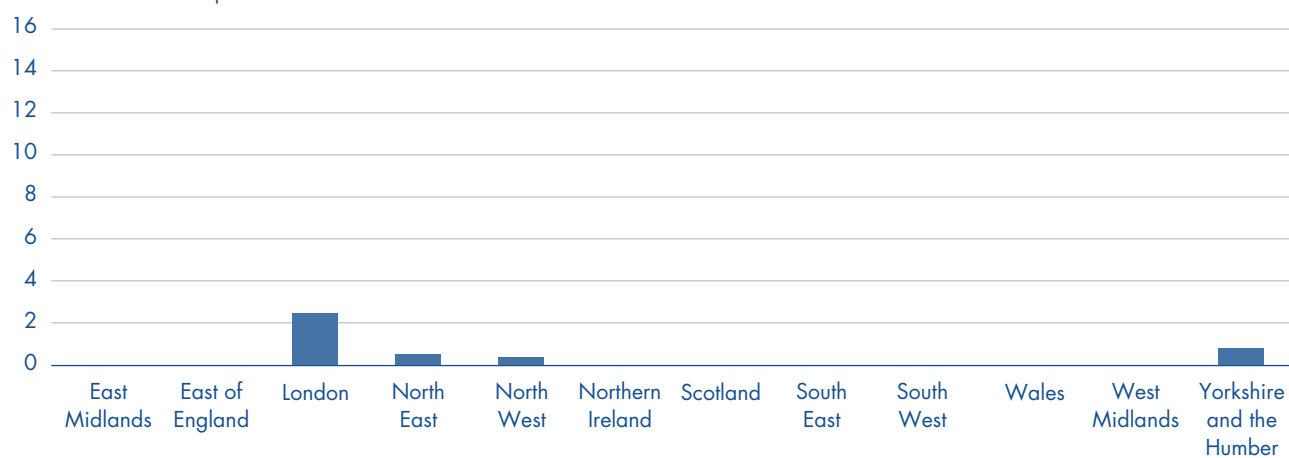
### Staff location analysis Defra

Number of full time equivalents



### Staff location analysis DfES

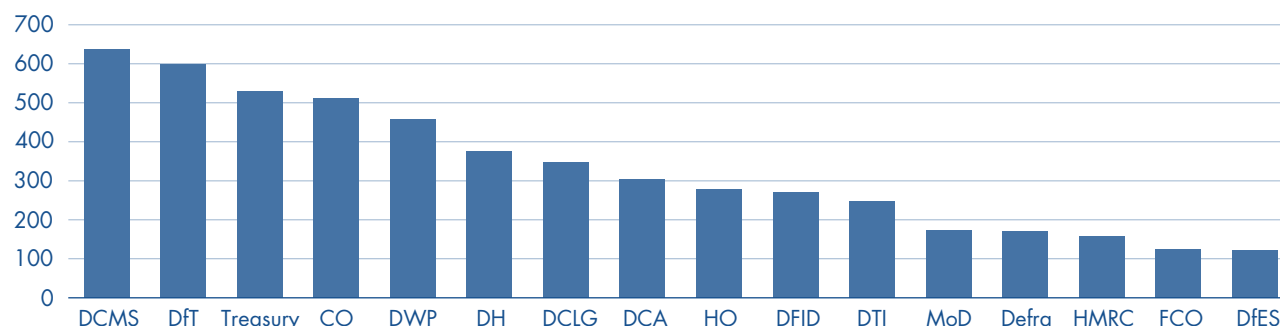
Number of full time equivalents



## 15 Departments' accommodation cost per square metre

The median cost of accommodation per square metre ranges from £123 at the Department for Education and Skills to £636 at the Department for Culture Media and Sport.

Accommodation cost per square metre 2005-06 (£)



Source: National Audit Office

### NOTES

- 1 The Foreign and Commonwealth Office only provided full data for one out of five buildings. The Department was in the process of vacating or had vacated some of the buildings and did not have the data.
- 2 Department for Transport analysis based on three out of ten buildings as the Department had vacated or was in the process of vacating some of the buildings.
- 3 During 2005-06 the Department of Trade and Industry was restacking a core headquarters building to release vacant space to another department from 1 April 2006. Further rationalisation in 2007 has enabled the Department to sub-let the entire building within government.
- 4 Our analysis is for department spending in 2005-06. Three new departments were set up as a result of machinery of government changes on 28 June 2007. They replace the Department for Education and Skills and the Department of Trade and Industry and are: Department for Children, Schools and Families, Department for Innovation, Universities and Skills and Department for Business, Enterprise and Regulatory Reform.
- 5 On 9 May 2007 the responsibilities of the Department for Constitutional Affairs transferred to the Ministry of Justice.

**2.15** The configuration of space, whether cellular offices or open plan predominate, the ratio of workstations per person and the adoption of flexible working practices such as job-sharing, hot-desking and home working all have an impact on the amount of space required and therefore on the amount of expenditure incurred. Historical practice has been to provide one workstation per employee. However closer examination of the way in which buildings are actually used reveals that many buildings have an average occupancy level considerably less than the theoretical level. This is because people are often absent from the building because of holidays, sickness, training and meetings and part-time working arrangements or the nature of the type of work they carry out. Some departments have recognised this opportunity and, by implementing desk sharing approaches, have reduced the ratio of workstations to employees in parts of their building portfolio to 0.8:1 or lower.

## Departments are not yet on top of sustainability issues

**2.16** Sustainability is becoming increasingly important and all government departments have targets<sup>48</sup> around reduction in carbon footprint and the proportion of energy they use from renewable sources. Key sustainability metrics for buildings include the energy consumption (electricity, gas, and oil) per square metre, the proportion of energy from renewable sources, the quantity of water used and the amount of recycling. We asked departments about all of these things.

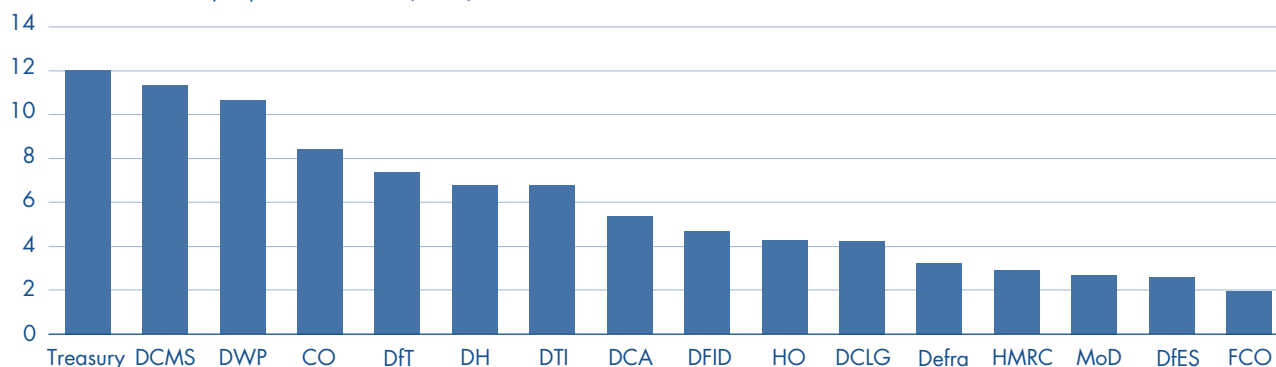
<sup>48</sup> Sustainable Operations Targets June 2006.



## 16 Departments' accommodation cost per person

There is a £10,000 range in departments' accommodation costs per person.

Accommodation cost per person 2005-06 (£000)



Source: National Audit Office

### NOTES

- 1 The Foreign and Commonwealth Office only provided full data for one out of five buildings. The Department was in the process of vacating or had vacated some of the buildings and did not have the data.
- 2 Department for Transport analysis based on three out of ten buildings as the Department had vacated or was in the process of vacating some of the buildings.
- 3 Since 2005-06 the Department for Culture, Media and Sport has vacated two buildings, part of another and made its head office open plan. Once this rationalisation exercise is complete the Department estimates that its accommodation costs per person will reduce from £12,707 to £6,429.
- 4 Our analysis includes the cost paid for any flexibility that is built into building costs, for example, across some PFI estates and individual buildings. For example Department for Work and Pensions has paid for flexibility across approximately a third of its estate.
- 5 Our analysis is for department spending in 2005-06. Three new departments were set up as a result of machinery of government changes on 28 June 2007. They replace the Department for Education and Skills and the Department of Trade and Industry and are: the Department for Children, Schools and Families, Department for Innovation, Universities and Skills and the Department for Business, Enterprise and Regulatory Reform.
- 6 On 9 May 2007 the responsibilities of the Department for Constitutional Affairs transferred to the Ministry of Justice.

**2.17** Departments were not able to supply any information on the amount of energy consumed in 2005-06 for 265 out of 877 buildings, the proportion of energy from renewable energy for 300 buildings or the presence of a recycling scheme for 544 buildings. The Home Office, Department for Transport and the Department for Constitutional Affairs provided the least information in response to our census about their environmental performance.<sup>49</sup> Although departments recognise the importance of improving environmental sustainability, and departments' knowledge of environmental performance will be improving through the OGC benchmarking service, a third of buildings were missing one or more of the metrics used to calculate energy consumption per square metre and we have reservations about the quality of some of the data that was provided. For this reason we have reported the median value and the inter-quartile range but have not reported in more detail or analysed on a departmental basis since the conclusions would not be sufficiently robust.

**2.18** We calculate the median energy consumption is 255 kWh per square metre per year, with the majority using between 162 kWh and 385 kWh per square metre per year. Differences here are probably due to the presence, or not, of air-conditioning, effective insulation, well regulated heating systems and energy management systems such as intelligent lighting. The median expenditure is £13 per square metre and departments that fall above the median should take steps now to review their energy costs.

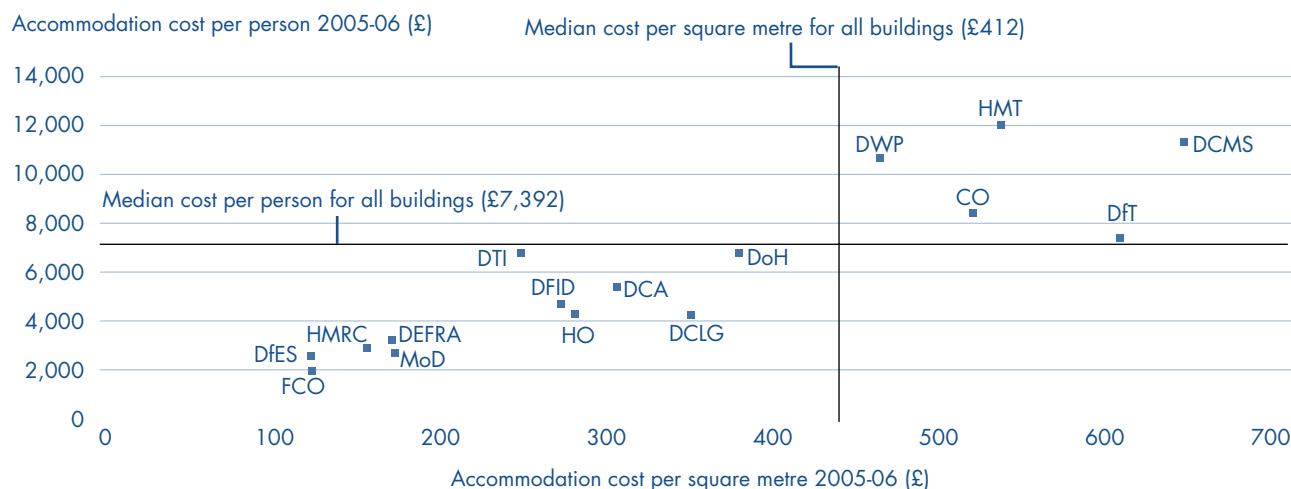
**2.19** The facility to recycle is focused primarily on paper. Five departments<sup>50</sup> did not have any information on the amount of paper they recycled. In total only 40 per cent of buildings reported having recycling schemes and of those buildings only half knew the amount of paper recycled.

<sup>49</sup> Since completing our survey the Ministry of Justice (then the Department for Constitutional Affairs) has undertaken further work to produce a more comprehensive and improved picture of environmental performance.

<sup>50</sup> Her Majesty's Revenue & Customs, Home Office, Department for Culture, Media and Sport, Department for Transport, Department of Health.

## 17 Departments' accommodation cost per person versus accommodation cost per square metre

Departments should aim to reduce cost per person and per square metre.



Source: National Audit Office

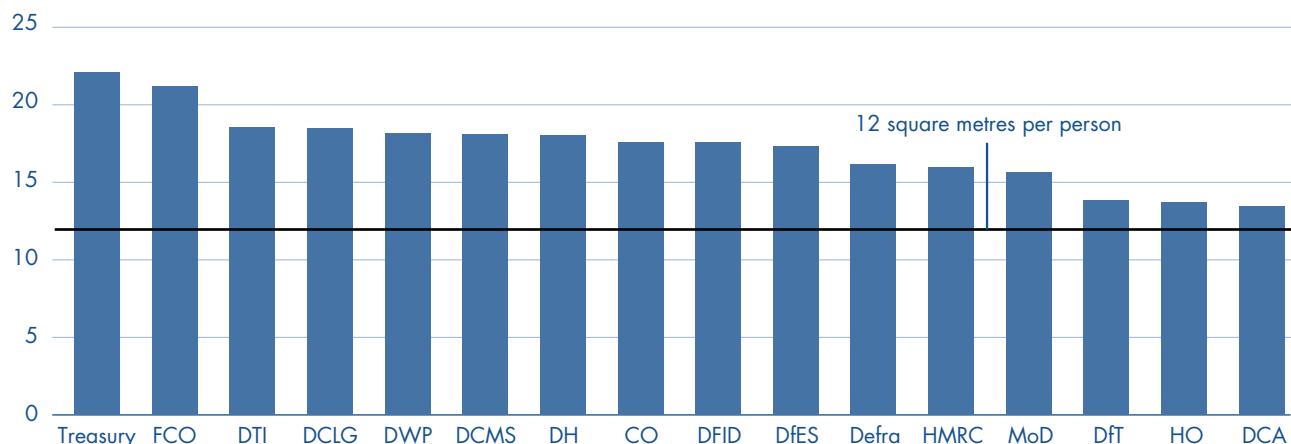
### NOTES

- 1 The Foreign and Commonwealth Office only provided full data for one out of five buildings. The Department was in the process of vacating or had vacated some of the buildings and did not have the data.
- 2 Department for Transport analysis based on three out of ten buildings as the Department had vacated or was in the process of vacating some of the buildings.
- 3 Since 2005-06 the Department for Culture, Media and Sport has vacated two buildings, part of another and made its head office open plan. Once this rationalisation exercise is complete the Department estimates that its accommodation costs per person will reduce from £12,707 to £6,429 and the accommodation costs per square metre from £636 to £469.
- 4 Our analysis is for department spending in 2005-06. Three new departments were set up as a result of machinery of government changes on 28 June 2007. They replace the Department for Education and Skills and the Department of Trade and Industry and are: the Department for Children, Schools and Families, Department for Innovation, Universities and Skills and the Department for Business, Enterprise and Regulatory Reform.

## 18 Occupation density

All departments have scope to improve occupation density levels in line with OGC recommendations.

Space per person 2005-06 (square metres)



Source: National Audit Office

### NOTES

- 1 Our analysis is for department spending in 2005-06. Three new departments were set up as a result of machinery of government changes on 28 June 2007. They replace the Department for Education and Skills and the Department of Trade and Industry and are: the Department for Children, Schools and Families, Department for Innovation, Universities and Skills and the Department for Business, Enterprise and Regulatory Reform.
- 2 On 9 May 2007 the responsibilities of the Department for Constitutional Affairs transferred to the Ministry of Justice.

# PART THREE

## Departmental property asset management

**3.1** The data presented in part two is a snapshot of the office property portfolio at the end of 2005-06. Departments' property needs are fluid as they continually respond to changes in their business as well as initiatives relating to efficiency gains, headcount reductions, relocation and the sharing of services. All of these factors impact on the need for property and the associated expenditure. The performance of departments' office portfolios should be understood in the wider context of their property asset management strategies, their capability to deliver these strategies and the overall direction of travel.

**3.2** We developed an approach for assessing evidence of departments' ability to strategically manage their property requirements and incorporate property in planning for delivery of their core business.<sup>51</sup> The approach examines the outputs from two asset strategy processes, strategy and planning for delivery, and assesses four enablers which underpin good asset management (**Figure 19 overleaf**). It includes an examination of how senior management engage in these asset strategy processes, how departments' estate teams interact with internal business units and how departments engage with their Arm's Length Bodies and other government departments. The results of the assessment provides an indication of whether or not departments are in a position to maintain or improve the performance of their office property portfolios.

**3.3** Our findings regarding departments' circumstances, their property asset management strategies and their apparent capability and ability to implement the strategies are summarised in **Figure 20 on page 28**.

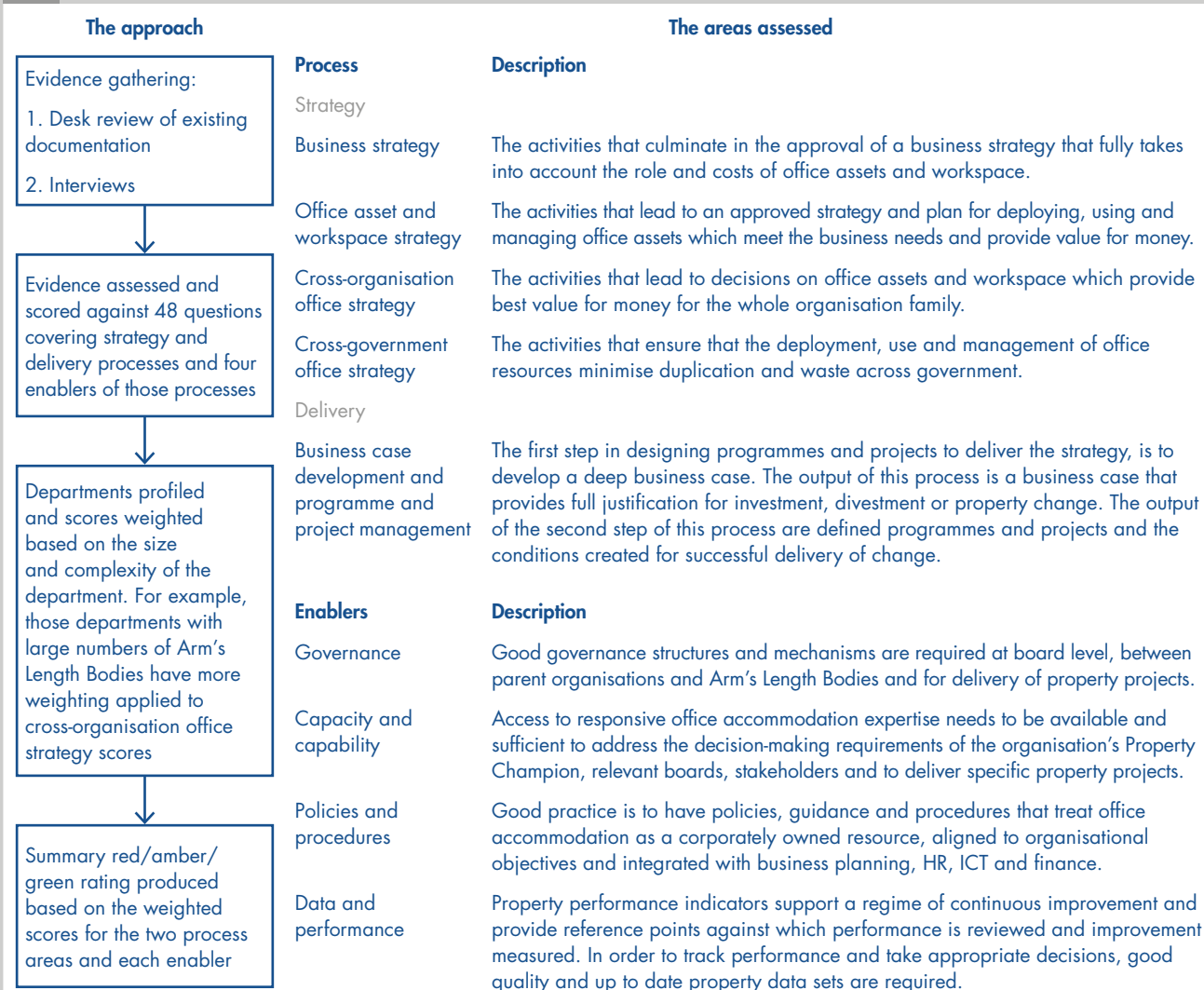
**3.4** Each department was assessed in accordance with the size and complexity of the estate, the importance of office accommodation to the delivery of the department's core business and the number of Arm's Length Bodies to be influenced. The profile for individual departments are not directly comparable but instead give a view of how well a department is performing given its own particular needs and circumstance. The real proof of the effectiveness of departments' strategic property asset management capabilities will be in the eventual delivery of an effective and efficient portfolio of fit-for-purpose buildings that consider the needs of the whole department family and ultimately the whole civil estate.

**3.5** The amount of effort and resources that departments devote to property asset management is influenced by the size of the property portfolio and the importance of property in delivering the department's core business. However, for all departments, we observed increasing senior management focus on property asset management as they respond to the challenges of the Gershon efficiency targets, the Lyons review and OGC's High Performing Property programme.<sup>52</sup>

<sup>51</sup> The National Audit Office, in conjunction with external property consultants, developed an assessment toolkit for this purpose – the toolkit will be available from the National Audit Office website.

<sup>52</sup> High Performing Property sets out good practice enablers that OGC expects will lead to substantial improvement in the management of the Government estate.

## 19 The approach to assessing departments' asset management strategies



Source: National Audit Office

### NOTE

Further detail is provided in Supporting Paper 1 – Methodology. Available via National Audit website at <http://www.nao.org.uk>.

## Departments are making progress in improving strategic property asset management

**3.6** There is some assurance that the direction of travel for all departments is positive although in most cases there is still considerable scope for improvement. We assessed performance against the two processes and four enablers, the presence of which we consider essential in demonstrating the ongoing strategic delivery of efficient and effective property asset management. For individual elements an assessment of red or red/amber indicates that on the basis of the evidence presented to us there is considerable scope for improvement. We found that 8 out of 16 departments were in this range for data and performance monitoring, 8 out of 16 for policies and procedures and 4 out of 16 for governance. In 50 per cent of departments at least two out of the six elements were in the red or red/amber range.

## Office Property is a priority for some departments but not others

**3.7** Our assessment shows that the Department for Work and Pensions, Ministry of Defence, Her Majesty's Revenue & Customs, Department for International Development, Department for Transport and the Department for Education and Skills<sup>53</sup> currently demonstrate the best overall property asset management. Departments with larger estates tend to have a greater focus on office property management and have the internal capabilities and resources to manage them more strategically. Her Majesty's Revenue & Customs and Department for Work and Pensions have had to consider their business needs and property specification as part of outsourcing the entire estate under a PFI contract. They have a more systematic approach to estate evaluation and to capturing data as part of their contract management arrangements.

**3.8** Some departments with fewer buildings or a focus on a different type of property asset have less well documented approaches to office accommodation and appear to be moving more slowly in adopting flexible, efficient work spaces and practices. The Department for Transport acknowledges that it's main focus is on the efficient use of its extensive stock of

land, rather than on its relatively low number of offices while the Treasury, with a small number of buildings has managed to reduce the size of its estate but has not seen the need up till now to systematise its approach to space management or to adopt more challenging standards for space utilisation or flexible working.

## Strategies for property improvement are at an early stage

**3.9** Generally departments are able to demonstrate effective delivery of individual projects but have yet to demonstrate the effective implementation of strategic plans that routinely reflect the business strategy, cover relocation, space reduction, flexible working and improved productivity. In addition departments often appear to be reliant upon the expertise and enthusiasm of a few key individuals having little in the way of formal policy systems setting out responsibilities and accountabilities for the differing elements of property asset management.




















**3.10** Proper accountability includes being able to demonstrate an embedded set of systems and well used policies and procedures that document and provide robust evidence of all phases of strategic property asset management delivery. This should include, details of what, why, when, who, cost, time scales and benefits to be achieved as well as proper mechanisms for monitoring progress.











## Arm's Length Bodies can be hard to influence

**3.11** We observed that the departments with larger numbers of autonomous Arm's Length Bodies, such as the Department for Environment Food and Rural Affairs and the Department for Culture, Media and Sport, have generally scored more poorly. This is a result of the number of Arm's Length Bodies which these departments have and the more often distant relationship between the core department and some of the sponsored bodies. The absence of a joined-up strategy between the department and the Arm's Length Bodies or a demonstrable agreement on how to use space effectively puts at risk property efficiency across the whole departmental family.

<sup>53</sup> Three new departments were set up as a result of machinery of government changes on 28 June 2007. They replace the Department for Education and Skills and the Department of Trade and Industry and are the Department for Children, Schools and Families, Department for Innovation, Universities and Skills and the Department for Business, Enterprise and Regulatory Reform.

## 20 Summary of the quality of Departments' property asset strategies and their capability to deliver the strategies




Department (number of office buildings)	Strategy	Delivery	Governance	Capacity and capability
Cabinet Office (14)				
Department for Constitutional Affairs (Ministry of Justice) (19)				
Department for Communities and Local Government (8)				
Department for Culture, Media and Sport (4)				
Department for Environment Food and Rural Affairs (128)				

Policies and procedures	Data and performance	Contextual comments and areas for improvement
		<p>Requirement for a central London presence and holdings includes buildings that are unlikely to be disposed of. The Department has modernised some of its core estate and intends to continue with this modernisation programme wherever it can.</p> <p>Subject to frequent and rapid changes in staffing as a result of machinery of government changes.</p>
		<p>Small department office estate in comparison with total estate holding. The Department estimated that 85 to 90 per cent of its holdings are held by Her Majesty's Court Service.</p> <p>The Department is currently undergoing re-organisation after the establishment of the Ministry of Justice. This takes on the responsibilities of the Department for Constitutional Affairs plus National Offender Management and the Office for Criminal Justice reform from the Home Office. The Department is currently assessing with the Home Office which additional properties it has added to its estate. One result of the change is that the number of posts that need to be housed in its central accommodation in London has increased from 3,500 to 5,500.</p>
		<p>The Department is reducing in size by about 25 per cent and intends to focus more on policy and strategy, moving delivery to its Arm's Length Bodies.</p> <p>It became the Department for Communities and Local Government in May 2006 and is taking the opportunity of becoming a new department to change the way it works. The right type of accommodation is key to success. As part of its transformation agenda the Department has identified property asset management across its group of Arm's Length Bodies as a key activity. It has established a Group Property Asset Management Board that is pursuing opportunities for shared services within the group. Group Executive teams for IT, Finance and HR have also been established. A Group Corporate Services Programme Board coordinates the objectives and activities of these teams thus enabling a fully integrated approach to resource management across the group.</p> <p>The Department has to be able to put together teams in different places at quite short notice, for example flood recovery teams.</p>
		<p>The Department has approximately 60 Arm's Length Bodies. It concentrates on policy and strategy, leaving delivery to the Arm's Length Bodies.</p> <p>However, the Department is working with OGC to engage its Arm's Length Bodies more closely in the co-ordination of property management.</p>
		<p>Large estate and large number of autonomous Arm's Length Bodies some of whom are reluctant to engage on property matters with the parent department.</p> <p>Have relocated a number of posts to York (including estates function).</p>





















## 20 Summary of the quality of Departments' property asset strategies and their capability to deliver the strategies *continued*











Department (number of office buildings)	Strategy	Delivery	Governance	Capacity and capability
Department for Education and Skills (5)				
Department of Health (5)				
Department for International Development (2)				
Department for Transport (10)				











Policies and procedures	Data and performance	Contextual comments and areas for improvement
		<p>The machinery of government changes in June 2007 effectively split the Department into the Department for Children, Schools and Families and the Department for Innovation, Universities and Skills (joining with part of the former Department for Trade and Industry). The estates team in the Department for Children, Schools and Families will continue to provide services for premises in the former Department for Education and Skills estate until the Department for Innovation, Universities and Skills decides what future arrangements it wants to make. In London the Department for Innovation, Universities and Skills is moving its headquarter's staff on to the Department for Business, Enterprise and Regulatory Reform estate by December 2007.</p> <p>In developing its strategy the Department has been able to provide pilots for flexible workspace, assess usage levels and observe how staff use the space.</p> <p>The Department has offices in four main locations – London, Sheffield, Darlington and Runcorn. The three locations outside London were chosen because at the time they had relatively high unemployment rates.</p>
		<p>The Department has initiated an Accommodation Strategy implementation Programme (ASiP) which aims to reduce the London estate from four to two buildings and relocate 180 posts from London to Leeds by 2011. Through the programme, the Department aims to implement policies to achieve space reduction, flexible working and improved productivity. The Department is considering how its Arm's Length Bodies can utilise any vacated space. Progress on the ASiP programme is reported to the Department's Corporate Management Board, chaired by the Permanent Secretary.</p>
		<p>Small UK office estate, no Arm's Length Bodies. The security and safety of the estate (both in the UK and overseas) takes priority.</p> <p>The Department has offices in London and East Kilbride – where they are the largest employer. Staff numbers in the Department are expected to reduce in the future (after a number of years of staff growth) leading to some spare capacity in its UK estate in the future. Security considerations mean that the Department would need to share or co-locate with other Government departments rather than a private sector client.</p>
		<p>The Departmental office estate is small in comparison with the total size of the estate. The Department has put various initiatives and policies in place in the active management of its estate and to provide more centralised management of the whole estate. It has set up a Property Asset Board and intends to appoint a non-executive director with the requisite property skills. In addition, the Department is undertaking an options appraisal of all property covering its whole family estate. It intends that this will automate the collection of data for benchmarking and Key Performance Indicators. The Department has also split its estate into core and non-core properties and intends to divest itself of the non-core properties in the ten year period of its strategy.</p>

## 20 Summary of the quality of Departments' property asset strategies and their capability to deliver the strategies *continued*





Department (number of office buildings)	Strategy	Delivery	Governance	Capacity and capability
Department of Trade and Industry (11)				
Department for Work and Pensions (62)				
Foreign and Commonwealth Office (5)				
Her Majesty's Revenue & Customs (483)				
HM Treasury (5)				

Policies and procedures	Data and performance	Contextual comments and areas for improvement
		<p>The major change over the last five years is the two roofs programme to reduce the size of the Department's London estate from nine buildings to two and introduced an 8:10 ratio of flexible desking to maximise the efficient use of space across its London estate. The Department reports that its Estates Rationalisation programme has led to 28,000 square metres of central London office space being re-utilised by other departments. It is a small core Department with about 60 Arm's Length Bodies.</p> <p>The Department is currently vacating a property in London which will be used temporarily by another public sector organisation before disposal.</p> <p>The machinery of government changes in June 2007 effectively split the Department into the Department for Business, Enterprise and Regulatory Reform and the Department for Innovation, Universities and Skills (joining with part of the former Department for Education and Skills). The estates team in the Department for Business, Enterprise and Regulatory Reform will continue to provide services for premises in the former Department for Trade and Industry estate until the Department for Innovation, Universities and Skills decides what future arrangements it wants to make. In London the Department for Innovation, Universities and Skills is moving its headquarter's staff on to the Department for Business, Enterprise and Regulatory Reform estate by December 2007.</p> <p>The Department for Business, Enterprise and Regulatory Reform is looking to accommodate the Department for Innovation, Universities and Skills on its existing estate by adopting flexible working and has also acquired the Better Regulation Executive from Cabinet Office.</p>
		Large estate, mostly public access buildings. Estate is provided under a PFI contract. Buildings nominated as core or flexible.
		Small UK office estate. The security and safety of the estate both in the UK and overseas takes priority.
		<p>Large estate across the whole country. Estate is provided under a PFI contract, buildings nominated as core, flexible or intermediate. This allows the Department more flexibility in managing its estate as it is not tied to lease breaks or leases ending. It does however have a limit (in terms of square metres per annum) that it is allowed to vacate.</p> <p>The Department itself is undergoing significant business change having amalgamated from two departments in 2005. The Workforce Change initiative intends to change the way the Department works and the transformation of the estate is a key part of this initiative.</p>
		<p>The Department's main building is provided under a PFI contract.</p> <p>The Departments has introduced flexible working practices such as job sharing, flexi hours and working from home. A limited amount of desk sharing takes place and, although this not yet standard policy, the department is committed to looking in the first half of next year at the feasibility and practicality of adopting such a policy at departmental level. The Department has accommodated the staff from OGC into the main Treasury building improving space efficiency.</p>

## 20 Summary of the quality of Departments' property asset strategies and their capability to deliver the strategies *continued*

Department (number of office buildings)	Strategy	Delivery	Governance	Capacity and capability
Home Office (101) <sup>1</sup>				
Ministry of Defence (34)				

### Key to Assessment Matrix

-  Good practice is widespread and embedded. Management aware of improvement areas and evidence of strong commitment to continuous improvement. There is strong assurance that the direction of travel is towards efficient and effective office asset management.
-  Good practice exists in many areas. There is scope for improvement, which is recognised by management and there is commitment to continuous improvement. There is good assurance that the direction of travel is towards efficient and effective office asset management.
-  Majority of areas reviewed could be made more effective and there is some assurance that the direction of travel is towards efficient and effective office asset management.
-  Considerable scope for efficiency improvement. Current arrangements indicate that significant improvement is unlikely.

Source: National Audit Office

### NOTE

Our analysis is for department spending in 2005-06. Three new departments were set up as a result of machinery of government changes on 28 June 2007. They replace the Department for Education and Skills and the Department of Trade and Industry. The new departments are: Department for Children, Schools and Families, Department for Innovation, Universities and Skills and the Department for Business, Enterprise and Regulatory Reform.

Policies and  
proceduresData and  
performance

## Contextual comments and areas for improvement

The Department is undergoing what has been called a period of continuous change both in the services it delivers and in Board level changes. Staff numbers during this time have fluctuated. The most recent change is the establishment of the Ministry of Justice and the re-focus of the Home Office to public protection.



Small civil office estate in comparison to much larger defence estate.

The Department owns approximately 240,000 hectares of land in the UK. This makes it one of the UK's largest landowners. About one third of this is built (offices, barracks, dockyards etc). The holding includes 174 sites of Special Scientific Interest (SSSI) within MOD management control and 782 listed buildings. The office estate forms a small part of the holding of 45,000 buildings. The main headquarters building in London is provided under a PFI contract.

## PART FOUR

### The role of the Office of Government Commerce in improving government's value for money from office property

**4.1** In the mid 1990s responsibility for all aspects of government estate management passed from the Property Services Agency to individual departments. This produced greater clarity and accountability but also made it more difficult to achieve economies of scale and other synergies between departments.<sup>54</sup> The Property Services Agency was then succeeded by Property Holdings. The Property Advisors to the Civil Estate, established in 1996, succeeded Property Holdings and was set up to provide information, advice and guidance on the management of the civil estate in an oversight and co-ordination role but was given no powers of centralised strategic planning. During this period the Property Advisors to the Civil Estate initiated a central database to record property details (ePIMS) and trialled property performance benchmarking.

**4.2** OGC superseded the Property Advisors to the Civil Estate and, although responsibility for property activity remains with local departments, OGC has been playing an increasing role in providing cross-departmental co-ordination and direction (**Figure 21**). This role relies on OGC exerting influence and persuading departments that have competing concerns and limited resources to sign up to central initiatives 'for the common good'. The 'Transforming Government Procurement' initiative, launched in January 2007, gives OGC an increased remit to set standards, undertake monitoring and to intervene where necessary. OGC characterises this relationship with departments as 'controlled decentralisation', where the centre has a monitoring, challenge and intervention role alongside its existing support and guidance. As yet the powers of intervention have not been tested and the success of future interventions will be key to delivering OGC's strategic office property objective.

**4.3** OGC's strategic property objective is to deliver annual efficiency savings of £1 billion to £1.5 billion from the whole government civil property estate by 2013.<sup>55</sup> The savings are expected to be generated from four sources:

- reducing the amount of space occupied (£625 million per year);
- increasing and improving space utilisation in retained property assets (£518 million per year);
- improving the procurement of facilities management contracts (£27 million per year); and
- improving the procurement of leasehold contracts (£174 million per year).

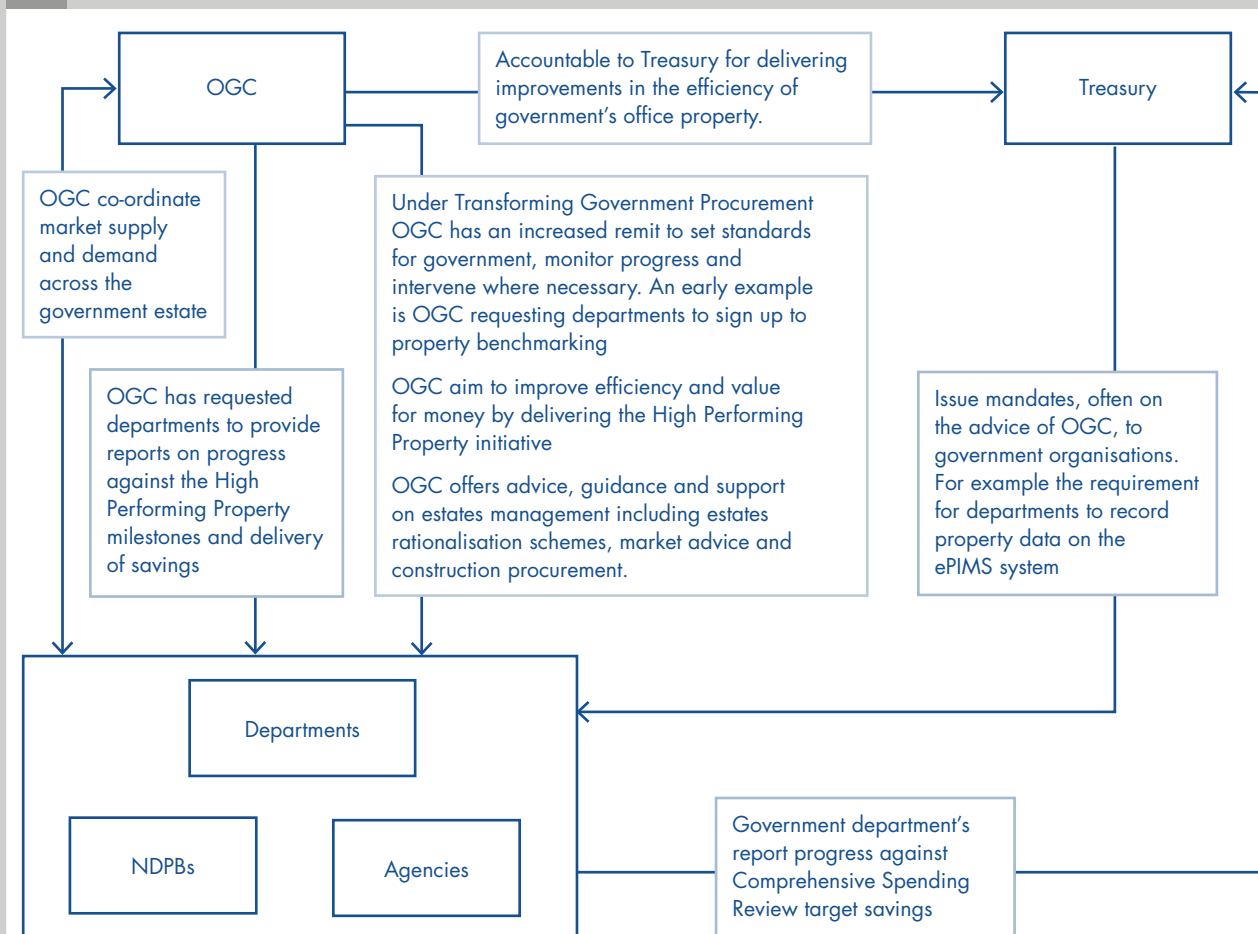
**4.4** OGC aims to deliver the savings, together with a more effective and sustainable estate, by providing central support and challenge across the civil property estate while ensuring that departments retain governance and ownership of their property portfolios. Four strands of work underpin this strategic objective, which are components of OGC's High Performing Property initiative:

- 1 Leadership and integration:** engaging and supporting senior stakeholders; supporting the development of governance structures in departments and Arm's Length Bodies; co-ordinating estates rationalisation, co-location and market activity; and supporting the relocation agenda.
- 2 Benchmarks and standards:** providing a central property database; providing a benchmarking service; and identifying best practice, templates and protocols.

<sup>54</sup> Getting the best from public sector accommodation. National Audit Office, June 2006, p.6.

<sup>55</sup> The target annual efficiency savings include savings from the full civil estate of central departments, agencies and NDPBs. High Performing Property: Routemap to asset management excellence, OGC November 2006.

## 21 OGC's role in improving property efficiency across government



Source: National Audit Office

- 3 **Skills and capability**, including supporting improved management capability and appropriate skills in departments and supporting improved capability and use of best practice through advice, knowledge sharing and access to appropriate expertise.
- 4 **Review and challenge**, including monitoring and challenging progress against High Performing Property milestones and against performance standards.

In addition plans to address the recommendations of the Varney service transformation report will be subsumed into the implementation of High Performing Property.<sup>56</sup>

## Progress on High Performing Property

**4.5** OGC launched the High Performing Property initiative in November 2006 setting out high level milestones to transform the Government estate. The high level milestones have since been supplemented by a detailed implementation plan which sets out the actions that the centre of government and all government organisations need to undertake to deliver High Performing Property.

<sup>56</sup> Further information on the Varney report is detailed in Appendix 2.

**4.6** A key High Performing Property action for OGC is to establish a performance measurement and benchmarking service to assess the efficiency and effectiveness of office property. OGC has successfully developed a robust methodology and process for collecting and benchmarking departments' office property data. This information is used to provide departments with key performance indicator data and relevant benchmarks for individual buildings, groups of buildings, or for an entire department.

**4.7** The benchmarking service has benchmarked a total of 520 buildings, across 47 departments and sponsored bodies and covers the buildings occupied by around a quarter of civil service full time equivalent employees.<sup>57</sup> The benchmarking service has since been mandated and all government organisations are expected to be using the service by summer 2008. The success of the benchmarking service depends on sign up to the service, the number of buildings each organisation includes in the benchmarking and subsequent action to fully understand and improve poorly performing buildings.

**4.8** The majority of High Performing Property's remaining early milestones relate to implementing governance arrangements and securing buy-in to the initiative, for example OGC establishing a Property Champions' steering group and departments nominating a departmental champion.

**4.9** Two major milestones, due in December 2007, provide a true assessment of progress and the likelihood of High Performing Property delivering its objectives. The first requires government organisations to publish business plans that identify opportunities for savings and link together departmental strategic objectives, service delivery and property. OGC has identified this as the first step in assessing the scale of potential savings but, as yet, few departments have been able to quantify potential savings. The second requires government organisations to produce asset management plans based upon OGC's Property Asset Management Plan template. Meeting these milestones will indicate High Performing Property is creating the required traction to deliver its objectives and that the centre of government and departments share commitment to the programme's objectives. Maintaining momentum on High Performing Property is critical if the anticipated savings are to be delivered over the next six years.

OGC believes that without stronger accountability for achieving value for money from property, progress will be challenging particularly if there are changes to key personnel, including Ministers, governance structures and reporting mechanisms.

**4.10** A key factor in assessing the success of High Performing Property will be measuring the anticipated £1 billion to £1.5 billion efficiency savings. However at the moment there is little detail on the specific source of expected savings, how savings targets will be monitored and a lack of clarity on whether the £1 billion to £1.5 billion is an achievable target. It is vital that OGC develops a fuller picture of the anticipated efficiency savings and a clearly defined, robust approach for measuring and reporting the efficiency gains. The approach for calculating net efficiency savings must take into account the implementation costs of achieving the savings.

## Progress towards achieving savings

**4.11** OGC has facilitated departments' awareness of the efficiency agenda and is accountable, with departments, for reaching the targets set by government. Since 2005 OGC reports that around 13,500 posts have been relocated from London to the regions. Controls on acquisitions and leases, which have in effect resulted in a moratorium on acquiring or renewing leases in London and the South East without express approval from the Treasury, have led to over 185,000 square metres being released or committed for release. OGC estimates that an annual rent cost of £36 million has been saved by preventing new leases and exercising lease breaks. However this figure is based solely on annual rent savings and does not take into account any costs such as applicable break clause payments or dilapidation costs

**4.12** The nature of managing property means that it can take considerable time for beneficial effects to trickle through. Lease breaks and opportunities to dispose of property occur sporadically and restacking or re-planning building layouts takes time and resources. **Figure 22** shows that rationalisation of office property, by recycling existing space, has increased during the past three years.<sup>58</sup> OGC has indicated that it expects this pattern to continue as the impact of High Performing Property is translated into estate efficiency improvements.<sup>59</sup>

<sup>57</sup> The percentage of full time equivalents (FTE's) covered by the benchmarking is based on the number of FTE's covered by the benchmarking at September 2007 (128,425) as a proportion of the number of civil service FTE's reported in the Cabinet Office Public Sector employment statistics for quarter 2 2007 (476,130).

<sup>58</sup> Recycling space is the process by which one government organisation uses office space vacated by another government organisation.

<sup>59</sup> The process of estate rationalisation through recycling space is when one organisation's space that would have remained vacant is matched to and occupied by another organisation saving on what otherwise may have resulted in a new lease.



## 22 Savings claimed by OGC from rationalising office property have more than doubled between 2004-05 and 2006-07

Year	Space saving (Square metres)	Cost saving (£ million)
2006-07	53,000	70
2005-06	34,000	46
2004-05	32,000	32

Source: OGC

**4.13** The Department for Work and Pensions and Her Majesty's Revenue & Customs, departments that have outsourced all their estate to a PFI contractor, have exercised their contractual option to release non-core space and since 2006 have rationalised over 108,000 square metres between them. This has led to associated reductions in the PFI settlement figure from then onward which, in the case of Department for Work and Pensions, has contributed to a £28 million reduction in the annual cost of its estate.

## Reducing vacant space

**4.14** In the natural cycle of space usage there will come times when departments need to acquire or dispose of office space. This will be a fluid situation and is dependent on changes in the machinery of government and the timing of key property events (such as lease breaks). Of the 877 buildings captured within the census, only 27 have declared that there is some vacant space or that the building is unoccupied. The total declared vacant space is a little over 50,000 square metres with an estimated rental value of £4.3 million.<sup>60</sup> Buildings with vacant space are clustered in the South West and London regions. In London this may be in part because of Treasury rules that prohibit new leases in London without approval so relocations out of London leave behind space that is harder to re-let to the public sector.

**4.15** Departments have commented on the usefulness of the ePIMS system and Office of Government Commerce officials who have acted as advisers and agents – helping departments find opportunities to relocate or to enter into MOTO<sup>61</sup> arrangements with other public sector bodies in respect of surplus space. This overview of the estate is valuable and has the potential to ensure better utilisation of existing assets and to drive forward opportunities for co-location and more strategic placement of public sector offices.

<sup>60</sup> The percentage figure for vacant space was used to find the rent for vacant space.

<sup>61</sup> Memorandum of Terms of Occupation – in effect a type of sub-letting arrangement.

# PART FIVE

## The potential efficiency savings from improving the performance of office property

**5.1** We assessed potential efficiency savings, in terms of space and cost, across central government departments' office property portfolios by benchmarking our dataset against averages for the private sector.<sup>62</sup> All buildings have been individually benchmarked and where building performance is worse than the benchmark, the monetary value of the performance difference has been calculated.<sup>63</sup> This provides an indication of the potential gross efficiency savings. The potential gross savings are based on improving the performance of offices in their current location. However further savings might be possible through relocation.<sup>64</sup>

**5.2** Departments can achieve efficiency savings from improving the space and cost efficiency of individual buildings (**Figure 23**). Savings can be made from space savings or cost savings alone, or from a combination of the two sources. However the total potential saving for a given building does not equal the sum of the space saving component and the cost saving.<sup>65</sup> For example, as a department requires less space it reduces the potential for total cost savings. The benchmarking approach uses an adjustment to account for the relationship between a reduction in the space occupied and the potential cost savings when arriving at a total value for potential savings.

**5.3** It should be noted that these are potential gross efficiency savings and are based on departments' building performance at a point in time (2005-06) – they do not reflect any changes in the performance of departments' estates since 2005-06 nor take account of one-off implementation costs required to achieve ongoing savings. The implementation costs will vary on a building by building basis and can be substantial. However in most cases an organisation can achieve some proportion of

the total potential efficiency savings (**Figure 24 case examples**). A department's ability to achieve the full potential efficiency savings may be constrained by a number of factors that impact on both the cost and space components of property efficiency, such as the property market conditions, existing contracts for leases, and restrictions on the reconfiguration of listed properties. The benchmarking information should be used as part of a rounded decision making process that considers the particular business need for space on a building by building basis with reference to the business function being provided. However where buildings are more expensive than the benchmark, and there is a commitment to that building, departments should feel an extra onus to use the building space efficiently.

### All government departments can improve performance against the private sector average benchmark

**5.4** Departments need to understand the performance of their property portfolio in order to make efficiency improvements. **Figure 25 on page 42** shows that all departments are performing worse than the benchmark. Half of departments are performing at least 40 per cent worse than the private sector benchmark average.

**5.5** In each department's portfolio there will be poorer performing buildings which offer more opportunity for improvements in efficiency. Departments need appropriate management information on a building by building basis to understand performance, identify outlying buildings and understand why these buildings are performing poorly.

<sup>62</sup> Our benchmarking compares space and cost.

<sup>63</sup> The benchmarks used for the comparison reflects the mean performance for that specific type of property from the benchmarking database within the appropriate postcode area. If a building is worse than the benchmark, it does not necessarily mean that you are paying too much, rather that you are paying more than the nearest comparable buildings from the private sector. Buildings in Whitehall have been benchmarked against the expected average performance of Headquarters buildings. PFI buildings have been compared to similar types of buildings in the private sector.

<sup>64</sup> Relocation incurs its own set of costs which must be fully calculated to assess the potential net savings.

<sup>65</sup> See Supporting Paper 1 – Methodology for a fuller description of total potential efficiency savings. Available via National Audit Office website <http://www.nao.org.uk>.

## 23 Source of potential efficiency savings

Type of saving	Principle	How it can be achieved
Space efficiency	Improving space utilisation	<ul style="list-style-type: none"> <li>■ Increasing occupation density (reducing the allocation of space per workstation) and improving the utilisation rate of the allocated space;</li> <li>■ adopting more flexible desk sharing arrangements, for instance increasing the number of people to available desks;</li> <li>■ introducing flexible working arrangements, such as home working, that contribute to reducing demand on office space;</li> <li>■ increasing the use of flexible managed offices<sup>1</sup> which brings benefits to public sector organisations on both a single building basis as well as more widely across government.<sup>2</sup></li> </ul>
Cost efficiency	Reducing the operating costs of a building and achieving the same or improved performance	<ul style="list-style-type: none"> <li>■ improving the terms for running costs such as rates, repair and maintenance, internal moves, security, cleaning, and waste disposal;</li> <li>■ optimising the balance between supporting organisational effectiveness, protecting asset value and minimising running costs.</li> </ul>

Source: National Audit Office

### NOTES

1 Under a flexible managed office approach, occupiers' requirements for space, including facilities management, are provided under a single short-term contract and unitary charge.

2 For a fuller description of the benefits of flexible managed office space see: *Getting the best from public sector accommodation*, National Audit Office June 2006, p6–7.

## 24 Case examples of delivering efficiency savings

### Department for Trade and Industry

The objective of the Department for Trade and Industry's two roof programme was to reduce the department's presence in London to two buildings. The programme, initiated in 2003, invested £30 million which was largely paid back in 2006-07 with the remainder of the payback expected in 2007-08. This investment is expected to reduce annual accommodation costs, against a 'do-nothing' option, by £23 million per annum from 2007-08. The selected option is expected to deliver a cost saving, in real terms against the baseline option, of £432 million over the 20 year lifetime of the business case.

### PricewaterhouseCoopers

Following years of growth, PricewaterhouseCoopers had inherited a large dispersed and costly property portfolio and wished to consolidate its estate in the West Midlands. By bringing staff together in one building PricewaterhouseCoopers achieved a reduction in their annual overhead costs of nearly £3 million. In total property and associated savings are expected to reach £30 million over a ten year period. The capital investment of £7.5 million is expected to be paid back within three years.

Source: National Audit Office

### NOTES

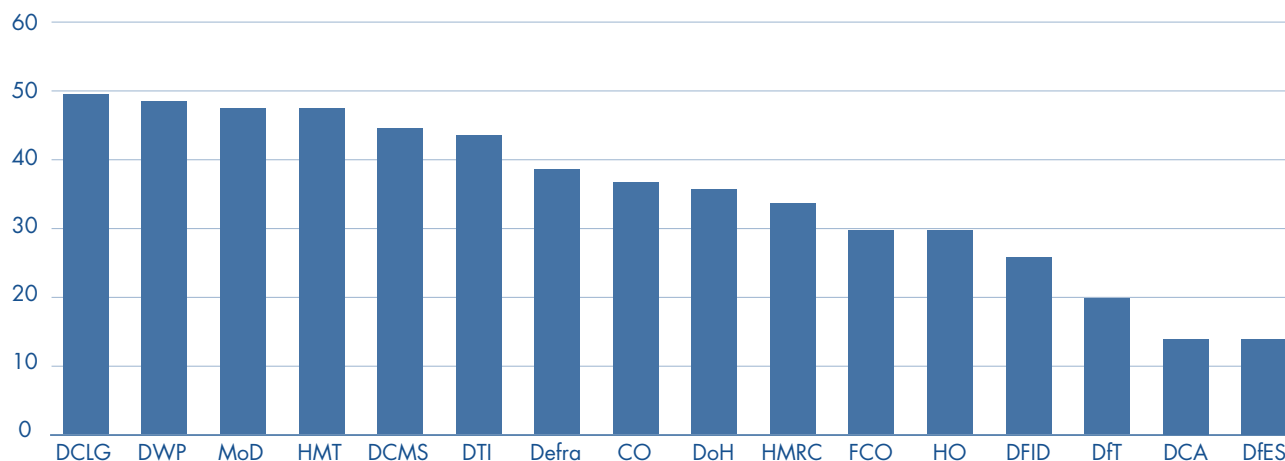
Following machinery of government change in June 2007, the Department for Trade and Industry has since become the Department for Business Enterprise and Regulatory Reform. The machinery of government changes in June 2007 effectively split the Department into the Department for Business, Enterprise and Regulatory Reform and the Department for Innovation, Universities and Skills (joining with part of the former Department for Education and Skills).

For further details on these and other case studies see *Getting the best from public sector accommodation*, National Audit Office, June 2006.

## 25 Departments' performance ranges from 14 per cent to 50 per cent worse than the private sector average benchmark

All departments can improve against the private sector average benchmark.

Percentage performance above the benchmark



Source: National Audit Office

### NOTES

- 1 Our benchmark combines a comparison of performance against space and cost like for like averages for the private sector.
- 2 Department for the Environment Food and Rural Affairs analysis based on 128 buildings. Three buildings have since been identified as duplicate entries and should have been excluded from the analysis.
- 3 Our analysis is for department spending in 2005-06. Three new departments were set up as a result of machinery of government changes on 28 June 2007. They replace the Department for Education and Skills and the Department of Trade and Industry and are: the Department for Children, Schools and Families, Department for Innovation, Universities and Skills and the Department for Business, Enterprise and Regulatory Reform.
- 4 On 9 May 2007 the responsibilities of the Department for Constitutional Affairs transferred to the Ministry of Justice.

## In all regions departments can improve performance against the private sector average benchmark

**5.6** As departments strive to meet the relocation objectives of the Lyons agenda and take up increasing amounts of office space outside London it is increasingly important that value for money is achieved in all regions. In all regions performance is worse than the private sector average benchmark. **Figure 26** shows that the West Midlands has the greatest scope for improvement against the benchmark and is, at present, performing at 42 per cent worse than the benchmark. The best performing region, Northern Ireland, is 11 per cent worse than the private sector average benchmark.

**5.7** Departments need to ensure that when re-locating, they consider efficiency in a wider sense than just reducing current accommodation costs. Moving to lower cost locations is not the only factor that needs to be assessed. Buildings located in cheaper locations should also be expected to perform competitively against

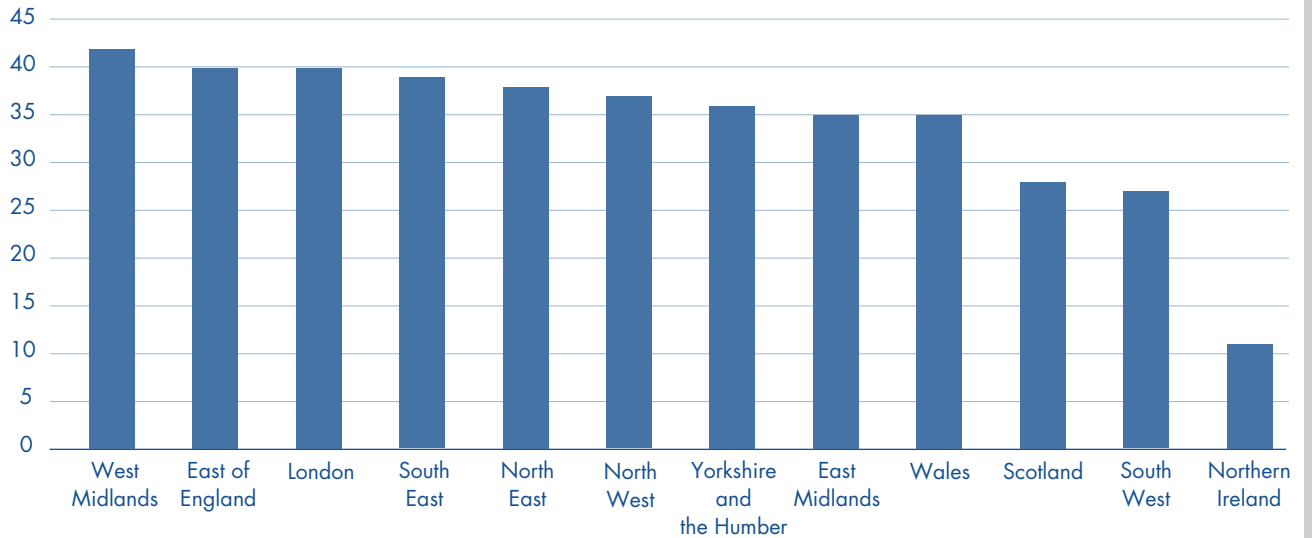
comparator buildings. At present there is considerable scope to improve performance against the private sector benchmark. Such moves will require greater interdepartmental cooperation and co-location to use office buildings more efficiently.

**5.8** Central government departments, as a whole, are performing at 38 per cent worse than the benchmark and by comparison to the private sector can achieve potential gross savings of up to £326 million per annum by improving a combination of space efficiency and cost efficiency. The majority of the savings are likely to be generated by improving space efficiency (**Figure 27**). To improve space efficiency departments internally have to address the cultural changes required to better utilise space and, externally, communicate and work better with other government organisations to fully exploit the potential space efficiency savings through rationalising office space and co-locating. Achieving maximum improvement against the private sector benchmark requires central government departments to co-ordinate activity at both departmental and regional level.

**26** Regional performance ranges from 11 per cent worse than the benchmark in Northern Ireland to 42 per cent worse in the West Midlands

There is scope to improve against the private sector average benchmark in all regions.

Percentage performance above the benchmark



Source: National Audit Office

**NOTE**

Our benchmark combines a comparison of performance against space and cost like for like averages for the private sector.

**5.9** Our analysis indicates that the five departments with the largest property portfolios have between them 89 per cent of central government offices. If these departments bring their performance in line with private sector benchmarks they could generate potential gross savings of up to £248 million per annum.<sup>66</sup> This is equivalent to 76 per cent of the total potential gross financial savings. For 13 out of the 16 departments assessed, an improvement in the way in which departments use their building space will deliver the majority of the potential savings.

**27** Improving space efficiency presents the biggest opportunity for efficiency savings

Source of savings	Gross saving) value (£ million)	Percentage performance worse than the benchmark
Space	237	28
Accommodation cost	118	14
Total	326	38

Source: National Audit Office

**NOTES**

Total potential savings decline as space is reduced. Therefore total savings do not simply equal space efficiencies plus cost efficiencies.

Our benchmark combines a comparison of performance against space and cost like for like averages for the private sector.

The gross saving value does not take account of one-off implementation costs.

<sup>66</sup> The £248 million is made up from Her Majesty's Revenue & Customs (£95 million), Ministry of Defence (£60 million), Department for Work and Pensions (£53 million), Department for Environment Food and Rural Affairs (£25 million) and Home Office (£15 million).

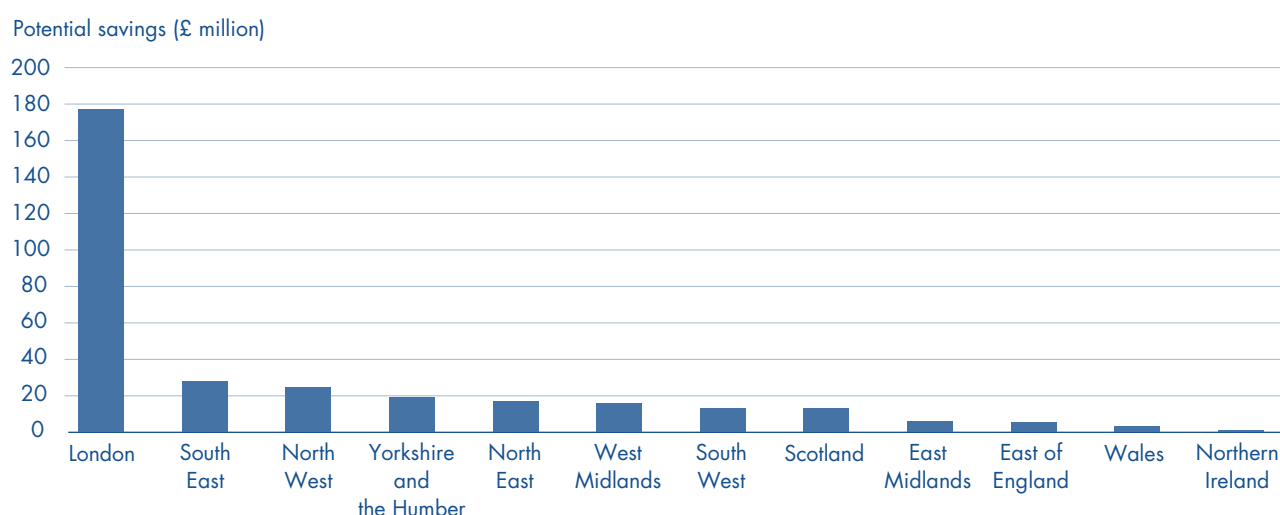
## The potential for regional savings is greatest in London

**5.10** Figure 28 shows that the majority of the potential savings are likely to be generated from office property in London – in total over half of the potential savings. The potential savings in the eight remaining regions are, on an individual basis, lower than in London but it is still possible to achieve combined savings in excess of £146 million per annum. Again most of the potential savings come from improvements in space efficiency, which in the non-London regions alone could account for up to £118 million per annum.<sup>67</sup>

## Potential savings can be extended to central departments' Arm's Length Bodies

**5.11** Our study was restricted to assessing the performance of central government's office property portfolio and more work needs to be undertaken to understand the performance of the wider estate of their Arm's Length Bodies. However based on OGC's figures we estimate that the annual cost of running the office property of central government's Arm's Length Bodies is around £2 billion.<sup>68</sup> If the performance of Arm's Length Bodies is consistent with the performance of central government departments, then government could achieve gross efficiency savings of between 14 to 50 per cent<sup>69</sup> of current expenditure. This equates to potential gross efficiency savings of between £278 million and £1 billion.<sup>70</sup>

**28** Half of the potential gross savings can be achieved in London alone



Source: National Audit Office

<sup>67</sup> Total potential savings do not equal the potential space savings plus cost savings. Cost savings are a function of the space savings and as space declines the value of potential cost savings also decrease.

<sup>68</sup> Using figures from OGC's ePIMS database we estimate that the buildings covered in our analysis of central government equates to around 31 per cent of the total office space held by departments and Arm's Length Bodies. We have assumed that the cost of the remaining 69 per cent of office estate per square metre is similar to the office estate covered in our census.

<sup>69</sup> 14 and 50 per cent represent maximum and minimum potential savings that central government departments could achieve against current expenditure (paragraph 5.4).

<sup>70</sup> The potential to achieve the total potential savings will, as with the central departments, be influenced by implementation costs and external factors such as the property market.

# APPENDIX ONE

## High level methodology

**1.1** Figure 29 provides high level details of our methodology and Figure 30 overleaf details the organisations covered by our analysis. For further information please see Supporting Paper I – methodology.<sup>71</sup>

### 29 The main strands of our methodology

Scope area	Approach	Commentary
Baseline office property analysis	<ul style="list-style-type: none"> <li>■ Review of existing central government database of office property</li> <li>■ Census of 16 central government departments</li> </ul>	<p>There is currently no single authoritative source on government's office property. We used a combination of existing data, supplemented by our own survey of central government's office property to produce a picture of central government's office property estate in 2005-06. The two sources combined provided us with details on:</p> <ul style="list-style-type: none"> <li>■ characteristics of offices (including size, layout, location, type of office, the number of staff accommodated and the number of workstations);</li> <li>■ financial data for 2005-06 (including occupancy costs, such as rent and rates; operating costs, such as utilities; and</li> <li>■ sustainability and environmental data.</li> </ul>
Reviewing Asset Strategies	<ul style="list-style-type: none"> <li>■ Development of a toolkit to assess the processes and enablers of good office asset strategy</li> <li>■ Assessment of 16 central government departments' property asset management strategies against the framework using interviews with a range of officials, from estate practitioners to board members, and documentary evidence</li> <li>■ Use of data from our spending analysis</li> </ul>	<p>We developed a toolkit for assessing a department's approach to office property asset management. We used a third party supplier to develop the toolkit and tested it with OGC and academic experts. We also piloted the approach with five departments, using feedback from the pilot process to refine and improve the toolkit.</p>
Reviewing the work of OGC	<ul style="list-style-type: none"> <li>■ Interviews with representatives from OGC's Government Estate Transformation Division</li> </ul>	<p>We followed up progress on High Performing Property by systematically reviewing progress against all of the expected milestones to date.</p>
Assessing potential efficiency savings	<ul style="list-style-type: none"> <li>■ Benchmarking of performance against the private sector to identify potential efficiency savings</li> </ul>	<p>We used a combination of data from our census and existing information to benchmark government offices against the private sector. We commissioned a third party supplier to undertake the benchmarking.</p>

Source: National Audit Office

<sup>71</sup> Supporting Paper I – methodology is available via the NAO website at <http://www.nao.org.uk/>.

### 30 The 16 central government departments covered in this study

#### Department

Cabinet Office

Department for Communities and Local Government

Department for Constitutional Affairs

Department for Culture Media and Sport

Department for Education and Skills

Department for International Development

Department for Transport

Department for Work and Pensions

Department for Environment Food and Rural Affairs

Department of Health

Department of Trade and Industry

Foreign and Commonwealth Office

HM Revenue & Customs Group

HM Treasury

Home Office

Ministry of Defence

#### Departmental changes during our study

Since the beginning of our study the Better Regulation Executive has moved from the Cabinet Office to join the Department of Business, Enterprise and Regulatory Reform and the Prime Minister's Delivery Unit has joined HM Treasury

Since the beginning of our study the Department has been rebranded as the Ministry of Justice

Since the beginning of our study the Department has been restructured and is now two separate departments. The Department for Children, Schools and Families and the Department for Innovation, Universities and Skills

Since the beginning of our study the Department has been rebranded as the Department for Business, Enterprise and Regulatory Reform and the Better Regulation Executive has joined from the Cabinet Office

Since the beginning of our study the Prime Minister's Delivery Unit has moved from the Cabinet Office.

Source: National Audit Office



## APPENDIX TWO

# Reviews and reports informing government's approach to office property requirements

### 31 Reviews and reports relevant to a study on office accommodation

#### Report

*Well Placed to Deliver?*  
*Shaping the Pattern of Government Service.*  
Sir Michael **Lyons**,  
March 2004

*Releasing Resources for the Frontline: Independent Review of Public Sector Efficiency.*  
Sir Peter **Gershon**,  
July 2004

*Towards Better Management of Public Sector Assets: A report to the Chancellor of the Exchequer.* Sir Michael **Lyons**, December 2004

*Service transformation: A better service for citizens and businesses, a better deal for the taxpayer.*  
Sir David **Varney**,  
December 2006.

*Comprehensive spending review 2007.*  
**The Treasury.**

#### Focus

An independent study into the scope for relocating a substantial number of public sector activities from London and the South East of England to other parts of the United Kingdom

Sets out the scope for further efficiencies within the public sector's back office, procurement, transaction service and policy-making functions. Identifies opportunities for increasing staff productive time and makes a series of cross-cutting recommendations to further embed efficiency across the public sector

A study into the management of public sector assets and how the current asset management regime might be improved to secure further efficiency savings and achieve the Government's objective of £30 billion of assets sales by 2010

Identified major opportunities to strengthen public service delivery to make it more accessible, convenient and efficient to meet changing citizen and business expectations

To identify what further investments and reforms are needed to equip the UK for the global challenges of the decade ahead

#### Relevance to study

- specific recommendations made to departments on the number of posts to be relocated to other parts of the country.
- recommendations made to slim down department headquarters.
- identifies procurement (including utilities and facilities management) and back office areas (including office accommodation) as areas for making efficiency gains.
- identifies specific plans by departments to make efficiency savings by rationalising office accommodation – for example DCMS' plans for its sponsored bodies.

#### The study recommends

- a stronger, more rigorous asset management and planning framework building on the foundations already laid;
- a focussed delivery strand within the Government's efficiency programme, dedicated to the achievement of the asset disposal objective and generating efficiency savings; and
- improved deployment of asset management expertise within the public sector.
- includes a proposal to develop better coordinated and focused face-to-face services, through a cross-government estate strategy, underpinned with departmental plans for increased third sector delivery of these services and more mobile working.
- expected to identify asset management as a key component of the spending review.

Source: National Audit Office

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