



National Audit Office

Improving the efficiency of central government's office property

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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.¹ Central government departments' office property alone is estimated to be responsible for almost £1 billion of the annual running costs.² 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 2013.³ 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 buildings⁴, 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).⁵ 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.

¹ OGC High Performing Property Implementation Plan January 2006.

² 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.

³ 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.

⁴ 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.

⁵ 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 Affairs⁶ at 13.3 square metres, while others have considerably more, for example HM Treasury at 21.9 square metres (**Figure 4**).⁷ 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 terms⁸) if they can bring existing buildings up to the same space and cost standards as average private sector comparator buildings (**Figure 5**).⁹ 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.¹⁰ 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 Agencies¹¹ and Non-Departmental Public Bodies.¹² 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 cent¹³ of current expenditure across Arm's Length Bodies. This equates to potential gross savings of between £278 million and £1 billion.¹⁴

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

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

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

⁹ 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.

¹⁰ 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.

¹¹ The Highways Agency is an example of an Executive Agency.

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

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

¹⁴ 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 Skills¹⁵ 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.¹⁶ 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.¹⁷

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

¹⁵ 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.

¹⁶ 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.

¹⁷ 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 person¹⁸, 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.^{19, 20} 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.²¹ 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'.

¹⁸ 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.

¹⁹ 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.

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

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