National Audit Office

Report
by the Comptroller
and Auditor General

Cabinet Office

Progress on the government estate strategy

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Cabinet Office

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Report by the Comptroller and Auditor General

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Comptroller and Auditor General
National Audit Office

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This report examines government progress in reducing its estate since 2012 and how well placed is the Government Property Unit to improve value for money.

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Contents

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Key facts

£2.55bn	**8 million m^2**	**4,600**
total running cost of the central estate in 2015-16	floor area of all buildings in the central estate in March 2016	separate holdings in the central estate in March 2016

1.7 million m^2	reduction in the size of the central estate (17%), 94% of which was from offices, January 2012 to March 2016
£775 million	reduction in the annual operating cost of the central estate (23%), 2011-12 to 2015-16
£973 million	capital receipts from disposal of central government property, 2015-16
£640 million	additional net savings over 10 years predicted by the Cabinet Office, from co-locating departments and other public bodies to between 18 and 22 'strategic hubs' (and around 180 other buildings) across the United Kingdom
£3 billion	value of properties expected to transfer to the new Government Property Agency
£687 million	additional net savings over 10 years predicted by the Cabinet Office from setting up the New Property Model

Summary

1 Government needs an efficient, fit-for-purpose estate from which to provide accessible public services and to allow productive working in its back-office functions. The central estate includes some 4,600 individual holdings, costing around £2.55 billion a year to run. It includes buildings where front-line services are provided such as job centres, as well as administrative offices, laboratories, and storage facilities. Central government also owns substantial areas of land and specialist buildings, such as prisons and much of the defence estate, which are not considered part of the central estate.

2 The Government Property Unit (GPU), part of the Cabinet Office, was set up in 2010 to better coordinate estate management in the public sector. Our 2012 report found that departments had made good progress in reducing their estate.[1] However, while departments had continued to consolidate within their own portfolios, they had made limited progress in working together to overcome departmental 'silos' and create shared, flexible and integrated workplaces. Since then, the GPU has produced a new estate strategy, which seeks to make further savings through creating regional property hubs (the Hubs programme) and centralising the management of the estate (the New Property Model). In September 2017 it plans to formally launch the Government Property Agency which, by 2020, will own and manage offices and other common types of property on the central estate, with an estimated value of £3 billion.

Scope of this report

3 This report focuses on three questions:

- what progress has been made in reducing the estate since 2012 (Part Two);
- how effectively has the GPU overseen and coordinated departments' estates (Part Three); and
- how well has the GPU designed and implemented its two major estates programmes; Hubs and the New Property Model (Part Four)?

4 This report does not examine the way individual departments and other public sector organisations manage their own estates. We have recently reported on estates management in the Ministry of Defence and in HM Revenue & Customs (HMRC) and on the disposal of surplus land for housing.

1 Comptroller and Auditor General, *Improving the efficiency of central government office property*, Session 2010–2012, HC 1826, National Audit Office, March 2012.

Key findings

Departments have continued to reduce their estates

5 **Departments have continued to make good progress in reducing the overall size of the central estate since 2012.** Through the efforts of departments, the total floor area of the central estate has reduced by nearly 1.7 million m^2 (17%) since January 2012 to 8.0 million m^2 in March 2016. Most of this reduction has been in the office estate. In March 2016, there was an average of 10.4 m^2 of office space per person, just above the target of 10 m^2 by 2015, and 20% less than in 2012. Departments have placed less emphasis on reducing warehouses, science facilities and other parts of the estate, which account for around half of the estate (paragraphs 2.4, 2.5 and Figure 1).

6 **Departments have also reduced their overall estate spending and pay less for office accommodation than private sector comparators.** Departments report that they have reduced their annual estate costs by £775 million (23%) in real terms since 2011-12 to around £2.55 billion in 2015-16. The number of office buildings in central London, which has the highest rents, has halved from 106 to 53. Over the whole country, GPU benchmarking suggests that government continues to pay less for its office space (£443 per m^2) than private sector comparators (£502 per m^2). The cost per head (£4,587) has fallen by 19% in real terms since 2011-12, overtaking the private sector comparators (paragraphs 2.6 to 2.8, 2.11, Figure 2, Figure 3, Figure 4 and Figure 6).

7 **Between 2011-12 and 2015-16, departments raised £2.5 billion by selling surplus land and properties.** Since 2012, freehold properties have been reduced by 13% in area, less than the leasehold estate (24%) or PFI-managed properties (16%). Government has a target of raising a further £5 billion between 2015 and 2020. A good start was made in 2015-16 – departments raised £973 million, including freehold properties let to a private sector tenant on a long leasehold, as well as land sold for housing or other development (paragraphs 2.9 to 2.11 and Figure 5).

The GPU has improved its effectiveness, but has not yet made significant progress towards its vision of a shared, flexible and integrated estate

8 **The GPU supported departments in making these efficiency savings.** The GPU contributed to the efficiencies made by departments. It created the right environment through setting targets, facilitating deals between departments and operating central spending controls on new or renewed leases. The GPU has been particularly active in brokering office rationalisation in central London. The spending control regime included 75 applications from departments in 2015-16 for Cabinet Office approval, compared with 135 in 2011-12. All but one of the 2015-16 applications were approved (paragraphs 3.3, 3.11 to 3.14 and Figure 11).

9 **The GPU has taken steps to improve its own capability but has a shortage of property and project management experts.** It has improved in three of the six areas we identified as essential to successful estate management in 2012. However, the GPU's skills and resources are stretched, its increased workload has not been matched by increased staffing and planned work has not been done. It expects to underspend its overall staffing budget by 23% in 2016-17. In January 2017 it began setting up the Government Property Agency (the Agency) with property staff from the Department for Business, Energy & Industrial Strategy and the GPU. It hopes that this Agency, once launched formally, will allow it to train, recruit and retain property experts more easily (paragraphs 1.4, 3.2, 3.15 to 3.19 and Figure 9).

10 **Apart from its pilot hubs, the GPU has made little further progress towards its strategic vision of a more centralised, flexible, integrated estate shared by all departments.** To date, the GPU's role has mainly been to support departments when the opportunities arose to exit from their leasehold buildings and dispose of surplus freehold buildings. The pilot hubs in Whitehall and Bristol have made good progress in facilitating the sharing of offices between multiple departments. However, elsewhere in the country, the Hubs programme is still in its early stages and the GPU has made little further progress in creating a shared, flexible, integrated estate since we reported in 2012 (paragraphs 2.10, 2.11, 4.3 and Figure 10).

11 **The GPU is starting to have an impact on the wider public estate.** Since 2013 the GPU has sought to improve integration across the wider public estate through its One Public Estate programme. It has awarded £21 million to projects involving 255 local authorities to enable projects that may not otherwise have happened. The GPU has designed a benefits-reporting system for participating authorities. Early reports for the first pilot phases suggest that benefits are broadly on track. Although some of these individual projects may have proceeded without its funding, the GPU believes that for a modest investment it has, at a minimum, helped bring forward a number of worthwhile projects. The GPU estimates that, to date, the programme has helped local authorities achieve £25.6 million in property disposals, £7.7 million of savings in running costs, create 935 jobs and release land for 532 new homes (paragraphs 2.12 to 2.15, Figure 7 and Figure 8).

The role of the GPU is changing, but the cost–benefit of those changes is uncertain

12 **The GPU is relying on two major cross-government programmes to transform estate management and achieve substantial additional savings.** The GPU intends that these programmes will introduce a new shared service for property, and save around 6% of the central estate's annual operating costs. The GPU has produced an outline business case for each programme, which it is planning to finalise by summer 2017. The two programmes are:

- **The Hubs programme**

  The Hubs programme aims to co-locate around 270,000 staff by 2023. Most of these staff will be in one of the 18 to 22 key locations (strategic hubs) in major cities outside central London. The rest will be located in around 180 other shared offices. Thirteen of the strategic hubs are being co-developed with HMRC as its regional centres. The Hubs programme is intended to be self-financing, from reductions in rent payments and from sale of property, for most departments. The current GPU business case estimates that the programme will achieve additional net savings of £640 million, over the 10 years to 2027, on top of the £1.6 billion it assumes departments would achieve anyway (paragraphs 4.2 to 4.15, Figure 12 and Figure 13).

- **The New Property Model (NPM)**

  The Cabinet Office intends for all departments to transfer their existing offices and some of their other properties (such as warehouses and general-purpose science facilities), with a total value of £3 billion, to the Agency. Departments will pay a market rent to the Agency for occupying property, including their existing freehold buildings. The Agency will also advise departments on their specialist estates. The GPU forecasts that improved oversight of departments' estates, increased sales of freehold properties and reductions in management costs will provide additional net savings of £687 million over 10 years (paragraphs 4.16 to 4.23, Figure 15 and Figure 16).

13 **The Hubs programme has the potential to be a catalyst for transformation in departments, but the wider benefits and costs have not been fully evaluated in the pilot hubs.** The programme is intended to transform the government office estate by providing high-quality modern workspaces that can be used by any department, allowing them to shrink or grow and deploy staff flexibly. Co-locating departments in regional hubs with good transport links could also offer better career paths for civil servants within each region, improved communication between departments and easier access to employment markets, particularly for skilled staff. These wider benefits are in addition to the GPU's estimated cost savings. However, the current business cases, including the wider benefits and the financial savings quoted above, are not based on a formal evaluation of the performance of the pilot hubs. The GPU has, however, developed a number of key performance indicators to track the wider effects as the first strategic hubs open (paragraphs 4.2 to 4.5).

14 **Most of the financial benefits arise from moving staff out of London and some local hubs may cost more than departments' existing locations.** Business cases for the first seven hubs predict that financial benefits averaging £5,400 over 10 years can be obtained for every member of staff. However, most of the financial benefits come from moving staff from central London to surrounding boroughs – £21,500 a head over 10 years. The five provincial hubs will produce savings of only £900 per head on average over 10 years. Some departments may be asked to move to strategic hubs that cost more than their existing locations. Such moves may be justifiable where departments occupy older buildings that are not fit-for-purpose or are dispersed. In January 2017, HMRC told the Committee of Public Accounts that it may wish to proceed with some of its regional centres even without cost savings in order to achieve the wider departmental transformation (paragraphs 4.6 to 4.8 and Figure 14).

15 **The Cabinet Office faces challenges in ensuring that the Hubs programme meets departments' needs.** It faces a number of risks that are already starting to materialise (paragraphs 4.7, 4.8 and Figure 6):

- **It requires departments to both want and be able to move to the Hubs locations for operational reasons.** The location and size of strategic hubs will be based on demand from departments to meet their long-term staff and accommodation requirements. However, with the exception of HMRC, departments' transformation and workforce plans are not sufficiently mature for them to be able to readily commit to where they want staff in the long term. Because this limits the GPU's ability to plan for the later strategic hubs, the GPU will deliver hubs in phases and include flexibility in its leases. HMRC is running its own transformation programme, including regional centres, in parallel with the GPU's programme. The GPU and HMRC are in the process of integrating their programme delivery for the first 13 strategic hubs.

- **Some departments have not committed to either Hubs or centralised ownership.** As at December 2016 only five strategic hubs had firm commitments, from five departments, to lease significant space in them – typically being an agreement to move staff within the hub city. Some major departments are yet to commit significantly to space in any hub.

- **The GPU is relying on departments to manage the difficulties associated with relocating staff to strategic hubs.** Although the GPU estimates that 75% of staff will relocate to a hub less than 10 miles from their current office (rising to 90% within 25 miles), some staff will have to travel extended distances to the new hubs. HMRC estimates that 5,000 of its staff could opt for redundancy rather than move to its planned regional centres. The GPU has not made estimates for the impact on staff turnover and loss of experience in other departments.

- **It can be difficult to find suitable buildings and negotiate leases in the right timescale.** For example, the GPU was unable to find a suitable hub building within a short timescale in Stratford and has now let a building in Canary Wharf to achieve the timescale. HMRC is continuing to plan for a regional centre in Stratford, and the GPU is now looking for further East London hub locations.
- **There is likely to be local opposition to some office closures.** Office closures will be the result of departmental plans for their workforce as well as the centre of government's expectations that departments move to hubs. Nevertheless, the GPU requires that the local business cases consider the local economic impact for each hub before final approval. These assessments are at an early stage and we saw no evidence of mitigation of the likely impact of office closures, for example through negotiations with local authorities.
- **There are uncertainties over costs.** Changes, for example over the rent levels which can be achieved and the level of landlords' contribution to the costs of fitting out buildings, may mean that some provincial hubs are more expensive per square metre than the current arrangements.

As a result of these difficulties, it is likely that hubs will take time to form. As an indication of possible timescales, the Whitehall estate has been reducing since 2012 and further rationalisation will continue to 2020 and probably beyond.

16 **Strategic hubs require at least some level of central management and greater financial flexibility than at present.** The vision of strategic hubs enabling departments to expand or contract. This requires a central body to take the risk of space no longer required by departments, and to be able to invest in that space so it can be sold or sublet. Current plans do not provide this financial flexibility. It is not clear that the Agency, as an executive agency of the Cabinet Office, will have the financial reserves. To date, the Cabinet Office has only been willing to let new properties if departments give a solid commitment to occupying them. The Agency is developing its charging and funding model, which it will use to negotiate the necessary financial flexibility and reserves to manage the estate effectively (paragraphs 4.11 and 4.12).

17 **The current business case for centralising management and ownership of the non-hub estate is not yet convincing, and most of the claimed benefits could be secured by other means.** The Cabinet Office believes that central ownership and charging for property will better encourage departments to adopt the hubs and secure savings. However, it is uncertain whether these incentives will work. The Agency has yet to develop and agree the funding and charging model with HM Treasury and expects to repay rents received back to departments. Of the £687 million forecast savings, more than £500 million is to be obtained from the Agency advising and supporting departments in relation to their non-hub estate (including warehouses, laboratories and the custodial estate). However, the strategies to deliver these savings need to be developed and agreed with relevant departments. And it is not clear from the outline business case why central ownership of the estate is necessary to achieve some of these benefits. The Cabinet Office intends to demonstrate the rationale clearly in its full business case (paragraphs 3.8 to 3.12 and 4.19 to 4.21).

18 A range of issues still needs to be addressed before the Agency is ready to launch. The Cabinet Office recognised this and postponed the full launch of the Agency from March to September 2017 to allow the GPU time to complete the preparations needed for a successful transition. We have assessed the GPU's preparedness in the key areas that have previously led to problems implementing shared services, rating them as red (high risk) in four areas and amber in the other three. Most importantly, the operational and financial arrangements, and hence the realism of the claimed benefits are still to be determined. Until this work is progressed, it may be difficult to obtain real commitment from departments. The GPU is procuring a new IT system, and also needs better information on the estate and on departments' workforce and estates plans (paragraphs 4.26 to 4.30, Figure 16, Figure 17 and Figure 18).

Conclusion on value for money

19 Government is getting better value for money from its estate. Since we last reported in 2012, departments have shrunk the size of the central government estate by 17% and its cost by 23%. The GPU has supported departments to achieve these impressive results, increasing collaboration across central government and facilitating property deals. It is also working with local government to enable projects that hope to make further significant savings for local taxpayers.

20 The GPU has not made as much progress towards its more challenging objective of creating a shared, flexible and integrated estate. It is relying on its Hubs programme and the New Property Model to do so, which are still at an early stage. But although both have some merit, the Cabinet Office has not made a strong case for either and it is yet to achieve strong commitments from most departments to making them work. And there is much still to be done before the new Agency is ready for launch in September 2017. There are similarities with other recent government attempts to implement shared services, which failed because too many stakeholders saw it as against their interest to make them work. The GPU should take stock and, if necessary, delay, redesign or consider phasing its programmes over a longer timescale.

Recommendations

21 We make the following recommendations to help the centre of government to deliver the government estate strategy.

HM Treasury and the Cabinet Office should:

a Ensure that there is a comprehensive review of the final business case for the NPM before deciding whether the Agency should take ownership of offices and other properties. This needs to include the costs and benefits, sufficiency of finance available to the Agency, timing of the programme, and ensuring that there is genuine support from departments.

The GPU should:

b Consider adopting a more gradual approach to centralised management, whereby the Agency builds up its asset base by taking ownership and managing the hubs and mini-hubs as they are set up.

c Improve its engagement with departments to secure their cooperation with major property programmes and to establish how best it can use its expertise and leverage to help departments with specialist estates.

d Update the Hubs programme business case, in collaboration with HMRC and other major departments, to inform a decision whether the programme remains financially attractive.

e Strengthen its design and management of the Hubs programme by:

- fully staffing its programme management team, filling short-term gaps with staff loaned from departments or contractors where necessary;
- improving the integration of the GPU and HMRC Hubs programmes;
- avoiding delay in preparing outline business cases for all hubs locations;
- setting up risk management processes that actively manage all major risks and follow good practice;
- examining the impact on staff and their productivity from the reductions in office accommodation achieved in recent years; and
- examining and taking account of the impact on towns and cities that will lose civil service jobs that are planned to move to hubs in other locations.

f Develop and apply management processes to monitor whether the expected benefits of its property programmes are being achieved and to adjust the implementation where they are not.

g Work with departments to ensure that sufficient information is available on costs and usage of individual buildings and building types to allow effective management of the estate.

Part One

Introduction and background

1.1 In 2006, we challenged government on both space standards and the way it would manage the estate.[2] We recommended that government needed a central strategic planning unit that, in the long term, would direct moves towards an integrated campus-based arrangement, with flexible managed office space, that could be shared by departments and allow each to expand and contract.

1.2 The Government Property Unit (GPU) was set up in 2010 to work collaboratively with departments to create an effective and efficient estate. Originally part of the then Department for Business, Innovation & Skills, it transferred to the Cabinet Office in 2011. The GPU initially aimed to introduce centralised ownership and management of some of the estate. However, departments were resistant to that proposal as they feared a central agency would be unresponsive to their needs and use a charging regime that was unfair to some. HM Treasury did not agree the business case and the proposal was temporarily dropped.

1.3 Our 2012 report found that government had made good progress in reducing its estate. However, while departments had consolidated within their portfolios, they had made limited progress in working together to overcome departmental 'silos' and create shared, flexible and integrated workspaces. We concluded that departments needed to plan their estates requirements together, and use reform of the estate to facilitate wider improvements in how the civil service works. And to be effective, the GPU needed support from HM Treasury to work out how to finance and best share the risks, costs and benefits of property moves that will deliver savings to the taxpayer.

1.4 In 2015, the government announced that by March 2017 a new body would centrally own and manage the government estate, with departments paying market rents for freehold buildings by 2020.[3] The Cabinet Office decided to set up a new executive agency: the Government Property Agency (the Agency) to give a focus for both managing the central government estate and property capability in government. The GPU will reduce in size and will be the sponsor of the Agency, setting policy objectives and monitoring its performance. The Agency started running in 'shadow' mode in January 2017, with the transfer of staff from the GPU and the Department for Business, Energy & Industrial Strategy. Its formal launch is due later in 2017.

2 Comptroller and Auditor General, *Getting the best from public sector office accommodation*, National Audit Office, June 2006.

3 Excluding the Ministry of Defence and the Foreign & Commonwealth Office (overseas) estates. A decision is still to be made on the Department for Work & Pensions' estate which is in a PFI contract until March 2018.

Part Two

Progress on rationalising the government estate

2.1 This part sets out central government progress in rationalising its estate since our last report on the central government estate in 2012, focusing on:

- the central estate and types of tenancy;
- reductions in the size of the estate;
- the operating cost of the central estate; and
- cooperation with the wider public estate.

The central government estate

2.2 The government central estate includes offices and certain types of property either owned or occupied by departments, non-departmental public bodies, special health authorities and government companies. It contains more than 4,600 holdings. The main types of tenancy in 2016 were:

- freehold (39% of total area);
- private finance initiative (PFI) (32%); and
- leasehold (29%).

2.3 Each tenancy type presents different challenges in size reduction, including: market conditions, operational costs and contractual restrictions. PFI contracts and leases are long-term commitments and may include expensive termination costs if there is an early break in contract.

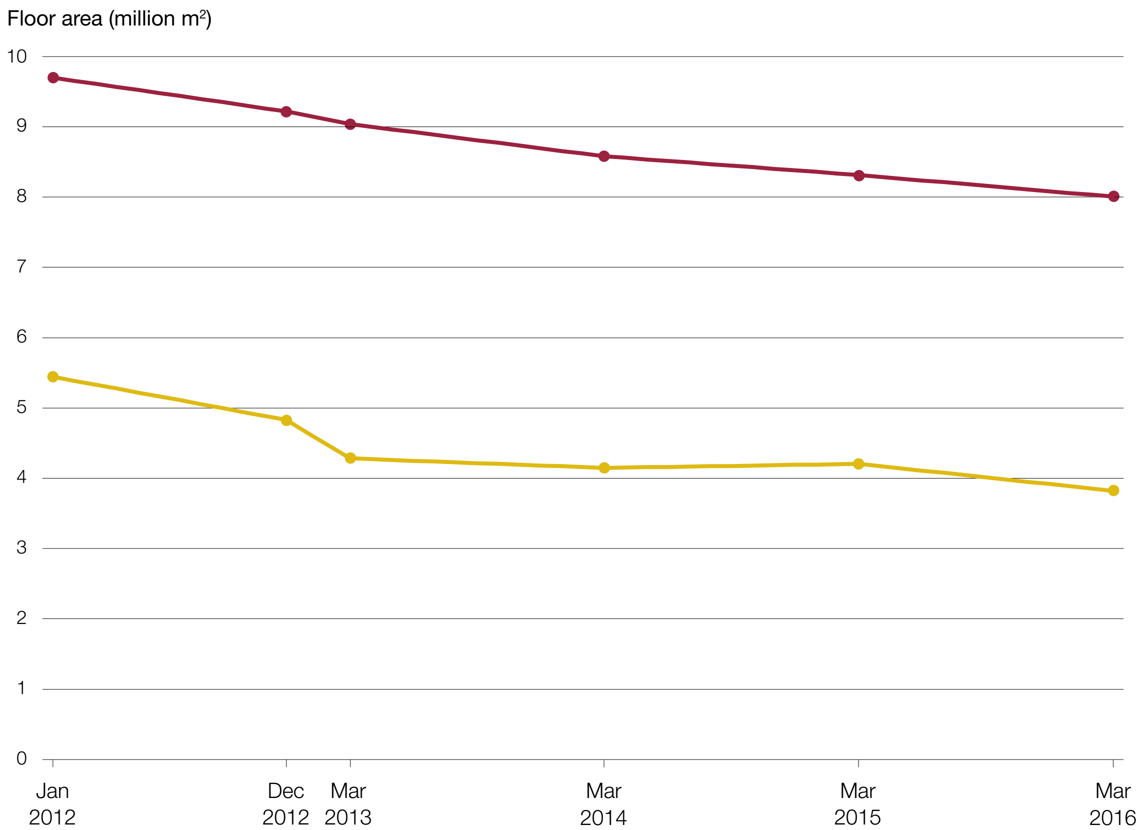
Departments have reduced the total size of the estate

2.4 Since 2012 departments have reduced the total floor area of the central estate by 1.7 million m^2 (17%) to 8.0 million m^2 in 2016 (**Figure 1**). Most of this reduction (94%) has been in offices, which make up around half of the total floor area of the central estate and reduced by 29% to 3.8 million m^2 in 2016. Departments have done less to reduce warehouses, science facilities and the rest of the central estate. Much of this part of the estate is, however, cheaper to operate than offices.

Figure 1

Reduction in the central and office estate, January 2012 to March 2016

The central estate, including the office estate, has reduced steadily since 2012



	Jan 2012	Dec 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016
Central estate	9.7	9.2	9.0	8.6	8.3	8.0
Office estate	5.4	4.8	4.3	4.1	4.2	3.8

Note

1 The floor area is based on 'net internal area', which is broadly the usable area within a building.

Source: National Audit Office analysis of Cabinet Office data

2.5 The size of the office estate has reduced faster than civil service numbers (which fell by 10%). As a result, the average floor space per person fell by 20% from 13.0 m^2 in 2012 to 10.4 m^2 in 2016. Departments have achieved this through increased use of open-plan offices, hot-desking, home working and ensuring that buildings are fully occupied. Vacant space has been reduced by 63% since 2012 to 111,000 m^2 in 2015-16.

Progress has been made on reducing estate operating costs

2.6 Since 2011-12 departments have reduced their estate operating costs in real terms, by up to 71% (**Figure 2**). In 2015-16 departments spent an estimated £2.55 billion operating the central estate, down by £775 million (23%) in real terms compared with 2011-12. Costs have fallen faster than the size of the central estate (17%), but slower than the fall in the size of the office estate (29%).

2.7 The total cost of office space is determined by staff numbers, the space used per person, the cost per square metre in rent, and other operating expenses. The Government Property Unit (GPU) benchmarks the costs and usage of more than 1,000 buildings by 30 public bodies, and compares with private sector comparators. The GPU estimates that the cost per square metre of the central office estate increased from £412 in 2011-12 to £443 in 2015-16, a 1% increase in real terms but still lower than the private sector comparator of £502 per square metre. Combined with the reduction in the average floor space, the effect has been to reduce the cost per employee from £5,324 in 2011-12 to £4,587 in 2015-16, a 19% reduction in real terms. Government offices are now cheaper and more space-efficient than the private sector (**Figure 3** on page 18).

2.8 These savings have been spread across the estate including:

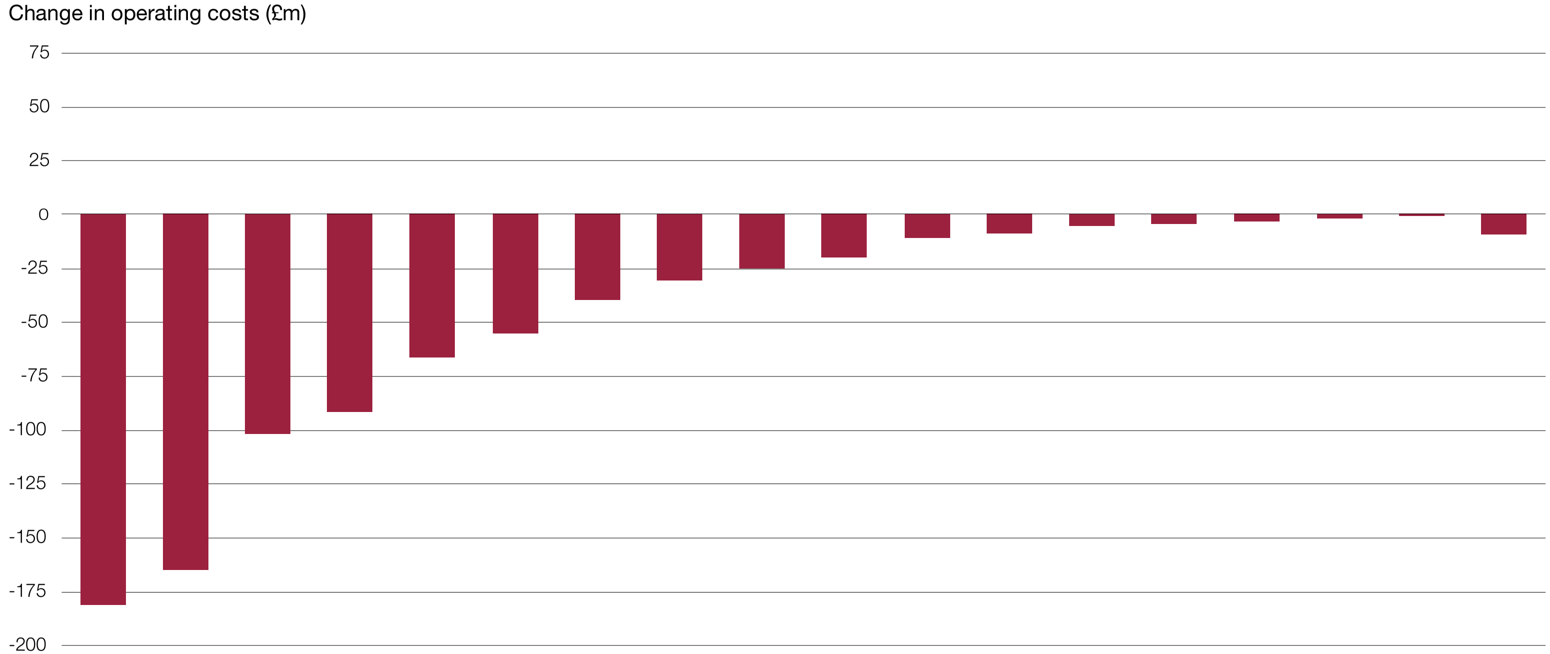
- **Reductions in rent payable on leasehold and PFI property.** The floor space of leasehold properties has fallen by 24% since 2012, we estimate saving around £160 million in annual rent as well as reducing other running costs. There was also a 16% reduction in the floor space of the PFI estate, mainly by the Department for Work & Pensions and HM Revenue & Customs. These departments operate PFI estates contracts, which allow the departments to surrender some leases to the PFI company each year. These departments have reduced their annual estate costs by 21% (saving £165 million) and 29% (saving £102 million) respectively.

- **Reductions in property costs in all regions.** The GPU reports that departments reduced the number of office buildings they occupy from more than 2,511 to 800 (68% reduction) between 2012 and 2016. Departments have reduced their occupied floor space in all regions of the UK: ranging from an 11% reduction in the East of England to 26% in the West Midlands (**Figure 4** on page 19). London, the most expensive area with average costs of twice the national average, saw a reduction in space of 18%.

Figure 2

Reduction in departments' estate costs, 2011-12 to 2015-16

Since 2012 all departments have reduced the net operating costs of their estates in real terms



	MoJ	DWP	HMRC	HO	BIS	MoD	DCLG	DfT	Defra	DfE	HMT	DH	FCO	DFID	DCMS	CO	DECC	Others
Change (£m)	-181	-165	-102	-92	-67	-56	-40	-31	-26	-20	-11	-9	-6	-5	-4	-2	-1	-10
Change (%)	-28	-21	-29	-32	-25	-31	-71	-18	-20	-36	-44	-8	-14	-44	-9	-7	-8	-9

Notes

1 These costs relate mainly to the central estate, and exclude the cost of some specialist property.

2 We have adjusted 2011-12 costs for inflation using HM Treasury's GDP deflator index.

3 Operating costs include rent, PFI charges, rates, property management, utilities and capital charges (but not depreciation). The total is stated net of income, such as from sub-letting.

4 The Department of Health figures have been adjusted to remove the effect of the Health and Social Care Act 2012, which brought significant additional properties into the central estate. With this adjustment, the Department has reduced its office area by 18.5% and the average floor space per person from 13 m^2 to 9 m^2. Without this adjustment, spending increased by 35%.

5 The total change in net operating costs shown in this figure (£827 million) differs to the figure in paragraph 2.6 (£775 million) because of the adjustment we have made to the Department of Health figure.

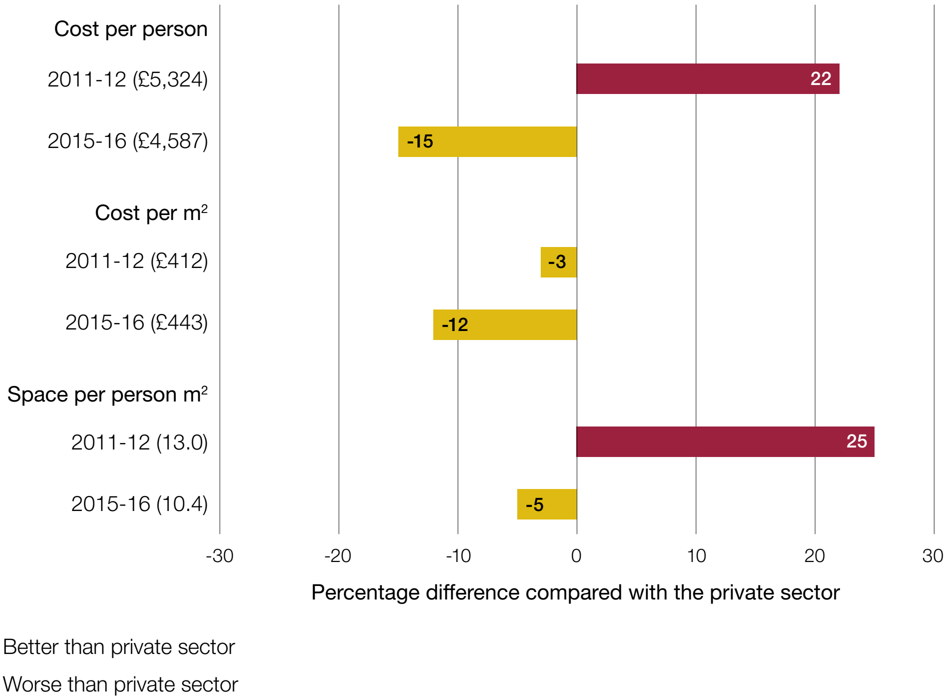
6 MoJ = Ministry of Justice, DWP = Department for Work & Pensions, HMRC = HM Revenue & Customs, HO = Home Office, BIS = Department for Business, Innovation & Skills, MoD = Ministry of Defence, DCLG = Department for Communities and Local Government, DfT = Department for Transport, Defra = Department for Environment, Food & Rural Affairs, DfE = Department for Education, HMT = HM Treasury, DH = Department of Health, FCO = Foreign & Commonwealth Office, DFID = Department for International Development, DCMS = Department for Culture, Media & Sport, CO = Cabinet Office, DECC = Department of Energy & Climate Change.

Source: National Audit Office analysis of the Government Property Unit's annual *State of the Estate* reports

Figure 3

Efficiency of the central estate compared with the private sector, 2011-12 and 2015-16

Since 2011-12 the central estate has overtaken private sector benchmarks for average cost per person and for space per person



Note

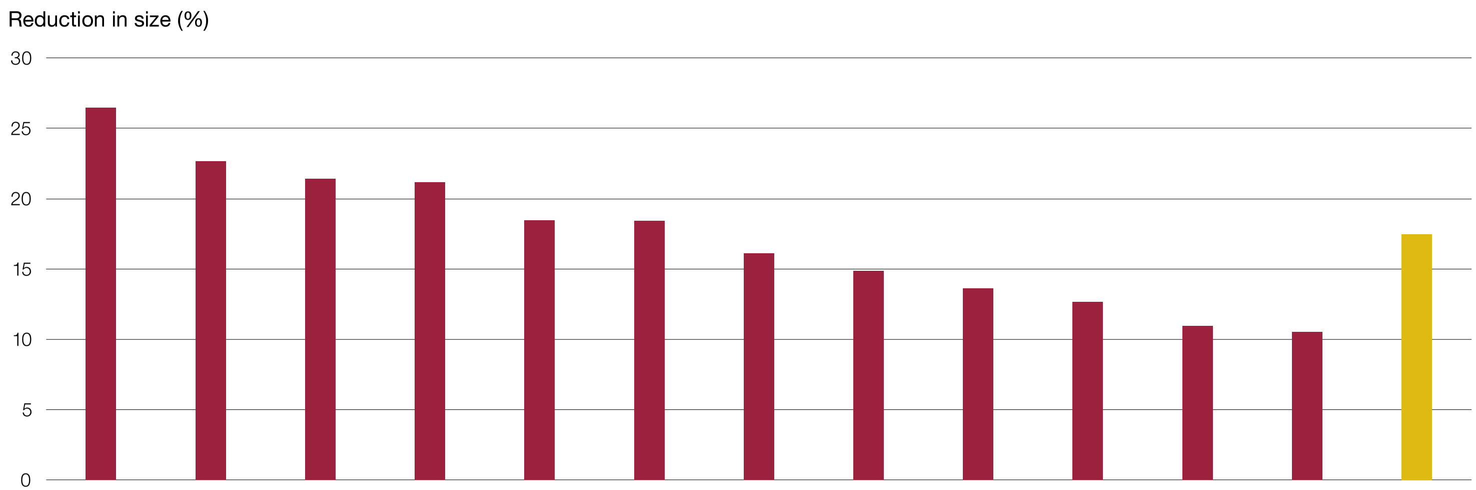
1 Central estate benchmarks shown in brackets.

Source: National Audit Office analysis of Government Property Unit benchmarking data

Figure 4

Reduction in floor area by region, January 2012 to March 2016

West Midlands had the greatest percentage reduction in area, while London had the greatest absolute reduction



	West Midlands	Scotland	South West	North West	London	Northern Ireland	East Midlands	Yorkshire/ Humber	North East	South East	Wales	East of England	Overall reduction
2016 (m^2 000s)	522	434	730	996	1,541	31	384	614	476	1,171	498	604	8,003
2012 (m^2 000s)	710	561	929	1,264	1,890	38	458	721	551	1,341	559	675	9,696
Change (%)	26	23	21	21	18	18	16	15	14	13	11	11	17
Change (m^2 000s)	188	127	199	268	349	7	74	107	75	170	61	71	1,696

Note

1 Totals may not sum due to rounding.

Source: National Audit Office analysis of Government Property Unit data

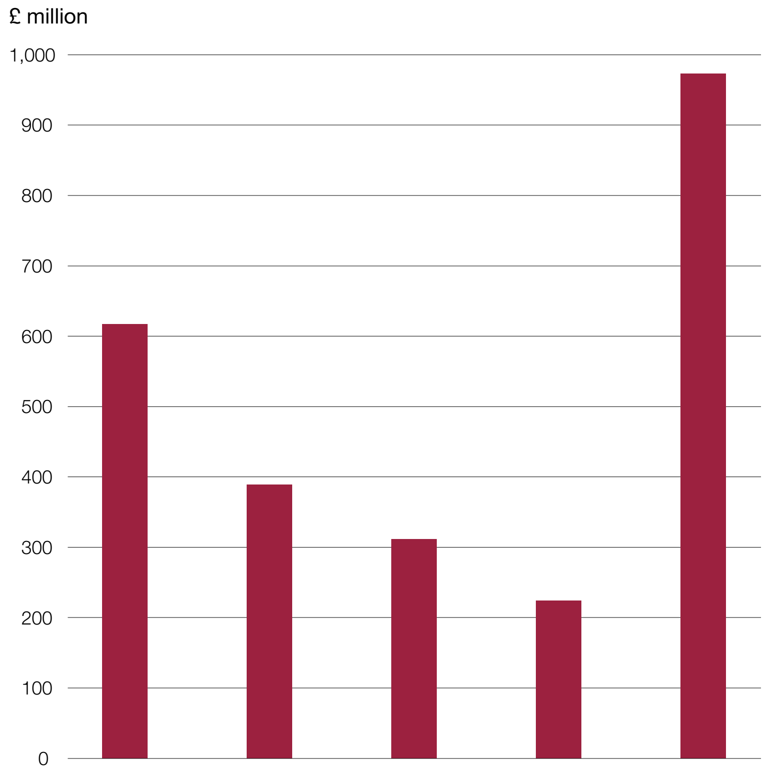
Substantial capital receipts have been raised

2.9 Government set a target in the Autumn Statement 2015 to sell £5 billion of land and property by 2020. Government has already raised £2.5 billion from 2011-12 to 2015-16, including £973 million in 2015-16 (**Figure 5**). Some of these receipts came from disposals of significant freehold buildings including:

- Old War Office (more than £350 million); and
- Admiralty Arch (more than £60 million).

Figure 5
Disposals of land and buildings, 2011-12 to 2015-16

Disposal of government land and buildings raised £2.5 billion from April 2011 to March 2016



	2011-12	2012-13	2013-14	2014-15	2015-16
Proceeds (£m)	617	389	312	225	973
Number of disposals	502	684	457	193	468

Source: National Audit Office analysis of Government Property Unit data

2.10 Other capital receipts mainly resulted from the disposal of small freehold properties and the sale of land for housing and other developments. However, our 2016 report on the disposal of public land for new homes highlighted slow progress in releasing land for housing.[4] Since 2012 the freehold estate has reduced by only 13%, less than the 24% reduction for the leasehold estate and 16% for PFI property.

2.11 In the 2014 estate strategy, the GPU projected a reduction in the number of Whitehall buildings, with civil servants moving out of expensive buildings.[5] Between 2012 and 2016 there was a 50% reduction: from 106 buildings to 53, which is faster than was planned at the time of our previous report (**Figure 6** on pages 22 and 23). The GPU forecasts a further reduction to 18 buildings in Whitehall by 2020 by increasing the use of existing buildings and transferring staff to outer London.

The One Public Estate programme has distributed money to local authorities to enable local property projects

2.12 The GPU considers that the wider public estate also has too many properties, costing too much to run or which are not fit-for-purpose. One Public Estate (OPE) is a low-cost grant programme to support public bodies to make better use of the public estate in England, particularly in the provision of health services, social care, and welfare and employment services. The GPU also intends OPE to contribute to local government efforts to achieve cost savings, capital receipts, economic growth and provision of housing (**Figure 7** on page 24)

2.13 Although the funding available for individual projects is modest, OPE is popular with local authorities: by January 2017, the GPU had awarded £21 million to support 255 authorities – more than half of the total (**Figure 8** on page 25). The GPU is accelerating the OPE programme and aims to have included 95% of upper and second-tier authorities by 2018. OPE typically provides ‘seed funding’ for evaluations and feasibility studies and the GPU and Local Government Association provide direct support to projects. The local authorities we interviewed valued the GPU’s role in facilitating their engagement with departments, although some told us that their projects would have gone ahead without the GPU support. The GPU believes that for a modest investment it has, at a minimum, helped to bring forward a large number of worthwhile projects.

4 Comptroller and Auditor General, *Disposal of public land for new homes: a progress report*, Session 2016-17, HC 510, National Audit Office, July 2016.

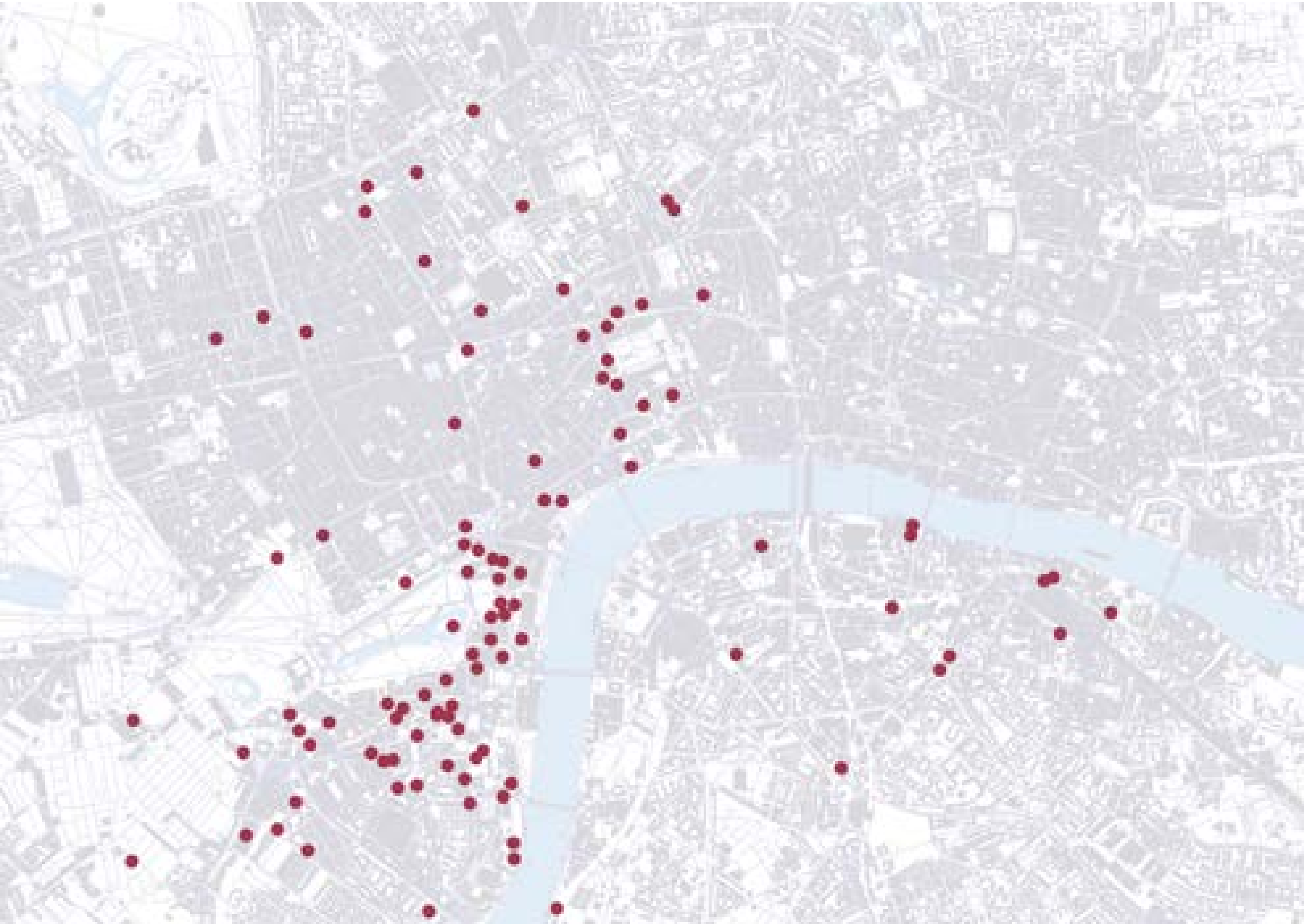
5 Cabinet Office, *Government’s Estate Strategy*, October 2014.

Figure 6

Reduction in the number of central London buildings, 2012 to 2016

The number of buildings in central London has halved since 2012

Government estate in 2012



● Government estate in 2012

Figure 6 *continued*

Reduction in the number of central London buildings, 2012 to 2016

The number of buildings in central London has halved since 2012

Government estate in 2016

- Planned government estate in 2020
- Government estate to be disposed of from 2016

Source: National Audit Office analysis of Government Property Unit data

Figure 7

The One Public Estate programme

OPE is a programme to help local bodies make better use of the public estate in England

Objective: To bring public sector bodies together and take a more strategic approach to asset management

Situation

353 English local authorities with property assets worth £226 billion

Budget pressures limit funds to optimise usage

Need for estate collaboration, integration and efficiency

Need to stimulate local economies

Need to avoid spare capacity, waste and duplication

Inputs

Up to 95% of English local authorities involved by March 2018

Managed in partnership with the Local Government Association

Budgeted programme management costs of £3.7 million (20 GPU staff)

Five phases of funding to date

£21 million of grants awarded

Likely funding for Phase 6 is £19 million

Outputs

58 local partnerships involving 255 authorities and 339 projects to date

Benefits reported in phases 1 and 2 by authorities (by January 2017) include:

- £25.6 million of capital receipts
- £7.7 million of running cost savings
- 935 jobs created
- 532 new homes built

Outcomes

More integrated, customer-focused services in shared properties

Contributions to:

- economic growth
- more housing
- more efficient public sector

Source: National Audit Office analysis of Government Property Unit documentation

Figure 8

Local authorities' involved in One Public Estate by October 2016

More than half of local authorities are involved in OPE

Case study: Worcestershire County Council

Total cost of £1.9 million

£40,000 funding used to carry out reviews which mapped assets and determined future use

Expected benefits (from six participating bodies) of:

- £11 million revenue savings in two years
- £58 million capital receipts over 10 years

Case study: Cornwall

£40,000 funding in Phase 2

£470,000 in Phase 3

Projects include building on existing work on integrated emergency services

Expected benefits from the emergency services stream include:

- 150 jobs
- £379,000 revenue savings over three years

Case study: Leeds City Council

Worked with health partner on integrated health and social care

£40,000 funding in Phase 1

£70,000 funding in Phase 2

Around 1,000 health and local authority staff involved

Expected benefits include:

- Up to £150,000 estate savings
- £500,000 capital receipts

Case study: London Borough of Croydon

£40,000 funding in Phase 2

£250,000 funding in Phase 3

Worked with health bodies to release land for housing and conduct feasibility studies

Expected benefits include up to 600 new homes

■ Local authorities involved in OPE programme by October 2016

■ Local authorities not involved

Source: National Audit Office analysis of Government Property Unit documentation; interviews with local authorities

2.14 Based on the bids received from local authorities, the GPU forecasts substantial benefits by 2019-20 from its funding of the first four phases of OPE including:

- capital receipts of £415 million;
- running cost savings of £98 million;
- more than 44,000 new jobs created; and
- land released for building 25,000 new homes.

2.15 Although progress on early projects was initially slower than expected, local authorities involved in OPE have more recently reported good progress. For example, by January 2017 local authorities had reported £7.7 million of running cost savings (see Figure 7). The GPU has not included working and co-locating with local authorities in its wider plans for the central government estate, such as the Hubs programme.

Part Three

Effectiveness of the GPU in coordinating departments' estates

3.1 In this part of the report, we assess the Government Property Unit (GPU) performance in six key areas we identified in our 2012 report.[6]

The GPU has contributed to savings and its performance has improved since 2012

3.2 The GPU has made a significant contribution to the savings made by departments reported in Part Two, by setting the right environment, overseeing controls and facilitating deals between departments. Its specific measures include:

- the administration of national property controls, which discourage departments from new lets or renewing existing leases;
- helping to reduce the estate and encouraging departments to share buildings (for example, in the 'Whitehall campus');
- facilitating joint use of buildings by the wider public sector through the One Public Estate (OPE) programme.
- helping departments to dispose of surplus land and buildings and reuse existing property;
- encouraging more flexible working and use of mobile technology, through *The Way We Work* initiative;
- reviewing departments' estate spending as part of HM Treasury's Spending Review 2015;
- monitoring performance against the target of 10 m^2 of floor space per person by 2015; and
- developing and promoting the property specialism within the civil service.

6 Comptroller and Auditor General, *Improving the efficiency of central government office property*, Session 2010–2012, HC 1826, National Audit Office, March 2012.

Figure 9

Our assessment of the GPU's effectiveness

The GPU has improved effectiveness in three of the six areas we identified as essential to successful estate management in 2012

GPU activity	2012–2017	Our assessment
Vision and strategic planning (paragraphs 3.5 to 3.6)	🟡 ↑ 🟢	The GPU last published an estate strategy in 2014, announcing a range of initiatives and ambitions targets. Departments are supportive of the GPU vision and its transformation programmes although many staff within departments remain unclear about the plans.
Collating and sharing information (paragraphs 3.7 to 3.9)	🟡 ↔ 🟡	The GPU has made efforts to obtain and share information but significant gaps remain in departments' strategic estate plans and data. The GPU maintains a central database (e-PIMS) that departments access, but some information in it is incomplete or unreliable.
Addressing financial barriers (paragraphs 3.10 to 3.11)	🔴 ↑ 🟡	Within the Hubs programme, there is limited funding from the Cabinet Office to facilitate departmental moves. The GPU does not have a full list of property deals it has been involved in or projects where financial barriers have been an issue.
Maintaining financial discipline (paragraphs 3.12 to 3.14)	🟢 ↔ 🟢	The GPU continues to manage the National Property Controls. Departments are now submitting fewer applications for new or renewed leases.
Working together and aligning interests (paragraphs 3.15 to 3.17)	🟡 ↑ 🟢	*The Way We Work* initiative aims for a more agile work culture in a modern environment with flexible working standards. New government buildings are expected to allow joint use and rapid reuse of building by other public sector bodies. Departments have formed clusters to share resource and knowledge.
Skills and expertise (paragraphs 3.18 to 3.19)	🟡 ↔ 🟡	Performance is affected by the GPU being significantly under staffed and is forecast to underspend by 23% on staff costs in 2016-17. A majority of departments interviewed felt the GPU did not have sufficient commercial or estates management expertise.

🟢 GPU was/is operating well

🟡 GPU was/is operating with some weaknesses

🔴 GPU was/is not operating well

↑ GPU performance has improved since 2012

↔ GPU performance is unchanged since 2012

↓ GPU performance has worsened since 2012

Source: National Audit Office

3.3 Nonetheless, the efficiency improvements have not come from the GPU being more strategic. The improvements achieved to date (see Part Two) mainly result from tactical changes, with departments acting independently within their own estate footprints. The GPU believes further savings could be made by managing individual holdings as a single estate.

3.4 In 2012, we found that the GPU was not yet operating effectively in five out of the six key performance areas we reviewed. In the rest of this part, we review the GPU in these six areas. We find that the GPU has improved in three areas (**Figure 9**).

Vision and strategic planning

3.5 To effectively lead wider reform, the centre of government needs to set out a clear and persuasive vision for stakeholders and to develop a strategy for implementing the necessary changes and support its work with departments. The GPU published its first outline strategy in 2013, and a more aspirational strategy in 2014 (**Figure 10** on page 30). The strategy announced major cross-government transformation initiatives and a range of ambitious targets, including to accelerate the reduction in the average floor space, from 10 m^2 to 8 m^2 for each office worker by March 2018.

3.6 All 15 departmental heads of estates we interviewed told us that their department supported the GPU's overall vision and the aims of its major initiatives. These were seen as supporting departments' own estate strategies and their need to make further savings (see Appendix Three). However, they felt that it is not always clear that the GPU's estates strategy fits with their departmental wider transformation and workforce plans. Although 60% of departments told us that they are kept informed by the GPU of its plans, others felt unclear about the GPU's plans and their implications.

Collating and sharing information

3.7 A key role of the centre of government is improving communication between departments and providing good data to inform departments' decision-making. The GPU aims to meet formally with the head of estate in major departments three times a year and with smaller departments once a year. However, in the first six months of 2016-17, it had met with only five departments. The GPU also sees most departments through programme boards and other meetings with heads of estates. Despite this, a few departments told us that they were dissatisfied with how well the GPU kept them informed.

Figure 10

Government's estate strategy

The GPU produced estate strategies in 2013 and 2014 setting out a strategic approach to managing change in the government estate

Current situation	Actions being taken	Vision
The government's estate has been shrinking since 2010. In 2014 it reported savings of £600 million on running costs and £1.4 billion in proceeds from asset sales. The government is now seeking to drive further progress. There are a number of challenges including: • barriers to co-location – security concerns, ICT, culture; • contractual liabilities; • few financial incentives for departments to improve space usage in freeholds; and • the public sector controls large amounts of surplus land, buildings and vacant space which are not being put to good use.	**Place-based strategies** – developing offices where different organisations can share space. **The Way We Work** – smarter working through a changed culture that supports flexibility, desk-sharing and working efficiently. **One Public Estate** – bringing together public sector bodies to develop a new approach to managing land and property. **National Property Controls** – helping to rationalise the estate by controlling lease renewals. **Right to Contest** – giving people the ability to challenge government to release existing buildings. **Government Property Profession** – to provide direction to the estate management community on policy and strategy. **Management information** – to promote the understanding, joining-up and optimisation of estate strategies.	By 2020, create an estate that is efficient, fit-for-purpose and sustainable. Remove artificial boundaries between departments, local authorities and other public bodies. Release surplus property, maximise receipts, boost growth and create new homes. Reduce office space and develop a smarter working revolution.

Note

1 The GPU expects to publish an updated estate strategy in 2017.

Source: National Audit Office summary of government estate strategies 2013 and 2014

3.8 The GPU requires each department to produce a strategic asset management plan (SAMP) once a year. From 2017 departments will also be required to publish a summary of these plans. Each SAMP should capture a department's overall objectives and aims, as well as information on their property requirements and progress against targets. However, only six departments submitted a completed SAMP for 2016, and the information they supplied varied significantly in detail. The GPU had worked with departments to design the SAMP, although some departments told us the document was of limited value.

3.9 The GPU maintains a central database (e-PIMS) of individual holdings within central government's estate. It uses e-PIMS for compliance and to inform planning, including an annual report on the central estate.[7] However, the system has shortcomings:

- It lacks some information useful for decision-making, such as space available for sub-letting, use of property and some estate-related costs. The GPU has, however, now made data on individual buildings available to departments
- It does not readily generate reports that provide meaningful information for managing the estate. Departments generally need to maintain their own records for managing their estates.

Addressing financial barriers

3.10 In 2012 departments were finding it difficult to finance office moves and there were few incentives for departments to work together. We were concerned that property projects, beneficial to the taxpayer, would cost one of the departments more in the short-term and would not therefore go ahead. HM Treasury had not approved the GPU's proposals for a central fund or budget flexibility for property projects.

3.11 Since 2012 a few difficult projects have gone ahead and some limited funding is being provided by the Cabinet Office within the Hubs programme to facilitate departmental property transfers between departments. However, between 2012 and 2016-17, there were no significant changes to how departments' estates are funded and no formal relaxation in budget constraints to facilitate property moves. Addressing these financial barriers is a key aim of the GPU's programme to centralise ownership of the estate.

Maintaining financial discipline

3.12 The centre of government has a key role in enforcing financial discipline in estates management. In 2010 the GPU put a moratorium on all new property leases and lease extensions. These were formalised in 2011 under the National Property Controls, which require a department to seek approval from ministers and from the Cabinet Office when renewing or taking out a new lease.

7 *State of the Estate* reports are available at: www.gov.uk/government/collections/state-of-the-estate

3.13 In 2012 we found that the National Property Controls were playing a key part in encouraging departments to reduce their estates. However, departments frequently made late applications that allowed insufficient time for alternatives to be found. By 2016 departments were planning ahead more and were seeking fewer lease renewals or extensions. The number of applications granted approval reduced from 135 in 2010-11 to only 74 in 2015-16. The GPU approved all but one of the 2015-16 applications. The process provides a mechanism through which the GPU can provide advice, which can help improve the quality of applications and avoid making applications likely to be refused. However, it does not systematically record and analyse the reasons for granting the extensions or any conditions applied to the agreement. The GPU accepts that the current process does not allow it time to address complex issues and establish best-practice guidance (**Figure 11**).

3.14 Eleven out of 15 departments we interviewed agreed that the property controls were useful, for example in resisting pressure from their arm's-length bodies (Appendix Three). The GPU and departmental heads of estates told us that departments no longer put weak proposals forward as departments had 'internalised' the control and knew what was acceptable.

Working together, aligning interests and promoting best practice

3.15 In 2012 we found that government had increased adoption of best practice in property management, but linkages between this activity and wider civil service reform were not strongly drawn. While departments were increasingly using open-plan office space and hot-desking, some barriers to office-sharing remained, including incompatible ICT and security arrangements.

Figure 11
National Property Controls case example

The GPU administers the central spending controls on property on behalf of the Cabinet Office

HM Revenue & Customs (HMRC): new building in Croydon

In December 2016 HMRC requested approval from the GPU to sign a lease for the first of its 13 new regional centres (see Part Four). The GPU identified problems with the proposed lease (which was designed by HMRC to meet the accounting definition of an operating lease). The lease therefore, restricted HMRC's ability to sublet outside central government, and required private insurance rather than self-insurance as is normal government practice. Nevertheless, the GPU approved the application because it considered there would be a large demand for government offices in Croydon. But it identified that value-for-money issues should be addressed for future Hubs leases. A new approach was agreed with HM Treasury and has since been applied to the lease for HMRC's regional centre in Edinburgh.

Source: Government Property Unit

3.16 Since then, the GPU has launched significant initiatives:

- *The Way We Work*, which seeks to encourage a more agile work culture, with modern environments and flexible working standards;[8]
- a British Standard (PAS 3000) on *Smart Working,* drawing together human resources, property and ICT disciplines. All new government buildings are expected to conform to the standard, and to have common IT and security arrangements, allowing joint use and rapid reuse of buildings by other public sector bodies.

3.17 Since 2012 some departments and bodies have formed clusters, combining estate teams and sharing buildings whenever possible. For example, the Ministry of Justice, Home Office, Department for Education and Department for Communities and Local Government have a single estates team reporting to the finance directors of these departments.

Skills and expertise

3.18 To implement its strategy, the centre of government must build capacity and ensure it has sufficient skilled staff to support departments and share expertise across government. The GPU had a budget of £44 million in 2016-17 and employed 70 people in December 2016. However, it is significantly under staffed and expects to have underspent by 23% in 2016-17. Most of this underspend was due to understaffing in the new Government Property Agency (the Agency): excluding the Agency, the GPU itself is likely to have underspent by 11%. The GPU has used some fast-stream staff and consultants to fill gaps, which risks its ability to deliver the major programmes. Eight departments out of the 15 we interviewed considered that the GPU did not have sufficient commercial or estates management expertise. In response, the GPU has set up a training programme, including courses in programme management, risk management and benefits management.

3.19 The GPU has sought to develop a wider network of property professionals across departments. In 2016 there were some 2,000 members of the property profession, 78% of whom were members of professional bodies. The GPU intends to expand the capability of this profession through a cross-government apprenticeship programme and a fast stream. The GPU hopes that the set-up of the Agency will allow more effective recruitment and training of property professionals.

8 Available at: www.gov.uk/government/publications/the-way-we-work-tw3-best-practice-guidelines-for-smarter-working

Part Four

Design and implementation of the major estate programmes

4.1 The Government Property Unit's (GPU's) vision calls for a shared, integrated and flexible estate, where buildings can be used by any department or public body. This vision is to be implemented by two major transformation programmes, which together will mean that the GPU provides estate management on a shared-service basis by 2020. In this part we examine:

- the Hubs programme;
- the New Property Model (NPM); and
- the Cabinet Office's readiness to implement these programmes as shared services.

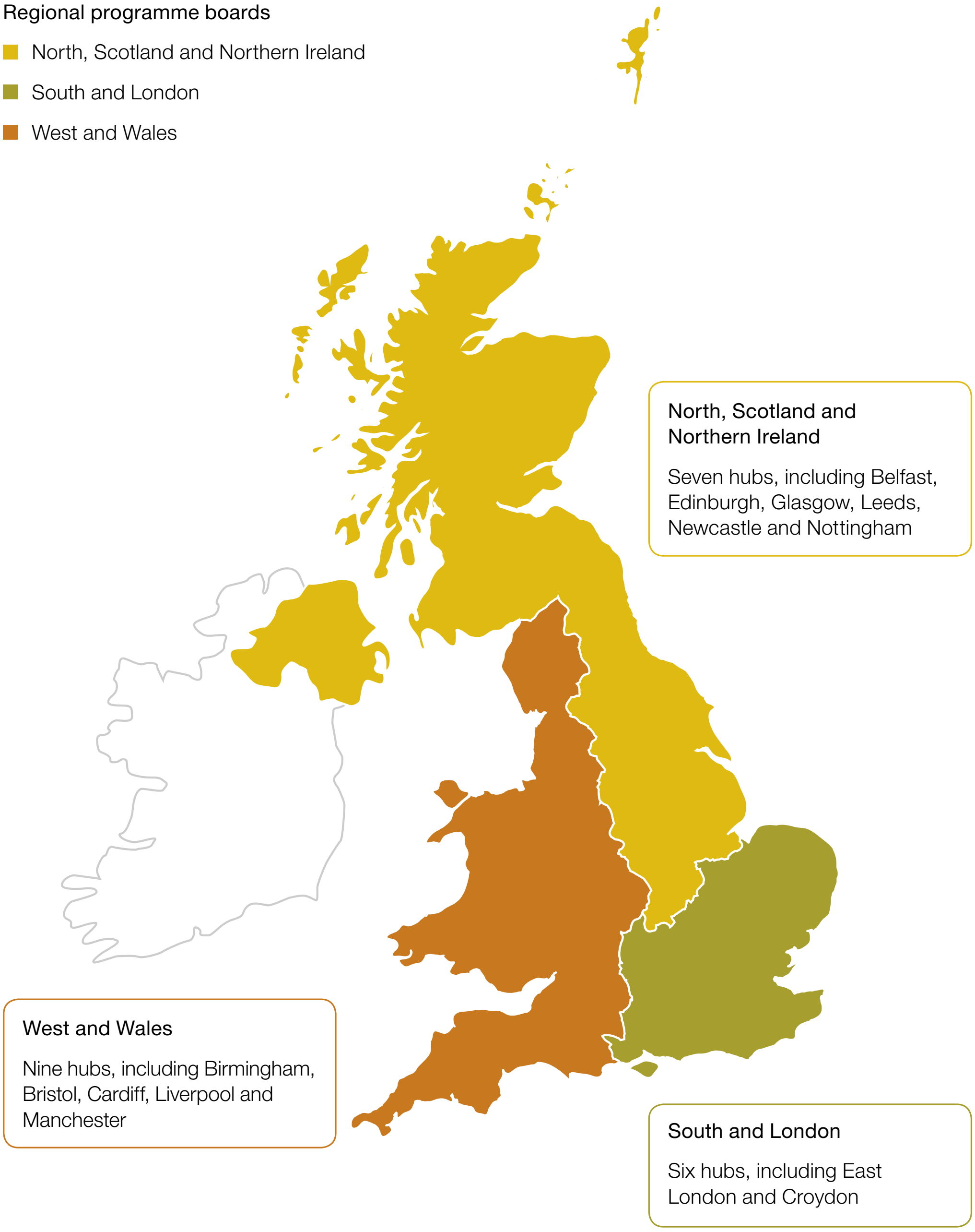
The office estate is to be transformed by strategic hubs set up in the regions

4.2 The GPU estimates that 60% of the leases on the central estate will expire by April 2021. These will either have to be extended or the staff and functions moved to an alternative building. The Hubs programme aims by 2023 to co-locate around 270,000 staff in around 200 shared offices, the majority of whom will be in between 18 and 22 key locations (strategic hubs) outside central London (**Figure 12**). Departments are expected to transfer many of their staff from existing buildings into the strategic hubs. For example, some 82 government office buildings around Leeds could be consolidated into a handful of large offices.

Figure 12

Planned locations of government strategic hubs

Three regional programme boards, supported by locality project boards, will manage the creation of up to 22 strategic hubs outside central London, and around 180 smaller shared offices, by 2023



Note

1 All information was correct as at April 2017, but may be subject to alteration. Some locations are not yet decided.

2 The 13 hubs identified in the figure are also HMRC regional centres.

Source: Hubs programme business case

4.3 The Hubs programme has developed out of the GPU's 'place-based' strategy, which had pilots in Bristol and the London 'Whitehall campus', where many departments now share buildings.[9] It includes the 13 regional centres which HM Revenue & Customs (HMRC) has been developing. The strategic case for the Hubs includes:

- more efficient use of space, by breaking down departmental 'silos';
- more flexible space, by allowing departments to expand and contract, and the centre of government taking the risk;
- more modern space with better digital connectivity;
- greater collaborative working and integration between departments co-located in the same strategic hubs;
- economies of scale by managing the strategic hubs centrally; and
- better access to employment markets and clearer career paths by establishing networks of civil service operations in city centres.

4.4 The GPU produced an updated programme business case in March 2016, with detailed workings of the likely costs and benefits from Hubs (**Figure 13**). The next iteration of the business case is expected to be approved by summer 2017. Each strategic hub will have a separate business case, supported by detailed estimates of the costs and savings and an assessment of the local economic impact. These business cases have to be approved by HM Treasury. The business cases do not include a quantified assessment of the wider benefits and costs of strategic hubs, such as the impact on recruitment and retention or the effect of more flexible working. However, the GPU has developed a number of key performance indicators to track these wider benefits and influence departments' rationalisation programmes.

9 For example, the Cabinet Office, Department for Culture, Media & Sport, HM Revenue & Customs and HM Treasury share 1 Horse Guards Road/100 Parliament Street.

Figure 13
Summary of the Hubs programme (including HMRC regional centres)

The GPU forecasts that Hubs will deliver net savings of £640 million over 10 years

Objective: To transform central government's office estate by accommodating departments in shared hubs across the UK

Situation

Departments transforming their services and workforces

800 office buildings

£1.3 billion annual running costs

3.4 million m^2 general back-office space

Fragmented estate, with some ageing buildings not suited to modern ways of working

Inputs

Around £7 million annual programme costs

£442 million total acquisition costs over 20 years

£570 million total costs of refurbishment over 20 years

GPU programme office of up to 80 staff

Staff and financial resources from HMRC and other departments

Outputs

By 2023:

- circa 270,000 staff in hubs
- 13 strategic hubs co-located with HMRC regional centres
- 5–9 other strategic hubs
- circa 180 other shared office buildings

Exit from surplus leasehold buildings and disposal of surplus freehold buildings

Outcomes

Overall saving of £640 million over 10 years (additional to £1.6 billion savings possible through departments reducing within their existing estate)

Unquantified benefits include:

- more productive workforce with smarter, digital working;
- departments better able to recruit and retain talented individuals; and
- increased collaboration between departments

Source: National Audit Office analysis of Government Property Unit documentation

4.5 The outline business case for Hubs predicts net financial benefits totalling £2.2 billion, over the first 10 years. The GPU is confident that it can achieve these benefits. However, in our view the business case relies on some optimistic assumptions and its scope is not clearly defined:

- Of this £2.2 billion, £1.6 billion would be achieved by departments' consolidation of their estate in the absence of the Hubs programme. The Hubs programme is thus expected to deliver £640 million in additional savings.
- The GPU also assumes that it will further reduce long-term running costs by 25% compared with departments' existing plans through efficiencies of centralisation, which is very ambitious. New leasehold property in regional city centres may not be cheaper than existing government property given that central estate costs are currently less than in the private sector (see Figure 3).
- It assumes that departments would not reduce their average space per person in their existing estate, while new buildings leased or acquired for strategic hubs would achieve a demanding 6 m^2 per person (lower than any existing government office).

4.6 The Hubs programme is intended to be self-financing, from reductions in rent payments and sale of property, for most departments. However, the GPU does not expect every key location within the Hubs programme to produce financial savings. The separate business cases we have seen for seven individual strategic hubs, produced by the GPU or HMRC, suggest there is still much uncertainty about whether the expected savings in the GPU's outline business case will be achieved in full.

4.7 The main financial benefits arise only from the moves out of central London where typical rents are considerably higher than in surrounding areas.[10] The GPU estimates that these moves will save £21,500 per head over the first 10 years (**Figure 14**). More modest savings (averaging £900 per head over 10 years) are forecast at provincial locations, because rent differentials between the proposed strategic hub city and existing locations are lower – and may be negative over the first 10 years in some cases.

4.8 Such moves may be justifiable where departments occupy older buildings that are not fit-for-purpose or staff are dispersed over many small buildings. In January 2017, HMRC told the Committee of Public Accounts that it may wish to proceed with some of its own regional centres even without cost savings, provided that it made sense to do so within the overall context of its programme. HMRC also told us that it needed to avoid extending its estates PFI contract, which is coming to the end of its term.

10 The GPU told us that prime office rents (at the end of 2016) were £110 per square foot in central London compared with £28 to £32 in Birmingham, Bristol, Edinburgh and Leeds.

Figure 14

Forecast savings from individual hubs

Business cases for the first seven hubs forecast an average savings over 10 years of £5,400 per head, with £21,500 for London and £900 for provincial locations

Hub	Likely staff numbers	Net savings over 10 years (£m)	Forecast savings per head (£)
London:			
East London Phase 1	5,700	125	21,900
Croydon Phase 2	2,500	52	20,600
Average – London to date			**21,500**
Other regions:			
Birmingham locality	8,600	6	700
Bristol Phase 2	2,300	14	6,100
Edinburgh locality	2,640	2	800
Leeds locality	12,800	22	1,700
Liverpool Phase 1	3,350	(17)	(5,100)
Average – other regions to date			**900**
National totals to date	**37,890**	**204**	**5,400**

Notes

1 The business cases for Croydon and Liverpool were prepared by HMRC. All other business cases are by GPU. The GPU does not yet have business cases for the other 11 to 15 hubs.

2 Uncertainties over landlords' contributions to the costs of adapting the building may affect some of the net savings.

3 HMRC told us that it expected the Liverpool Regional Centre to provide a net saving of £60 million over 25 years.

Source: National Audit Office review of the Government Property Unit and HM Revenue & Customs business cases

4.9 Setting up Hubs by the target of 2023, and ensuring that they meet departmental needs, will be a huge challenge for the Cabinet Office.

- It requires departments to both want and be able to move to the Hub locations for operational reasons. The location and size of strategic hubs will be based on demand from departments to meet their long-term staff and accommodation requirements. However, except for HMRC, departments' transformation and workforce plans are not sufficiently mature for them to be able to readily commit to where they want staff in the long term. Because this limits the GPU's ability to plan for the later strategic hubs, the GPU will deliver hubs in phases and include flexibility in its leases. The GPU has moved away from its initial concept of a single large building in each hub location, to a campus approach to give more flexibility on timings of moves.

- Although departments told us they agreed with the GPU's overall vision (and 2015 Spending Review settlements stated that departments must participate in Hubs), they have been slow to make a specific commitment to individual strategic hubs. As at December 2016, only five hubs had firm commitments, from five departments and six other public bodies – often agreeing only to move staff within the hub city. Although some limited funding will be available from the Cabinet Office budget, the GPU is unwilling to bear significant financial risks by leasing space that may not be immediately required. The Government Property Agency (the Agency) is developing its charging and funding model which it will use to negotiate the necessary financial flexibility and reserves to manage the estate effectively.

- There will be difficulty in relocating staff to regional hubs. Six departments told us the GPU lacked a good understanding of the 'people' implications of moves into hubs for their staff. The GPU has not assessed the impact on staff turnover and loss of experience in departments. It has estimated that 75% of staff will relocate to a hub less than 10 miles from their current office and around one in 10 staff are expected to move more than 25 miles. Choosing the right location is vital for recruitment and staff retention. Outside London, hubs may be located in major city centres that are more expensive than current offices and some staff will have to travel extended distances. HMRC estimates that 5,000 of its staff could opt for redundancy rather than move to its regional centres. To achieve the target of an average of only 6 m^2 of floor space per person in hubs, most staff will not have their own workstation and will be encouraged to work flexibly, including from home when appropriate.

- It could be difficult to find suitable buildings and negotiate leases in the right timescale, particularly for the early hubs. In practice, acquiring properties tends to be opportunistic. For example, the GPU was unable to find a building in Stratford within a short timescale. To achieve the timescale it identified and acquired an existing building in Canary Wharf where a sub-let by a major company had become available. HMRC is continuing to plan for a regional centre in Stratford and the GPU is looking for further East London hub locations.

- There is likely to be local opposition to some office closures. Office closures will be the result of departmental plans for their workforce as well as the centre of government's expectation that departments move to hubs. Nevertheless, the GPU requires that local business cases consider the local economic impact. The assessments cover the impact of job losses on the local economy for offices being closed, and the impact on the selected regional centre. These assessments are at an early stage and we saw no evidence of mitigation of the likely impact of office closures, for example through negotiations with local authorities. Mini-hubs will remain in some areas, but these are likely to be much smaller than the existing offices.

- There are uncertainties over costs. Changes, for example over rent levels and landlords' contributions to the costs of fitting out buildings, may mean that some hubs are more expensive per square metre than the current locations.

4.10 The GPU has been highly dependent on HMRC for its first strategic hubs, but they have both developed their own separate business cases. HMRC's transformation programme is more advanced than that of other departments. It agreed with the GPU to lead the implementation of some of the early hubs, including Croydon, Bristol and Liverpool. HMRC plans to reduce its own estate of 170 buildings by 2021 – moving to 13 regional centres, five specialist sites and a Whitehall headquarters. However, HMRC now recognises that its timescale was unrealistic and risked disrupting its business. There is still uncertainty over the costs: during 2016 estimated costs rose by nearly £600 million (22%), including higher than anticipated running costs for the new buildings.[11] HMRC has since identified options to reduce the cost, and it told us that the final cost increase would be significantly smaller. The GPU and HMRC are in the process of integrating their programme delivery for the first 13 strategic hubs.

Strategic hubs require financial and operational flexibility

4.11 Strategic hubs require some level of centralisation of the management of properties and acceptance of the financial risk of running a shared service. The principle that departments should be able to flexibly expand and contract within a strategic hub requires a central body that is able to manage the risk that government may not need the space.

4.12 Cabinet Office is a small department financially and the creation of strategic hubs (even before the NPM) could turn into its main balance sheet item. It has generally not had the financial flexibility in its budget to enable it to invest in surplus property for disposal or relet. It has also generally required firm commitments from departments to fill 90% of a property before it has been willing to sign leases itself. In theory, strategic hubs should be made up of a balance of freehold and long-lease properties where a long-term commitment can be guaranteed; some shorter-term leases to allow contraction of the estate; and flexibility in all the leases to rent out space that is not needed by government.

4.13 The GPU had considered the option of acquiring freehold properties rather than leasing space. However, although this would produce an additional £600 million of savings over 20 years, the GPU estimates it would require investment of £3.4 billion compared with £0.4 billion for leasing the properties.

4.14 The GPU has signed a lease for a building in London Docklands for the East London hub, and is negotiating with property owners and developers in some other locations.[12] The GPU sees value in having a mixture of lease lengths for hubs, with a majority being longer leases. These are generally better value for money than shorter leases, so long as there is sufficient certainty that the building will continue to be needed or could be sublet if necessary. For example, for one hub the GPU's advisers reported that the annual cost of a 20-year lease would be 12% cheaper than a 15-year lease and the developer would pay more of the upfront fitting-out costs.

11 Comptroller and Auditor General, *Managing the HMRC estate*, Session 2016-17, HC 726, National Audit Office, January 2017.
12 In addtion, HMRC has signed leases for regional centres in Bristol and Croydon.

4.15 In January, we reported that HMRC had signed 25-year leases for its Croydon and Bristol hubs which did not have break clauses or the ability to sublet the properties to organisations outside the public sector. This would make it harder for the GPU to adopt and manage such properties. However, the GPU will in future require HMRC to include agreed standard clauses that provide for subletting (see Figure 11 on page 32).

Management and ownership of the estate is to be centralised

4.16 The NPM programme is to centralise the ownership and management of government office space and much of the rest of the central estate property by 2020, including £3 billion of properties expected to transfer to the new Agency. It would thus involve departments transferring their existing properties to the Agency even before they transfer over to the new strategic hubs. The Agency will then charge market rents to all departments for their buildings, including their freehold buildings, which do not currently carry a full operating charge. The freehold charge is intended to make the cost of holding freehold property transparent and create incentives for greater collaboration. The GPU believes this will produce more disposals and savings than those currently identified in the Hubs programme (**Figure 15**).

Figure 15

The New Property Model programme

The GPU expects to save £687 million over 10 years by managing common property types centrally

Objective: To transform how government owns and manages its estate through a commercially driven approach

Situation

Fragmented, ageing estate managed in 'silos' by occupying department/body. Lack of incentive to optimise use of freehold property

Estate in-scope is valued at £13 billion. It includes:

- offices;
- warehouses and depots;
- general science buildings;
- justice/custodial buildings; and
- job centres.

Its annual running cost is £4.2 billion

Inputs

Total capital and running cost of £88 million over 10 years for the new Government Property Agency

Some freehold and leasehold property and staff resources transferred from departments to the new Agency

Rationalisation and cost reduction strategies developed and introduced by the Agency

Outputs

New Agency set up and running

£3 billion freehold and leasehold property (including 18–22 strategic hubs) managed by the Agency

Agency managing around £1.8 billion of annual property spending

Property leased back to departments, with charging mechanism in operation

Agency advises on, but does not own, specialist science, justice/custodial and job centre buildings

Outcomes

More efficient use of land and buildings

Overall saving of £687 million over 10 years

More productive and expert estates workforce

Departments in better accommodation allowing smarter working

Surplus property released – supporting economic growth

Substantial capital sales, including £71 million from freehold offices

Source: National Audit Office analysis of Government Property Unit documentation

4.17 Informed by its analysis of the experiences of other public and private sector programmes to centralise property ownership, the GPU considers that there are six main reasons, on top of what departments can already achieve, for implementing the NPM.

- **Financial flexibility.** The Agency would have financial reserves and flexibility to bear risks on property that would be too great for some departments, enabling it to make optimal decisions on the estate (such as acquiring leases for large multi-occupancy offices).
- **Coordination flexibility.** The Agency would have an increased ability to manage demand and supply of property across central government and across regions.
- **Visibility.** As owner and manager of the estate, the Agency would have better visibility of the condition, value and operating costs of freehold and leased property. This would enable it to make better-informed decisions on behalf of central government.
- **Incentives.** The Agency would charge market rents for freehold property, providing an incentive to occupying departments to reduce their use of the estate, which would result in increased capital receipts and reduced running costs.
- **Economies of scale.** Managing property across government would enable the Agency to realise additional cost savings, for example through negotiating larger deals with landlords and suppliers and from increased standardisation, for example for facilities management.
- **People and skills.** As a central body with a primary focus on property, the Agency would attract, develop and deploy property management specialists who could deliver greater benefits, including through stronger commercial skills.

4.18 The GPU gained approval from HM Treasury for the strategic case for NPM in March 2016, and for its outline business case in December 2016. A full business case is planned for June 2017, seeking approval from HM Treasury for the formal launch of the Agency. This will begin the process of transferring in properties and staff from departments. The GPU forecasts that running the new Agency will cost £88 million over 10 years, but that improved central management of the estate will generate net savings of £687 million (**Figure 16** overleaf). These savings are additional to the £640 million forecast from the Hubs programme, and together represent around 6% of the operating costs of the central estate in the period.

Figure 16

Major benefits forecast in the New Property Model business case

The GPU has identified potential net savings of £687 million from the NPM, but some are very uncertain or could be achieved by departments acting alone

Benefit area	Net savings (£m)[1]	National Audit Office commentary
Offices:		
• additional disposals as a result of introducing rents for freehold property.	71	These savings are very uncertain: • the charging model and its impact is uncertain and specific savings proposals are yet to be developed; and • for Hubs, the GPU already assumes it can secure £640 million savings based on some optimistic assumptions (see paragraph 4.5).
• additional efficiencies and risk reduction on Hubs programme.	76	
• reductions in departments' estate management costs.	18	
Warehousing/storage:		
• 2% of office space saved by consolidation and off-site storage.	81	The GPU has developed a warehouse strategy. However, the proposals need more work, some of these savings are achievable by departments acting by themselves or bilaterally with GPU, and they have not been agreed with all relevant departments. For example, the Department for Environment, Food & Rural Affairs told us that the savings forecast for the Environment Agency are likely to significantly overstate the savings achievable.
• increasing capacity of document storage.	73	
• outsourcing half of government warehouses and garages.	65	
• reduction in Environment Agency depot costs.	40	
General science:		
• co-location of laboratories and research facilities with universities.	143	The Agency intends to develop a science estate strategy. However, some of these savings are likely to be achievable by departments acting by themselves, or with advice from the GPU.
• additional disposals as a result of introducing rent for freehold property.	44	
Custodial estate:		
• specialist advice from the Agency will enable the Ministry of Justice (MoJ) to sell an extra 1% of its custodial estate.	62	This saving is speculative as no specific initiative is described. The GPU considers it illustrative of the potential scale of benefits it might deliver to MoJ.
Other:		
• a range of smaller initiatives.	103	
Gross total	**775**	
Less, Agency running costs	(88)	
Net present value of NPM programme	**687**	

Notes

1 Values are over 10 years and are stated after applying optimism bias (up to 30%) and discounting at 3.5% a year.

2 Totals may not sum due to rounding.

Source: National Audit Office analysis of the New Property Model outline business case (December 2016)

4.19 Of the forecast benefits of £687 million, the GPU estimates that incentives to make departments more efficient will produce a benefit of £71 million through additional disposals of surplus office property. The GPU estimates that central ownership of offices will provide a further £76 million of benefits from making the Hubs programme more likely to succeed, for example, through enabling orchestrated office moves and better management of commercial negotiations and reducing the risk of empty space. Although optimism bias has been factored in, these benefits remain uncertain as the actual behaviour of departments, both with and without the market rent incentives, cannot be easily predicted. In our view, much of this benefit could be achievable through the Hubs programme and the existing mechanisms of central spending controls, disposals targets and the GPU providing advice and coordination. The GPU is currently reviewing the outline savings forecast, with a view to producing more detailed estimates as part of a more persuasive full business case.

4.20 There is also a risk that centralising ownership of the estate will create perverse incentives, at least in the short term, if departments attempt to frustrate the process or do not maintain their buildings in the run-up to their transfer to the Agency. The GPU believes that its process of due diligence and its engagement with departments will address this concern.

4.21 The £687 million of forecast benefits also includes more than £500 million relating to savings from the non-hub estate. This includes savings from giving advice and support to departments to develop and implement consolidation strategies in areas that have not had that much attention in recent years, such as warehousing and laboratories. The Agency's strategies to deliver these savings still need to be developed and agreed with relevant departments. These savings also include giving advice on how to reduce the size of the custodial estate. The Cabinet Office could not explain how this related to existing plans by the Ministry of Justice to reform the prison estate.

4.22 The success of the incentives to better manage the freehold estate will depend on the design of the new charging mechanism. The GPU is developing the charging model with the help of consultants Deloitte and in consultation with HM Treasury, before it shares it with departments.[13] The charging model will be set out in detail in the full business case due in June 2017.

4.23 Departments will pay rent to the Agency for freehold property but will be refunded if they comply with the agreements set out in their strategic asset management plan (SAMP) (see paragraph 3.9). The setting of demanding and specific objectives in SAMPs, and their enforcement, is thus the incentive mechanism for departments to comply with the overall strategy. The effectiveness of this arrangement in incentivising departments will depend on the Agency's willingness to use the payment and refund mechanism as an enforcement tool.

13 In December 2016 the Government Property Unit proposed to appoint Deloitte on a single tender basis to develop a corporate finance model suitable for a property management organisation. The cost would have been around £300,000, but Deloitte is now working on a pro bono basis following its recent decision to suspend its central government work.

The Cabinet Office is not well prepared to deliver Hubs and the new shared service

4.24 The ultimate success of both Hubs and NPM relies on the Agency's ability to persuade departments that it can manage the programmes well and provide a high-quality service to each department that meets their needs. Recent attempts at other shared services by the Cabinet Office, including shared service centres, the Crown Commercial Service and MyCSP, have not met their original ambitions because they did not have the full support of departments and the Cabinet Office was unable to deliver the quality of service expected.

4.25 The GPU has not made good progress in setting up either property programme. Seven departments we interviewed were concerned about the GPU's capability to deliver one or both of the programmes. The Infrastructure and Projects Authority (IPA) also raised concerns when it reviewed the programmes in early 2016.

- In May 2016, IPA reported that departments were committed to the Hubs programme. The GPU had a national programme board, with representatives from 15 major bodies in government. However, there were concerns that the programme management office was understaffed, overall recruitment was behind target and the management of risks and issues needed to be reviewed.
- In March 2016, IPA reported critical concerns about the deliverability of the NPM programme. It found that governance arrangements were unclear: there was both a steering group and a programme board, with members of the latter unaware of the other's existence. The GPU had been ineffective at resolving the major risks it had identified. As a result, staff resources and specialist capability continued to be the main risks to delivery. Departments commented that the timescale was over-ambitious and considered that significant issues had to be resolved before they would commit to the NPM. Fully tested financial and property management systems were considered to be of particular importance. The IPA also expressed doubt about the NPM's aims and justification and the role of the central body.

4.26 We did not find enough improvement when we reviewed progress in December 2016. For example:

- the GPU does not yet have detailed programme plans;
- the GPU's Bristol hub pilot team could not show us any costs or benefits figures or even a plan for monitoring the benefits achieved;
- the first local project boards to oversee specific sites were only set up in 2016, after the programme had been running for nearly two years; and
- six departments told us that the Hubs timetable was not well aligned with their needs. For example, the leases for some departments' existing offices will end before their hubs are ready for occupation.

4.27 Already one of the 18 to 22 planned strategic hubs will not be completed until after the original programme end date of 2023. Only seven local business cases have been prepared. The other 11 to 15 hubs are still at an early stage of planning and may also be late.

4.28 The GPU is planning to integrate the management of its Hubs and NPM programmes within the Agency. The GPU initially planned for the Agency to be operating from March 2017. However, this timetable proved unrealistic because key components, such as the charging and funding model, would not be sufficiently developed in time. The GPU therefore drew up a revised timetable in November 2016, aiming to launch the Agency in September 2017 (**Figure 17** overleaf).

4.29 Since January 2017 the Agency has been running in 'shadow' mode. This is intended to be the period in which delivery capability is developed and proven before the formal creation of the Agency and launch of NPM in September 2017. The development and testing phase is based on assets (about 80 properties) and staff seconded in from the Department for Business, Energy & Industrial Strategy. Also in this phase, the GPU has integrated the management of Hubs and NPM programmes into the Agency structure. However, the GPU still has much to do to deliver on this revised timescale, including:

- producing a compelling full business case for consideration;
- designing and testing the operating model so that the Agency can deliver financial returns and an excellent service;
- developing financial and estate management systems; and
- building credibility with stakeholders, some of whom are sceptical about the value of the Agency.

Figure 17
Timeline for the New Property Model

The programme is in the building and mobilisation stage, with much still to do before launch

Nov 2015

Initiation:

- Intention to create new central body announced in Spending Review

Feb 2016–Dec 2016

Design:

- Shadow chair in place (Feb)
- Strategic outline case produced (Mar)
- Agency's executive team in place (Nov)
- Outline business case produced (Dec)

Jan 2017–Sep 2017

Building and mobilisation:

- First staff transfer (Jan)
- Start developing charging model (Jan)
- Approval of assets (due diligence) (Feb–Sep)
- Shadow agreements (Feb–Aug)
- Live trials with two departments (Feb–Aug)
- Set up Agency (Apr–Sep)
- Prepare property data (Apr–Sep)
- Develop strategies (Apr–Sep)

Oct 2017–Mar 2018

Launch:

- Agency launch with around 75 staff (Sep)
- Approval of target operating model (due diligence) (Oct–Mar)
- Asset transfer from six departments (Oct–Mar)
- New systems implemented (Oct–Mar)
- End-state operating model (Oct–Mar)

Apr 2018–Mar 2019

Scale-up operations

GPU managing:

- 1,450 assets
- £1.3 billion value
- 11 departments
- Around 195 staff
- £9 million budget

Apr 2019–Mar 2020

Reaching steady state

GPU managing:

- 3,380 assets
- £3 billion value
- 15 departments
- Around 180 staff
- £9 million budget

Completed phase

Phase now under way

Planned phase

Source: National Audit Office analysis of Government Property Unit documentation

4.30 The National Audit Office has identified seven areas where challenges are commonly seen in shared-service programmes. **Figure 18** on pages 50 and 51 sets out our assessment of how well prepared the GPU is to overcome these challenges in implementing the Hubs and NPM programmes. Overall, we consider that the GPU is currently not well prepared to overcome the challenges. However, the GPU is confident that it is making good progress against the revised timetable. It is now evaluating early versions of its financial and management systems. It believes that, although there is still much to do, it will be able to meet its revised target for the launch of the Agency and acquire suitable hub properties in time to meet departments' requirements where they have been identified. To meet the timetable is not, however, the only requirement for success in common service programmes.

Figure 18

Assessment of the Cabinet Office's preparedness for overcoming common challenges in shared-services programmes

Requirements for overcoming challenges	National Audit Office assessment
1 Business case – must provide a clear rationale for the programme	The business cases for both hubs and NPM: • rely on optimistic assumptions and understate the risks; • have not been agreed by all departments; • are not yet integrated with the plans of other departments, notably that of HMRC, which is setting up the first 13 hubs; and • require further detailed business cases, including some Hubs local business cases, which are likely to show negative net benefits.
2 Leadership – must be capable of leading the programme to success	Although the Cabinet Office has brought in new leaders, setting up the Agency remains a leadership challenge: • The Agency's leaders have extensive property experience and are supported by experienced civil servants, but lack senior managers with experience of successful implementation of government transformation programmes. • The GPU and the Agency lead the Hubs programme, but rely heavily on HMRC for managing their early implementation. • While the programme managers are experienced, their offices are very under-resourced.
3 Governance – must have appropriate assurance, controls and accountability	Governance of the Agency has not yet ensured cross-government commitment: • The Cabinet Office involves departments in steering both programmes. • There has been assurance and scrutiny of the programmes from the IPA and HM Treasury. • The governance arrangements of the Agency are being developed.
4 Operational plan – must clearly define services and responsibilities	The detailed operational plans for both Hubs and the centralisation of ownership are underdeveloped, including: • the business case and plan for each strategic hub will be developed one by one; • the Agency's plans are not integrated with workforce or estate plans of departments (which will be subject to change and tend to have shorter time horizons); • the financial model and charging arrangements are critical for central ownership but are still to be worked up and agreed with HM Treasury; and • it is unclear whether the Agency will have enough financial flexibility and reserves to support the programme.

Figure 18 *continued*

Assessment of the Cabinet Office's preparedness for overcoming common challenges in shared-services programmes

Requirements for overcoming challenges	National Audit Office assessment
5 Collaboration – must be maintained across the programme	Departments told us they remained sceptical about the programme to centralise ownership: • The benefits and costs to departments are still unclear and the Cabinet Office cannot readily force departments to comply. • HMRC is pursuing its own regional centres programme, and some departments are reluctant to participate. The Ministry of Defence is setting up its own property centralisation programme.
6 Data – must be good quality to support programme activities	One of the rationales for central ownership is better visibility and information about the estates: • The e-PIMS database is limited. The Agency requires a new management information system with better-quality data and this is now being procured. • Before properties transfer to the Agency, the GPU will need to carry out extensive due diligence work.
7 Benefits management – must be a strong plan to realise the benefits	The GPU has not prioritised its arrangements to plan and manage the expected benefits and cannot do so until its business cases are clearer.

Source: National Audit Office

Appendix One

Our audit approach

1 In this report we examine whether the Government Property Unit (GPU) has effective arrangements in place to improve value for money from the public estate. We reviewed:

- what progress has been made in reducing the estate since 2012;
- how effectively the GPU has overseen and coordinated departments' estates; and
- how well the GPU has designed and implemented its two major estates programmes.

2 This report does not examine the way individual departments and other public sector organisations manage their own estates including whether their disposal of surplus property has provided value for money. We have recently reported on estates management in the Ministry of Defence and HM Revenue & Customs (HMRC) and on the disposal of surplus land for housing.[14]

3 We focused on the GPU's vision, strategy, expertise and stakeholder plans for achieving its aims. We analysed data on the central estate published in the annual *State of the Estate* reports and management information provided by the GPU. We carried out semi-structured interviews to gather stakeholder views from departments.

4 We applied our analytical frameworks for strategic estates management, successful programme management and overcoming challenges in shared-service programmes, to determine value for money and how well aligned departments are with the centre of government. We also reviewed other independent assurance of their major programmes.

5 We examined the GPU's plans for its two major estates programmes. This included a review of the business cases, capability, planning and forecasts of resulting savings.

6 We have summarised our audit approach in **Figure 19**. We describe our evidence base in Appendix Two.

14 Comptroller and Auditor General, *Delivering the defence estate*, Session 2016-17, HC 782, National Audit Office, November 2016; *Managing the HMRC estate*, Session 2016-17, HC 726, National Audit Office, January 2017; and *Disposal of public land for new homes: a progress report,* Session 2016-17, HC 510, National Audit Office, July 2016.

Figure 19
Our audit approach

The objective of government

The GPU's objective is to reduce the size and cost of the government estate. This will create a smaller, more efficient estate to support future workforce requirements. At the same time, the GPU aims to increase departmental collaboration and disposal of surplus property, resulting in additional jobs and release of land for housing development.

How this will be achieved

The GPU's role is to coordinate estate management in the public sector. Since 2012 its approach to the central estate has focused on reducing the size and improving its use through:

- contributing to reductions by departments, including through administering property controls and facilitating office moves;
- taking a more strategic approach to government property;
- leading two programmes to rationalise the estate (Hubs and New Property Model (NPM));
- increased collaboration between central and local government to achieve One Public Estate (OPE);
- new smarter ways of working, combining flexible working with digital technology to achieve efficiency targets for fewer staff per m^2; and
- disposing of buildings and land to generate capital receipts and create space for housing.

Our study

We examined how government has progressed in managing the estate since 2012 and how well placed GPU and departments are to deliver a new estate model that meets its changing operational needs.

Our evaluative criteria

What progress has been made in reducing the estate since 2012?

How effectively has the GPU overseen and coordinated departments' estates?

How well has the GPU designed and implemented its two major estates programmes?

Our evidence

(see Appendix Two for details)

Analysis of Cabinet Office data on size and cost of the central government estate, including capital receipts from property disposals.

Analysis of data and information relating to the design and implementation of the Hubs and NPM programmes, including the GPU's financial models.

Interviews with GPU leadership, managers and other staff.

Interviews with head of estate for each department and reviews of departments' strategic asset management plans.

Review of estate programme documentation for One Public Estate, and interviews with the Local Government Association and local authorities.

Back catalogue and literature review, including related NAO estates studies.

Our conclusions

Government is getting better value for money from its estate. Since we last reported in 2012, departments have shrunk the size of the central government estate by 17% and its cost by 23%. The GPU has supported departments to achieve these impressive results, increasing collaboration across central government and facilitating property deals. It is also working with local government to enable projects that hope to make further significant savings for local taxpayers.

The GPU has not made as much progress towards its more challenging objective of creating a shared, flexible and integrated estate. It is relying on its Hubs programme and the NPM to do so, which are still at an early stage. But although both have some merit, the Cabinet Office has not made a strong case for either and it is yet to achieve strong commitments from most departments to making them work. And there is much still to be done before the new Agency is ready for launch in September 2017. There are similarities with other recent government attempts to implement shared services, which failed because too many stakeholders saw it as against their interest to make them work. The GPU should take stock and, if necessary, delay, redesign or consider phasing its programmes over a longer timescale.

Appendix Two

Our evidence base

1 Our independent conclusions on whether the Government Property Unit (GPU) is well placed to deliver a new estate model that meets government's changing operational needs were reached following our analysis of evidence collected between July 2016 and January 2017.

2 In considering whether the GPU has made progress in rationalising the estate:

- to understand progress in reducing size and operating costs since 2012, we **analysed data** on the central estate published in the annual *State of the Estate* reports, and management information provided by the GPU on freehold and leasehold holdings and on the 'Whitehall campus'. We also **analysed data** on the number and capital receipts of property and land disposals since 2012 to measure progress against the £5 billion disposals target;
- to understand the cost and purpose of the One Public Estate (OPE) programme, we completed a **document review** of key GPU policy announcements, programme management documents and progress reports. To understand the role of GPU, we conducted **semi-structured** interviews with officials from the GPU, the Local Government Association (LGA), Leeds City Council, London Borough of Croydon and Cornwall Council. We analysed publicly-available information on Worcestershire County Council OPE projects; and
- To ensure we interpreted the results of our analysis appropriately, we conducted **interviews with officials** in GPU.

3 In considering the effectiveness of the GPU in coordinating departments' estate strategies:

- to gather views on the GPU, we conducted **semi-structured interviews** with officials responsible for estate management in 15 main departments. Structured questions are shown in Appendix Three;
- we completed a **document review** of the GPU's strategy for its future estate against our strategic estates management framework, covering: vision and strategic planning; collating and sharing information; addressing financial barriers; working together and aligning interests; and skills and expertise. We used information provided by the GPU on the government estate strategies, GPU's business plans, departments' strategic asset management plans and stakeholder commitment to the GPU's approach; and

- we reviewed the GPU's November 2015 strategic outline case for each programme, against the structured review criteria as set out in HM Treasury's *The Green Book: appraisal and evaluation in central government.*

4 **In considering the design and implementation of the major programmes:**

- We **interviewed officials** in the GPU and the shadow Agency. This included senior management and a number of officials working in central and regional roles.
- to understand the cost and purpose of the Hubs programme, we completed a **document review** of key GPU policy announcements, documents and progress reports. We also reviewed the GPU's plans for strategic hubs to understand how they align with those of other departments such as HM Revenue & Custom's (HMRC's) plans for regional centres, including the match between their selected locations. We used information provided by the GPU and HMRC on business cases and information from programme board meetings;
- we **analysed data** from the GPU's financial model that was used to generate estimates of the costs of options for Hubs, including the assumptions made, the external data sources and expert advice received, and its process for determining the locations. We reviewed information provided in the financial models from the GPU;
- to understand the cost and purpose of the New Property Model (NPM) programme, we completed a **document review** of key GPU policy announcements, documents and progress reports. These included a review of the GPU's leadership, governance, management and commercial and contracting skills and capability for moving to a new estate model. We used information provided by the GPU on business cases, definitional documents and programme planning and management;
- we **analysed data** about the major benefits forecast by the NPM business case to understand how the GPU identifies potential savings, which areas are likely to be more achievable and how this compares to the likely savings if departments acted alone. We reviewed GPU information on planning for managing the new estate, achieving the benefits and controlling costs, including its proposals for a central estates agency, plans for working with other government departments, the approach to providing facilities management and support services, its approach to property ownership, charging mechanisms and contract management arrangements; and
- we **worked closely with National Office colleagues** responsible for reports on the estates of HMRC and the Ministry of Defence.

Appendix Three

Responses to our departmental survey

1 We interviewed 15 main departments on the Government Property Unit's (GPU's) performance. We did not carry out full interviews with the Cabinet Office, Department for Communities and Local Government and the Department for International Trade.

1 How satisfied is your Department with GPU's overall performance and leadership to date?		
Very satisfied	1	7%
Satisfied	8	53%
Too early to say/don't know	4	27%
Dissatisfied	1	7%
Very dissatisfied	1	7%

2 To what extent will the GPU's estate strategy help your Department to meet its own estates strategy?		
Our strategies are fully integrated – it is essential for us that GPU succeeds	0	0%
Strategy is closely linked, but with some differences	3	20%
Helpful in places but our Departmental strategy can proceed independently	8	53%
Not relevant – neither helps or hinders our strategy	3	20%
GPU strategy is unhelpful for us	1	7%

3 How well does GPU understand your Department's estate and the issues you face in managing it?		
Very well	3	20%
Quite well	5	33%
No strong views	1	7%
Some limitations	5	33%
Not at all	1	7%

4 Does GPU have sufficient commercial/estates management expertise?

Sufficient, highly professional and knowledgeable staff	0	0%
Good in most areas, but patchy in others	3	20%
No strong views	3	20%
Some problems with availability of expertise in GPU	8	53%
Significant problems with availability of expertise in GPU	0	0%
No response	1	7%

5 Are you satisfied that GPU keeps you adequately informed about its plans which affect your Department?

Very satisfied. We are kept fully informed about the aims, plans and progress for all major GPU initiatives	2	13%
Quite satisfied. GPU has tried hard, but there are some minor gaps	9	60%
No strong views. GPU performance is adequate	1	7%
Quite dissatisfied. There are major gaps in GPU's communications which need to be addressed	2	13%
Very dissatisfied. We feel that GPU does not communicate well with us	1	7%

6 Are you satisfied with the support you receive from GPU in response to any requests you make?

Very satisfied	2	13%
Satisfied	6	40%
Too early to say/don't know	3	20%
Dissatisfied	2	13%
Very dissatisfied	2	13%

7 To what extent do you think that the Cabinet Office's Property Controls (covering leases) have contributed to estates savings achieved by your Department since 2010?

Major contribution	2	13%
Minor contribution	3	20%
Little or no contribution	6	40%
The controls have hindered my Department's achievement of savings	0	0%
Don't know	2	13%
No response	2	13%

Note

1 Percentages have been rounded to the nearest 1%.

This report has been printed on Evolution Digital Satin and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

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