

# **Improving Asset Management across the Scottish Public Sector**

**The Scottish Government Civil Estate**

**September 2011**

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## 1. Executive Summary

### 1.1. Improving Asset Management – the Central Civil Estate

The Scottish Futures Trust (SFT) was invited in the 2011/2012 Budget by the Cabinet Secretary for Finance and Sustainable Growth to:

*“Develop proposals by the end of the year for the Scottish Government to deliver enhanced value from centrally held land and property assets”*

SFT has carried out a high level review of property asset management within the central civil estate. The review has resulted in this report which identifies proposals that have the potential to deliver annual revenue efficiencies in the order of £28 million.

The central civil estate comprises the land and buildings that accommodate the operations of the core directorates of the Scottish Government’s civil service (the core estate) as well as the agencies, Non Departmental Public Bodies (NDPBs) and other arms’ length organisations that are part of the Scottish Government’s wider network (the wider estate). The wider estate is about six times larger than the core estate.

While the central civil estate contains a wide variety of building types and other infrastructure, the focus of the review has concentrated on office accommodation. Offices are the largest single element of the built portfolio and change here will have the greatest impact on overall efficiency and effectiveness.

A case for change has been developed which is underpinned primarily by two key facets. One is the identification of under-utilised office accommodation. If rationalised this would produce significant savings. The other is the fragmentation of estate management across the network. This lack of central coordination can be evidenced by underutilised property across the central civil estate.

Facilities & Estates Services manage the core office estate. In the wider office estate, which includes a large number of organisations, some of these organisations work collaboratively in managing their property and some work individually. Facilities & Estates Services and the Property Advice Division have varying degrees of persuasion with these organisations. The nature of this fragmentation to managing the estate and the lack of a corporate approach creates a constraint for leveraging maximum efficiency.

### 1.2. Principal Recommendations

Arising from this review of property asset management within central government, the principal recommendations to deliver efficiency and enhance value are noted below. This includes organisational change and a programme of asset management action to be

implemented over a five year period.

Recommendation 1: **Raise the profile of property asset management** within Scottish Government to enable a new corporate and collegiate approach.

Recommendation 2: **Create a new organisational structure** with leadership at Cabinet level and a new central property unit. A new property asset management board will help steer programmes and assist with developing new cross-cutting initiatives across the public sector.

Recommendation 3: **Develop estates information to** enable effective action and benchmarking of performance in asset management across the estate. This needs more resource, better data, and a commitment from organisations.

Recommendation 4: **Enhance estates management** through a new corporate approach to improve estates management and to look at opportunities for collaborative procurement across the network.

Recommendation 5: **Rationalise the office portfolio** through a bold programme of change and to support business and workplace transformation.

Recommendation 6: **Proactive lease management** to improve value in lease arrangements and to enable the office rationalisation programme.

Recommendation 7: **Improve value realisation** through the disposal or re-assignment of surplus property using a new centre of expertise.

It is clear that a catalyst for change is needed. The proposed central property unit should utilise both the pan public sector commercial skills within SFT and the existing skills within the Scottish Government's Property Advice Division. SFT has proven to be capable of forming the framework for delivery as already demonstrated by the successful implementation of the Scotland wide hub programme.

The central property unit will be a vehicle for delivery. The principal focus for efficiency savings should be on the impact of reducing office footprint and changing the workplace environment. The benefits of this can be measured in terms of reduced occupation costs, the avoidance of backlog maintenance and a reduction in carbon emissions. Case studies of previous similar work show that other benefits can arise including staff satisfaction and work productivity, although these have not been quantified in this initial review.

### 1.3. Key Opportunities

The work undertaken in this initial review has identified significant opportunities for office space rationalisation. An initial target across the whole portfolio of an average of 25% reduction is recommended.

It is proposed that the target reduction in office footprint be achieved as a result of a well planned and managed five year programme of change. This will need to align with the business

plans for each of the organisations involved.

Estimated at a high level, this would deliver annual revenue efficiencies which would ramp up to £28 million (gross). It could avoid around £20 million of backlog maintenance and when fully implemented carbon emissions could be reduced by over 15,000 tonnes annually. There will be some initial investment needed to realise these savings. The amount of investment required is dependent on the strategies adopted and has not been estimated at this stage. Some savings may also be realised as a capital return which could assist with any required investment.

It should however be possible to be more ambitious than this initial target and for certain parts of the estate. Through the adoption of new approaches to work style and a much broader programme of change than just property (involving HR and IT) a higher rate of office footprint reduction could be achieved. The Scottish Government has already started work on designing a *Workplace for the Future* programme – it is strongly recommended that this should be enhanced and progressed at pace. The implementation of this opportunity will require strong leadership, a collaborative and corporate approach and the involvement of people with skills, and experience in the delivery of this type of activity.

Collaboration between public bodies is also essential and while the policy environment is conducive to good partnership working cooperation can, in practice, sometimes be weak. For example there are some difficult surplus sites which could realise income in the short term but are in limbo due to inter-organisational barriers. New governance arrangements with new leadership, as well as fresh energy, additional skills and drive are the necessary conditions for success to help break through these challenges and to deliver the outcomes identified.

The scale of the estate and its fragmentation suggests that there may also be opportunities for efficiency through a more strategic and integrated approach to how asset management activities are delivered. A review of the organisational matrix and the range of options for procurement and outsourcing is recommended. The outcome of this could present additional benefits to the ones stated above but no estimate has been made at this stage.

The opportunity also exists to look across to the local civil estate (i.e. local Government, NHS and emergency services) and this must be embraced. Taking a 'one public sector estate' view will enable this to happen. This helicopter view is central to making faster progress on improving public services and making property more efficient and effective.

In carrying out this review it was very clear that a consensus exists around the need to improve asset management. It should enable resources currently being spent on underutilised property to be diverted to other priority areas. The appetite for change, and the tightening financial climate, together create a fertile environment for a programme of improvement. The need for leadership and a commercial framework to deliver the programme have been clearly identified.

## **2. Acknowledgements**

The Scottish Futures Trust acknowledges the willing support it received in the development of this report to the Scottish Government’s Finance Directorate, Property Advice Division and Facilities & Estates Services; the Scottish Government Health Directorate, the Department of Communities and Local Government, the Cabinet Office, the Strategic Investment Board Northern Ireland and the Welsh Assembly Government. All those who have been involved in this review have been extremely helpful and collaborative.

### 3. Introduction

#### 3.1. The Report

This report identifies an approach for improving the efficiency and effectiveness of property asset management across the Scottish Government civil estate.

The work is in response to the recommendations on asset management set out in the Independent Budget Review, July 2010 which recommended:

*“The Panel suggests that the Scottish Government should consider developing the role of the Scottish Futures Trust to establish a centre of expertise in the ownership, management and disposal of public assets. This would operate as a source of independent advice for all public bodies and ensure maximum value for the public purse.”*

Subsequently the Scottish Budget 2011/2012 invited the Scottish Futures Trust (SFT) to:

- take forward a pilot project through the south east hub territory to assess ways to improve asset management and estate planning across public bodies at a community level; and
- develop proposals by the end of the year for the Scottish Government to deliver enhanced value from centrally held land and property assets.

This report addresses the second of these tasks and is a review of the Scottish Government civil estate. A separate report has been prepared on the improvement of asset management and estate planning across public bodies at a community level (the “local civil estate” which includes local government, NHS and emergency services).

Although these two aspects have been reviewed separately, evidence emerging from each review suggests that on moving forward, and in order to achieve maximum benefits and cost efficiency, the local civil estate and the Scottish Government civil estate should be read and where possible planned together, thus taking a ‘one public sector estate’ view.

#### 3.2. The Scottish Government Civil Estate

The *central civil estate* which is the term used in this report, means the property assets of buildings and land that are owned, leased, managed or occupied in the name of Scottish Ministers or in the name of individual bodies within the Scottish Government network. It covers a wide variety of property types located mostly within the central belt of Scotland.

The scale of the portfolio is significant, totalling around 740,000m<sup>2</sup> across all property types.<sup>1</sup>

The central civil estate is considered as comprising two main groupings – the core estate and the wider estate.

- **The core estate** - which houses/supports the core directorates of the Scottish Government's civil service.
- **The wider estate** - which houses/supports the operations of the NDPBs (Non Departmental Public Bodies), agencies, non-Ministerial departments and a number of other associated bodies. There are some 160 organisations in this group<sup>2</sup>. Some of these bodies are part of the wider delivery landscape of Scottish public services. Included are: Scottish Enterprise, Scottish Qualifications Authority, Scottish Court Service, Scottish Natural Heritage, Scottish Environment Protection Agency, Crown Office and Procurator Fiscal Service and the National Museums of Scotland.

NHS boards are not included within this report as they are addressed in the separate report on the local civil estate. It is also noted that the data does not capture estates information for Scottish Water, the Scottish Prison Service and Historic Scotland. This can be obtained and reviewed at a later stage. These organisations would be part of the wider estate group. The review does not cover UK Government Offices in Scotland e.g. HMRC, DWP, etc.; although these may be of interest downstream when considering more detailed options for relocations/re-assignments.

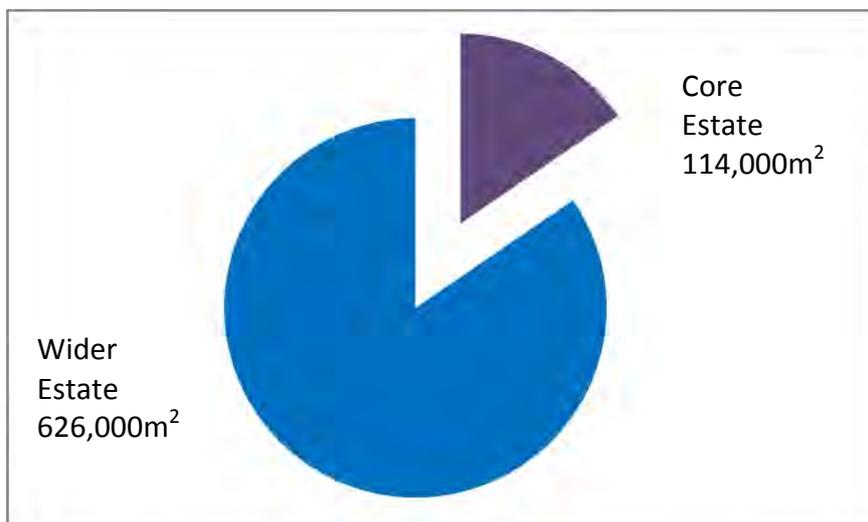
The size of the **core estate** across all property types is approximately 114,000m<sup>2</sup>, which represents 15% of the central civil estate. The **wider estate** extends to approximately 626,000m<sup>2</sup>. Chart 1 overleaf illustrates the predominance of the wider estate.

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<sup>1</sup> Unless otherwise stated floor areas quoted are net internal areas

<sup>2</sup> Source – Scottish Government Asset Management Review, January 2008.

Chart 1: Size of the Central Civil Estate (all property types – total 740,000m<sup>2</sup>)



The central civil estate comprises some 1000 holdings spread across Scotland. A building may comprise several holdings if different floors are occupied under separate lease arrangements.

### 3.3. Focus of the Exercise

While the central civil estate covers a wide variety of property types and other infrastructure, the principal focus of this initial exercise is the **office estate**. Offices represent the largest element in the central estate built portfolio. Improving the utilisation of office space will make the biggest difference in support of the operations of the Scottish Government’s directorates, agencies etc, and in the realisation of efficiency savings. Other elements of the estate can be reviewed at a later stage.

The approach has been to identify the key elements which would make the biggest impact on efficiency and effectiveness arising from a five year programme of change.

In this report the Scottish Futures Trust sets out a strategic case for change in asset management across the office estate. It provides a framework of recommended actions that will deliver improvements in asset management practice, release efficiency savings, deliver sustainability benefits and enhance value. The need for a corporate approach to asset management using the Scottish Futures Trust’s pan public sector capability as a catalyst for change provides the opportunity to deliver significant savings.

The figures presented in the report are high level estimates. The management information on the estate is patchy and in reviewing the estate prudent assumptions have had to be made in certain areas. Collating accurate data to validate the assumptions across the whole estate is an important priority. The available data highlights the potential scope for and type of opportunity that could be available. The estimates are derived from information provided by Scottish Government’s Property Advice Division and Facilities & Estates Services. Information has also

been sourced from the Scottish Government's Asset Management Review 2008 and benchmarking reports. The information has been analysed by property professionals experienced in public sector asset management.

The recommendations made in this report have been heavily influenced by the views of and support from a wide range of people consulted. Acknowledgements have already been made. There is a clear consensus that efficiencies can and should be made. A catalyst for change, with the capability to work across the public sector bodies, is the way to drive successful delivery of efficiencies.

The report summarises the characteristics of the existing office estate and its management first, and then presents opportunities for change and finally sets out proposals for enabling the benefits to be achieved.

### **3.4. Context**

There have been a number of initiatives and reports undertaken by others that have had a bearing on this exercise. Most notable are those identified in the Context section of this report, which is contained in Appendix A. The main references are; the Independent Budget Review, July 2010; the Scottish Budget 2011/2012; the Scottish Government Asset Management Review 2008; and work undertaken by other UK public sector bodies.

The Independent Budget Review in July 2010 recommended that: "The Panel suggests that the Scottish Government should consider developing the role of the Scottish Futures Trust to establish a centre of expertise in the ownership, management and disposal of public assets. This would operate as a source of independent advice for all public bodies and ensure maximum value for the public purse." Following this recommendation the most recent budget asked SFT to develop proposals for the Scottish Government to deliver enhanced value from centrally held land and property.

A considerable amount of good work and improvement on asset management has already been made within Scottish public sector organisations in recent years. This exercise builds on that and seeks to find ways of enhancing it and accelerating progress. However, while progress has been made, the substantial room for further improvement provides both an opportunity and a challenge.

### **3.5. Profile**

These property assets are important strategic resources, which are expensive to build, maintain and manage through time. They are a strategic resource in their own right and they also enable and support a whole range of service delivery functions within central Government. After staffing, they are the second largest resource available to public sector organisations. Given this prominence, improvements in property asset management should be a visible indicator of the will to make efficiencies.

It is now widely acknowledged that property and its professional management play an integral role in the challenge to deliver the efficient Government agenda, to support business transformation programmes, and in meeting sustainability targets.

In a climate of constrained financial resources it is important that these property assets are used in the best possible way, that they are managed efficiently, and that any expenditure on them is clearly justified and prioritised in terms of other opportunities available.

## 4. The Existing Office Estate

### 4.1. Data

This section describes the characteristics of the existing office estate.

The data available on the existing central civil estate has been reviewed through the two main groupings – the **core office estate** and the **wider office estate**. The result is an outline description of the existing office estate in its present form. The principal aspects reviewed are; tenure, occupation, running costs, backlog maintenance (which relates to property condition) and space utilisation.

- Section 4.2 focuses on the core office estate.
- Section 4.3 focuses on the wider office estate.

There is a cautionary note that existing data is weak in certain areas and where it has been necessary benchmark information sources have been used and assumptions made to arrive at indicative figures. More detailed data gathering and analysis should be followed up as a key recommendation.

### 4.2. The Core Office Estate

#### 4.2.1. Estate Baseline

There are 46 principal office buildings in the core office estate. There are other smaller offices across the core estate but this selection has been used for the current exercise. These 46 buildings extend to approximately 100,000m<sup>2</sup> net floor area in total.

The core office estate is heavily weighted towards locations in the central belt of Scotland. 78% of the estate by floor area is to be found in Edinburgh while 13% is in Glasgow.

The core office estate includes the six main administrative centres. These are: St Andrew's House, Victoria Quay, and Saughton House in Edinburgh, together with Atlantic Quay, the Europa Building, and Highlander House in Glasgow.

A summary of the key estate baseline information for the core office estate is shown in Chart 2 overleaf.

Chart 2: Core Office Estate – Baseline Information



#### 4.2.2. Tenure and Flexibility

There are typically three types of ‘tenure’ to be found across the core office estate - leasehold, Moto arrangements and heritable (owned). Each type of tenure carries a different element of flexibility in terms of exiting or altering the property. The breakdown is: 24 leasehold properties, 5 properties held on Moto and 17 heritable properties,. The Edinburgh properties are mostly owned whereas the Glasgow properties are largely leased.

The characteristics of each type of tenure are summarised in the following three sections.

##### 4.2.2.1. The Leasehold Estate

The leased properties fall into three categories:

- leases that have expired already
- leases that will expire during this financial year (2011/2012)
- leases that extend beyond 2012

A very small number of holdings remain as rent liabilities where the formal lease arrangements have expired. This implies that the buildings remain occupied on an arrangement termed tacit relocation (or holding over). These arrangements are likely to provide a relatively easy option to exit should that be necessary.

Where leases are due for expiry in the current financial year the current policy on property

management confirms that consideration by organisations should first be given to the availability of suitable alternative space within the estate with greater tenure.

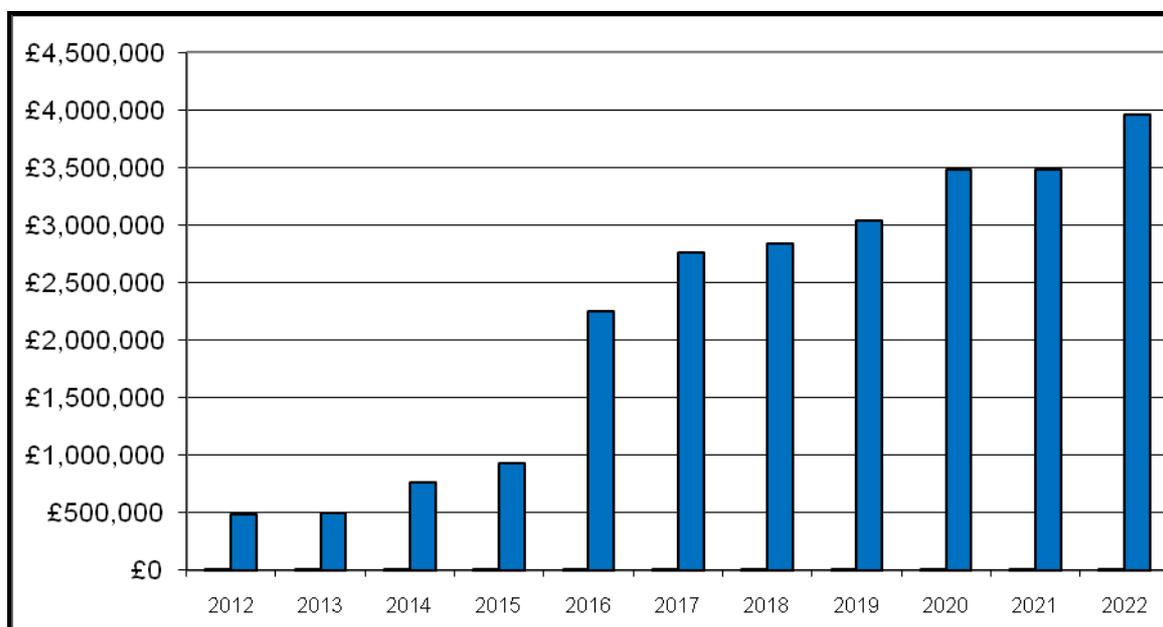
The scale of the leasehold estate which extends beyond 2012 is around 30,000m<sup>2</sup>. This includes leases due to terminate within five years, together with leases which run through to 2024 (twelve years).

The annual rental requirements on the properties with lease commitments in excess of five years are currently in the order of £6.8 million per annum. The average rental commitment on leased accommodation on this basis is in the order of £195/m<sup>2</sup>. This reflects the fact that leases and review negotiations were agreed prior to the current slump in the office rental market. It translates into a total rental commitment by the Scottish Government on the core office estate of around £70 million over the period to 2024.

Rental payments include the long ground lease commitment at Saughton House, Edinburgh which is currently £160,000 pa, and which runs to 2099. This long leasehold interest impacts on the flexibility of Saughton House for disposal as the ground landlord (City of Edinburgh Council) will be entitled to participate in or object to any alternative use proposals.

The information available on the leasehold estate and Moto arrangements (see 4.2.2.2) has been analysed to assess the value of those leases and Moto arrangements which will expire naturally during the next ten years. Chart 3 below shows the approximate cumulative rental commitments on the core office estate that can be avoided by exercising all expiries over the next 10 years. This is not saying that it is necessarily practical or wise to release any of these holdings but it is a useful broad indicator of the potential size of the opportunity.

Chart 3: Core Office Estate - Cumulative Rent Savings Per Annum by Exercising Expiries



Within 5 years from 2012, through natural expiry of leases and Moto arrangements the total rental commitment that might be avoided is approximately £2.8 million per annum. This is as a result of these leases or Moto arrangements not being renewed and the accommodation handed back to the landlord. Over 10 years, the corresponding cumulative total is in the order of £4 million per annum. These figures represent 40% and 56% of the total annual rental commitments over 5 and 10 years respectively.

The potential savings indicated above relate to rent charges only. In addition, exiting such properties will provide further savings by reducing service charge liabilities, rates, utilities and maintenance. It should be noted that costs such as dilapidation costs, associated with lease terminations, may be incurred. These would have to be considered as part of a fuller investigation of the opportunities for exiting any of the properties that are rented.

Further lease commitment reduction can be achieved in the short to medium term through more proactive lease management and a willingness to vacate property by invoking break clauses that may be incorporated in existing leases. Consideration of landlord's incentives in the current market will play an important role in the decision to vacate or break leases and or remain in existing properties on more financially beneficial terms.

It is noted that due to impending IFRS accounting rule changes that leased buildings may appear as liabilities on balance sheets and asset registers. This means that ongoing annual rental payments would be capitalised in accounting records. The implication would be that long term leases may be considered to be unfavourable. A final decision on the change to the regulations is awaited from HM Treasury.

#### **4.2.2.2. MOTO Arrangements**

A Moto is a Memorandum of Terms of Occupation - an informal administrative arrangement between Government organisations allowing occupation of space by other Government departments on an all inclusive (rent, rates, service charge) basis. Motos in the Scottish central estate are provided through arrangements with other UK Government bodies or their estates services providers such as TelerealTrillium or Mapeley.

This is a very flexible and informal arrangement.

#### **4.2.2.3. Heritable Estate**

Approximately 70% of the core office estate is owned. While often regarded as being fixed in nature, the heritable estate in reality offers a considerable degree of flexibility. Elements of it can be vacated and disposed of by sale or rent or Moto to suit the needs and timing of the occupier, subject to market conditions, and the nature of the property.

The book value of the heritable core office estate is stated in current records as £80 million.

### 4.2.3. Occupation

A significant proportion of the core office estate is multi-service, housing several directorates and divisions.

There are also examples of core and wider Government operations co-locating. Recently a number of NDPBs and agencies which were housed previously in their own offices in Edinburgh are now co-located alongside core directorates. The Scottish Court Service for example is now located at Saughton House.

To date, most of the office rationalisation, consolidation and co-location work that has occurred has been largely reactive. A restricted ability to predict future demands for service has provided a constraint. However, this needs to become more strategic. A more corporate approach linked to business strategy and the ability to have a helicopter view of the whole estate is required. This will enable planning ahead, spotting opportunities and initiating change. This will also enable the identification of further opportunities within the wider estate to improve consolidation, utilisation and efficiency.

### 4.2.4. Running Costs

The direct property-related running costs for the core office estate have been estimated by Facilities & Estate Services as being in the order of £24 million per annum. On the face of it this figure appears conservative. However, the amount does not allow for the cost of ownership of heritable assets. In order to arrive at a more inclusive cost level a series of industry benchmarks have been considered in parallel. Making allowances for geographical distribution and quality of the estate a more inclusive estimate (until more detailed analysis is undertaken) for all-in running costs is £300/m<sup>2</sup>, totalling some £30 million per annum (based on 100,000m<sup>2</sup>).

### 4.2.5. Backlog Maintenance

The cost associated with backlog maintenance is an indicator of the condition of the estate and thus the level of investment in its upkeep. It is assumed for the purposes of this review, that backlog liabilities apply equally to leasehold and heritable interests in property. However, there is an absence of an accurate, up to date and consistent picture of the condition of the estate and its liabilities.

In order to provide an indication of what the likely cost might be it is possible to use benchmark data. The estimate arrived at through this assessment is approximately £110/m<sup>2</sup> (gross floor area). The gross floor area can be estimated by adding a notional 15% to the net area; i.e. from 100,000m<sup>2</sup> to 115,000m<sup>2</sup>. This would produce an approximate estimate for backlog maintenance liability of £12.5 million.

### 4.2.6. Carbon Emissions

The Scottish Government is, according to its commitments on the environmental performance of the estate, seeking to achieve a sustainable managed estate that:

- is modern, resource efficient and with low energy buildings
- is well conserved with well managed land
- makes efficient use of space and ways of working; and

- embeds the principle of sustainable development into day-to-day working practices.

With regard to the challenges of climate change the Scottish Government has established and is monitoring and reporting on annual carbon emissions with regard to property assets, energy, transport, and waste. Following the installation of an Environmental Management System at Victoria Quay, the Scottish Government has continued to develop a corporate model of the Environmental Management System for this and other buildings on the estate.

Real estate is a key contributor to carbon emissions and is rightly targeted as a lever to pull to bring about significant reductions. It will however require investment.

The figure last reported by the Scottish Government for carbon emissions from energy use across the estate works out approximately at 100 kgCO<sub>2</sub>e/m<sup>2</sup> (net floor area). Using this as a baseline figure for the sample properties in this review, the total carbon footprint for this element would equate to about 10,000 tCO<sub>2</sub> (assuming 100,000m<sup>2</sup>) per annum.

The Scottish Government does however have a programme in place to target a much lower rate from existing properties in 2011. This would equate to around 85 kgCO<sub>2</sub>e/m<sup>2</sup>. This work is ongoing and it would seem, requires some additional investment.

Good practice across industry is considered to be about 70kgCO<sub>2</sub>e/m<sup>2</sup> so, in addition to reducing carbon emissions by reducing property footprint, there is also a parallel challenge to improve the sustainability of the retained estate. For the purpose of this report however, the only benefit assessed is that which could potentially be achieved by reducing office space.

#### 4.2.7.Space Utilisation in Offices

##### 4.2.7.1. Measuring the Performance of Space

Improving space utilisation across the central office portfolio is going to be one of the most important actions, if not the single most important one for realising efficiency gains.

The measurement and management of space utilisation in the office environment is associated with a series of industry benchmarks and performance metrics. The nature of the performance metrics and the specific benchmark standards have evolved to some extent over time - however, there now exists a well grounded and evidenced set of standards and targets that are widely accepted and indeed applied within the public sector based on best practice including that in the private sector.

The approach taken for this initial review is to understand at a high level using comparator benchmarks, the indicative scope of opportunity for office rationalisation across the office estate. It was considered important to identify what might be considered as a stretch target, a mid range benchmark and a potential starting point. This will help develop recommendations for strategic direction and level of ambition, as well as establishing what should be considered as a reasonable platform from which to build a programme of change.

The basic raw data needed to obtain a high level perspective of space utilisation is:

- net internal area – a method of measurement of office space that focuses on the

useable space by excluding common areas, WCs etc

- number of workstations; and
- number of occupants - in terms of headcount and Full Time Equivalent (FTE)

The performance metrics used to obtain a measure of utilisation level include:

- net internal area per workstation
- net internal area per occupant
- net internal area per FTE; and
- desk sharing ratio – the number of FTEs sharing a workstation

Each of the above metrics provides a different perspective on utilisation and it is only through a combination of two or more metrics that a real picture of the current space utilisation levels can be created, and the opportunity for improvement highlighted.

In its Operational Efficiency Programme Report of 2009, HM Treasury reported on the space utilisation of the central Government estate UK wide noting that this was the only element of the public sector estate where reliable information was available. It was reported that the occupancy level across the UK central Government estate was approximately 14.4m<sup>2</sup> per FTE. Furthermore, the Operational Efficiency Programme Report noted that a reduction of about a third should be achieved by simply adopting good practice to be found in the private sector and elsewhere in the public sector.

Interestingly, in the data presented for the total Scottish central civil estate (across all property types) of 740,000m<sup>2</sup> only 12,244m<sup>2</sup> is currently recorded as vacant. 'Vacant' means currently unoccupied space that is usable by another party. This represents a vacancy rate of 2%. Of this space 7,453m<sup>2</sup> is in the core estate and represents approximately 7% of the total core estate portfolio. This data on vacant space may be slightly misleading however as its representation depends very much on how those recording the data make an assessment of the levels of space utilisation. Some offices for example, are noted as having quite poor space efficiency ratios and this is identified in Table 1 below.

#### **4.2.7.2. Utilisation of the Scottish Government Core Office Estate**

Where are we now? Information supplied by Facilities and Estates Services has enabled an outline picture to be created of the current utilisation of the core office estate.

The data supplied includes the net internal area, number of occupants and the number of desks. The following interpretations have been drawn from this data:

- The average space per occupant is about 15m<sup>2</sup>. This is the average across all of the 46 office buildings in this review.
- There is relatively little desk sharing

- There are more desks than occupants

The rate of 15m<sup>2</sup> per person is for all occupants, this includes full time personnel and part time personnel. If the total number of occupants were to be re-calculated on a Full Time Equivalent (FTE) basis, the rate of floor area per FTE would be higher than 15m<sup>2</sup>.

Table: 1 which follows, shows the space utilisation figures for a variety of office buildings in the Scottish core estate within key cities and elsewhere around Scotland. This confirms a very wide range of occupancy levels with relatively few in the range of what might now be regarded as ‘best practice’. It should be noted that this is not untypical for organisations in the public sector or, for that matter, the private sector that have not moved to rationalise their office portfolio or to new ways of working. There is however a real desire to embrace best practice where possible and affordable.

Table 1: Space Utilisation Levels

Building	Location	Floor area	Occupants	Occupation density
		m <sup>2</sup>	nr	m <sup>2</sup> /pers
Victoria Quay	Edinburgh	27,235	2,150	12.7
Saughton House	Edinburgh	15,995	1,302	12.3
St Andrews House	Edinburgh	14,217	1,433	9.9
Atlantic Quay	Glasgow	4,923	483	10.2
Highlander House	Glasgow	2,566	220	11.7
Strathearn House	Perth	2,214	104	21.3
Europa Building	Glasgow	1,936	150	12.9
Thainstone Court	Inverurie	1,659	89	18.6
Longman House	Inverness	1,239	58	21.4
Russell House	Ayr	1,095	38	28.8

Source: Scottish Government - Facilities & Estates Services

### 4.2.7.3. Current Practice and Target Setting

Which targets should we set?

It is useful to understand what is happening within the UK Government which has already embarked upon their office rationalisation programme, and which benchmarks they are working towards achieving. The work of the Government Property Unit (GPU) which leads the programme builds upon the platform prepared previously by those delivering the operational efficiency programme; the High Performing Property programme; and the agenda for transforming the Government workplace.

Earlier this year and in order to assist with implementation, GPU when setting new National Property Controls (which apply across England), established the following new metrics for space utilisation in our new or refurbished workplaces:

- A workplace standard of 8m<sup>2</sup> per FTE occupant or less; and
- A ratio of 8 workstations for every 10 occupants.

These are challenging targets and may in some sections of the public sector, given historical working practices, be seen as stretch targets. However, there are some recent local examples of the area target being achieved, such as the relocation of staff from NHS Lothian to Waverley Gate in Edinburgh, as well as examples from London. Other public bodies in Scotland are also striving to meet such targets, for example, Dundee City Council's 2010-2012 Council Plan sets a target of 8 workstations for every 10 occupants. The targets also fit with expectations in private sector companies whose working methods suit the open plan style of workplace.

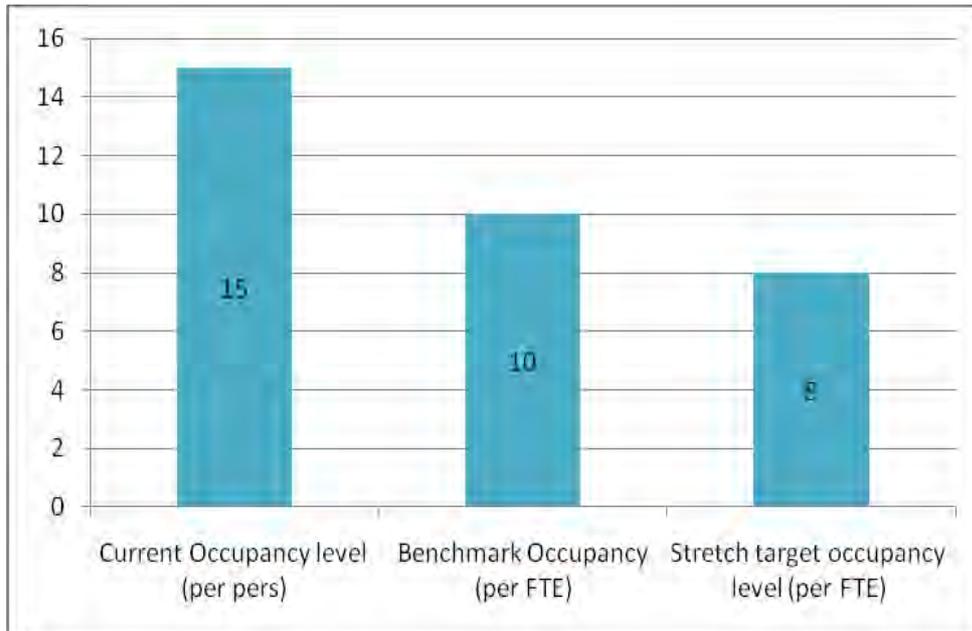
To bring the 8m<sup>2</sup> rate into range across the central portfolio, the Scottish Government would need to enable greater consolidation; increase the use of desk sharing; and adopt across the organisational network more flexible and mobile working. This of course would require a much wider change management programme, beyond just property, and needs an integrated human resource and IT strategic approach, with strong leadership. It would also need additional 'invest to save' expenditure; the extent of which depends on the ability of the existing properties to accommodate change. The Scottish Government has already embarked on the early stages of designing a Workplace for the Future programme which we strongly recommend, should set out to embrace this challenge. It is this step that will provide the shape and direction for realising office efficiency and effectiveness at a higher level across the estate.

Whilst the UK National Property Controls are aiming for 8m<sup>2</sup> (for new and refurbished properties) and so should the public sector in Scotland (particularly for its main administration centres), a blended average utilisation rate of 10m<sup>2</sup> per FTE is used commonly as a mid range target. This level would take into consideration the mixed nature and age of an estate and also movement within an existing estate. This mid range target should be achievable by good space management practice along with an element of workstyle change.

Using the two benchmark figures above, and comparing them with the data provided for the Scottish Government core office estate and the average occupancy level of 15m<sup>2</sup> per

person, the potential for significant footprint reduction is identified. Achieving a mid range target of 10m<sup>2</sup> for example would deliver approximately 30% less office footprint; 40-50% less footprint would be delivered by moving towards the more ambitious target of 8m<sup>2</sup>. The graph below illustrates this dynamic.

Chart 4: Illustration of Potential for Reducing Office Footprint (m<sup>2</sup>)



A broader range of scaling back potential is presented below in Table: 2. This illustrates the impact of a range from 25% to 50% reduction in floor area.

Table 2: Potential for Scaling Back of the Core Office Estate

	From	To	By
25% reduction	100,000m <sup>2</sup>	75,000m <sup>2</sup>	Good space management and leadership; some workstyle change
30% reduction	750,000m <sup>2</sup>	70,000m <sup>2</sup>	Good space management and leadership (at approx. 10m <sup>2</sup> per FTE ); some workstyle change
40% reduction	70,0000m <sup>2</sup>	60,000m <sup>2</sup>	Good space management, smarter working and leadership
50% reduction	60,000m <sup>2</sup>	50,000m <sup>2</sup>	Good space management, smarter working and leadership (at approximately 8m <sup>2</sup> per FTE)

The 25% level is introduced to provide an illustration of a possible initial target that is lower than the mid range benchmark. This would if taken on board allow flexibility in planning terms for building a platform for a programme of change. This level has been discussed with Scottish Government as a starting position and has been viewed as being realistic.

It should however be possible for the Scottish Government and given potential headcount reduction to set an ambition and direction of travel that is higher than this initial target, particularly for its main centres. This would seek to reflect; the current UK Government National Property Controls, the space planning that has informed the workplace transformation refurbishment of UK Government accommodation in Whitehall, and the standards being targeted and achieved by other Scottish public bodies, including Local Authorities.

It is recommended therefore that an initial target of 25% reduction is set and then as part of a first phase of strategy development the initial target is re-assessed. This will allow for more detailed information to be established as well as a clearer understanding to be obtained about the direction of business plans, availability of any required capital and the condition and flexibility of the existing properties. It is acknowledged that the provision or adaptation of accommodation to support new density levels and desk sharing style initiatives will require up-front investment in parts of the estate. It is further acknowledged that some accommodation will not lend itself readily to adaptation to achieve improved utilisation levels whereas other space may be more flexible and adaptable. More ambitious targets will rely for their achievement on the Scottish Government embarking on a programme of change to workstyles, as well as locational consolidation.

### **4.3. The Wider Office Estate**

#### **4.3.1. Data on the Wider Office Estate**

The wider office estate is occupied by the large number of arms length type organisations within the Scottish Government network. The property data available on this element of the estate relies heavily on the individual organisations submitting data returns to the centre. This information is not very comprehensive and is not guaranteed to be up to date in every case. At present therefore it is important to consider the accuracy of information held centrally. A key recommendation is that a pan public sector centre of expertise should hold a corporate database of accurate information on the wider estate including key metrics on how efficiently it is being used.

To enable a description of the estate akin to the core office estate, a similar approach to the use of benchmarks and assumptions has been taken.

#### **4.3.2. Estate Dimensions**

The wider estate in total extends to approximately 626,000m<sup>2</sup> (net). This is according to data contained in the ePIMS (Electronic Property Information & Mapping System) database held centrally. For the purposes of this report, it is assumed that 85% of this wider estate is office accommodation. This equates to approximately 532,000m<sup>2</sup> (net). This is a reasonable assumption at this stage but a more detailed analysis should be undertaken.

We understand from discussions with Facilities & Estates Services that the wider office estate includes a number of buildings where office space is integrated with operational accommodation. This will place a limitation on the ability to adapt or dispose of the office component.

Geographically the wider estate is considerably more widespread than the core estate.

#### **4.3.3. Tenure and Flexibility**

The mix of tenure within the wider office estate is split about equally between leasehold and heritable. Further information is required to confirm these details.

#### **4.3.4. Occupation**

Further data and analysis is also required to obtain an appreciation of the extent of existing locational clustering and co-location and the potential for clustering in the future. As noted above (in 4.2.3) some opportunities for co-locating these organisations within the core office estate has already been undertaken.

There is also potential for further collaboration between central organisations and those in the local civil estate.

The Scottish Government's SEARS project, is one example of the potential for increased property sharing. This involves the coordination of a variety of agencies serving rural areas and is currently rolling out a programme of Rural Hubs. These hubs will provide a one stop shop facility to customers for the services of all the member agencies. A natural evolution of the programme could result in a rationalisation of the hubs such that member agencies are physically co-located where it makes business and economic sense. Further work should be done to understand the benefits achieved to date of this programme and scope for additional rationalisation.

#### **4.3.5. Running Costs**

For the wider office estate, given the smaller scale of organisation, a lower range for annual running costs is expected than in the core office estate. The outturn estimate for running costs on the core office estate was £300/m<sup>2</sup>. This is the £30 million benchmarked cost per annum divided by the floor area of 100,000m<sup>2</sup>. For the wider office estate at this stage an assumed range of cost of £150/m<sup>2</sup> to £200/m<sup>2</sup> per annum has been used as a prudent range to reflect the spread and scale of this estate.

Using the office floor area of 532,000m<sup>2</sup> this produces an estimated broad range for running costs on the wider estate of £80 million to £106 million per annum.

#### **4.3.6. Backlog Maintenance**

For this exercise, it has been assumed that the wider office estate will face a similar level of backlog maintenance to that assumed for the core office estate. The outturn rate per m<sup>2</sup> that arises from the analysis in the core office estate is £110/m<sup>2</sup>. For the wider office estate at a gross area of 612,000m<sup>2</sup> (adding 15% to the net area of 532,000m<sup>2</sup>) this equates to an amount for backlog maintenance of £67.3 million.

### 4.3.7. Carbon Emissions

The carbon emissions level on the wider office estate – using the same calculation basis as the core office estate is 53,200 tonnes per annum (assuming 100 kgCO<sub>2</sub>e/m<sup>2</sup> net area).

### 4.3.8. Space Utilisation

The smaller average unit size coupled with the more remote location of much of the accommodation will impact on the ability of the organisations to change or vacate parts of buildings. For these reasons, it is prudent at this stage to adopt a more conservative approach to the estimation of the range of potential savings arising out of more efficient space planning within localities and the exiting of surplus space. On the basis therefore of a 20-30% targeted space reduction the potential for scaling back of office footprint would be as noted below.

Table 3: Potential for Scaling Back of the Wider Office Estate

	From	To	By
20% reduction	532,000m <sup>2</sup>	425,600m <sup>2</sup>	Good space management and leadership
25% reduction	425,600m <sup>2</sup>	399,000m <sup>2</sup>	Good space management and leadership; some workstyle change
30% reduction	399,000m <sup>2</sup>	372,400m <sup>2</sup>	Good space management, smarter working and leadership

Reading across to the core office estate, this analysis suggests that an average approach of adopting a rate of 25% reduction across the whole portfolio could be set as a starting position.

## 5. Estate Management

### 5.1. Overview

The review also sought to understand how the estate is being managed, the organisational structure and lines of accountability and responsibility.

Information on how the estate is being managed has been provided by Facilities & Estates Services and Property Advice Division. The Scottish Government's Asset Management Review, undertaken in January 2008 also provides a useful knowledge source for understanding how things currently operate.

What is clear is that asset management and decision-making arrangements vary considerably across the Scottish Government network and appear to depend on the history, size, and remit of each organisation. There are some 160 organisations managing the central estate, some working collaboratively and some working individually.

In January 2008 the report on the Asset Management Review (see Appendix A) set out requirements for the management of the Government's property assets. This was a major step towards a more corporate approach to property asset management. However, while a number of the recommendations have been put in place there is still a significant amount of work to be done. Now three years on, there is also a very different financial climate to what existed then.

### 5.2. Current Management Arrangements

Only one part of central Government has, as its primary remit, the management of an administrative property estate, namely Scottish Government's Facilities & Estates Services, which manages the 'core' estate. However several other bodies have as a primary objective the management of property for a specialist purpose, such as Historic Scotland. For all other parts of Government the management of their estate is secondary to their main business objectives. The larger organisations within Scottish Government tend to have an estates manager. For others, property decisions rest with a named individual in a different role.

Professional advice on estate matters within the central civil estate can be sought from Property Advice Division (PAD). PAD also gets involved with the preparation of policy and guidance and the dissemination of good practice. However, it would seem that not all organisations in the network are aware of the skills or advice that PAD can provide.

When PAD requires external consultancy support it tends to use national frameworks for property advisers. Within the wider estate the procedures for external consultancy appointments are more ad-hoc.

PAD operates in an environment where responsibility for decision-making on property matters is devolved to the body, but the occupier in these circumstances needs to be clear about the circumstances when professional advice must be sought. Inevitably, situations will arise when

no advice is sought when it should have been, or it is requested too late to make a material difference. PAD sometimes gets involved so late that the range of options is reduced or deadlines mean the only property solution is the one the body has already preferred.

All NDPBs have delegated controls over their own budgets and as such exercise a degree of authority over the allocation of these budgets, which include property-related expenditure. This limits the current level of corporate wide thinking and activity in estates planning and management which has led to the current state of fragmentation and relatively poor management information.

Many organisations do however directly include Scottish Government finance and/or sponsor teams in their decision making processes for assets or property costs. While there is not always a formal requirement for them to do this, framework documents, accounts directions and memos from the principal accounting officer to the accountable officer for each body do tie bodies into formal requirements such as those in the Scottish Public Finance Manual (SPFM). The principles and procedures to be used for disposals and acquisitions are clearly covered within the SPFM. Ultimately the accountable officer is answerable to Parliament for the use of the resources of the body for which he/she is responsible, and the accounts can be qualified for non-compliance with the SPFM.

The degree of autonomy of the wider network of Government bodies over their property is a potentially sensitive area. Some may regard with suspicion any involvement by 'the centre' to influence estate management decisions. However all asset costs, capital and revenue, are ultimately paid for from the Scottish Government budget and might therefore be regarded legitimately as the assets of the whole organisation. A more efficient, corporate use of assets also has the potential to release resources in the medium or longer term, for other areas of expenditure.

The nature of this fragmented approach to asset management for the majority of the estate creates significant issues for leveraging efficiency. There are inconsistencies across the estate, and changes of property use are not always achieved as a result of forward planning or co-ordination. We cannot be sure that the most efficient and effective use is being made of all parts of the estate at all times.

Typically there appears to be little if any internal or external challenge to accommodation costs in the wider estate. It is not currently seen as the explicit remit of any central function within Scottish Government to scrutinise or challenge such costs. It would appear also that the costs of ownership and occupation of property are not known widely across senior management. Bringing transparency to the large costs incurred should help with incentivising behaviours towards more efficient use of property.

There is clearly a role that a central team could develop that would help to present all asset holders with a range of advice, monitoring, challenge and access to expertise. This level of rigour would better inform and improve the overall quality of asset management decision making, without necessarily shifting the ownership of existing asset portfolios.

The opportunity should also be taken to look across the wider estate to assess property

management capability and to explore the potential for clustering/consolidation/co-location and possibly the pooling or sharing of property and capital project management expertise.

### **5.3. Estates Information**

Good quality asset information underpins efficient and effective practice. However, despite the significant efforts being made towards improving the data held on the e-PIMS (Electronic Property Information & Mapping Service) database, there still exists an issue over the comprehensiveness of the information.

The Scottish Public Finance Manual requires bodies to inform PAD at the earliest point at which they are seeking to acquire or dispose of a property so PAD can use its knowledge and the e-PIMS database to fit bodies' into existing space where possible and find economical solutions. e-PIMS is not however up to date and also the recurring problem with agencies etc not embracing the opportunity to seek advice from PAD means that these types of efficiency opportunities are being missed.

Core data on issues such as condition and functional suitability is not currently collated in a systematic manner but this is essential to enable decisions to be made regarding future improvements to the estate. This should be rectified by obtaining at the very least a minimum property data set from all organisations.

### **5.4. Procurement**

In the core office estate there is currently two external contracts for facilities services. One is for maintenance type services and one for cleaning. The maintenance contract is nearing its term. It is recommended that a broad review of the potential for additional outsourcing of facilities and estates services should be undertaken. The opportunity should also be taken to consider options for embracing the wider office estate in this review.

## 6. Opportunities for Change

### 6.1. Prioritising Recommendations for Change

The focus of this report has been on the central office estate and to identify ways across this estate of realising added value and efficiency. This section of the report summarises the main opportunities for change. Going forward the areas to be prioritised for achieving maximum impact are: office rationalisation, proactive lease management and improving value realisation through the disposal or re-assignment of surplus heritable estate assets.

### 6.2. Office Rationalisation

#### 6.2.1. Key Opportunity

A significant opportunity has been identified to rationalise the office estate in central Government. This should be embraced. The next sections in the report set out estimates of the potential cost and carbon efficiencies that may arise.

In order to achieve significant levels of change all parts of the organisational network will need to review the space they occupy and how they work. This needs to be led from top level management. There would need to be increased sharing of accommodation and relocations. For leased properties across the network there would need to be an active and commercial approach to exiting existing arrangements.

Moving towards new workplace environments which support new models of work style should also bring improved staff satisfaction and improvement in productivity levels. Several large scale property transformation and rationalisation projects have recognised the criticality of workplace design in effecting change – initiatives such as BT's Workstyle programme or the Northern Ireland Government's Workplace 2010 programme brought a redesign of the workplace to the forefront in their aim to deliver major cost savings in their respective estates.

#### 6.2.2. Core Office Estate

##### 6.2.2.1. Running Costs

Based on the total annual occupancy cost of the core office estate (rent, rates, other running costs) which is estimated to be £30 million (gross), the potential savings for a range of interventions are shown in Table 4 overleaf. The costs of implementation are excluded but would need to be considered as part of a business case approach.

The assumption also includes a straight line relationship between floor area and running costs, which in some cases may not exist. However, it is reasonable at this high level stage to make this assumption, which will need to be tested at a more detailed stage.

Table 4: Running Cost Savings

Item	Annual Cost	Annual Saving
Total assumed occupancy cost	£30 million	
Cost if space reduced by 25%	£22.5 million	<b>£7.5 million</b>
Cost if space reduced by 30%	£21 million	<b>£9 million</b>
Cost if space reduced by 40%	£18 million	<b>£12 million</b>
Cost if space reduced by 50%	£15 million	<b>£15 million</b>

#### 6.2.2.2. Backlog Maintenance

If space can be reduced to achieve the above annual savings, the Scottish Government will also benefit from the avoidance of expenditure on backlog maintenance. If it is assumed that the backlog maintenance liability is evenly distributed throughout the core office estate and represents a liability of £12.5 million the costs avoided by adopting the alternative office rationalisation strategies are summarised in Table 5.

Table 5: Backlog Maintenance Savings

Item	Estimated Cost	Potential Saving
Total assumed backlog maintenance liability	£12.5 million	
Liability if space reduced by 25%	£9.4 million	<b>£3.1 million</b>
Liability if space reduced by 30%	£8.7 million	<b>£3.8 million</b>
Liability if space reduced by 40%	£7.5 million	<b>£5 million</b>
Liability if space reduced by 50%	£6.2 million	<b>£6.3 million</b>

#### 6.2.2.3 Carbon Emissions

Reducing the space occupied will also impact on the carbon emissions from the core estate. Whilst there is a direct correlation between space take and carbon emissions, it should be noted that if occupation density is increased this is likely to lead to a slightly higher carbon footprint due to increased small power loads and increased cooling requirements to compensate. This should be offset by ongoing energy efficiency measures, such as energy efficient lighting, improved plant efficiencies and improved fabric performance, and by improving performance of IT systems. Knowing that there are improvements already

planned by Scottish Government, taking the conservative current estimate of existing loads as the baseline, it is reasonable at this stage to estimate broadly the likely impact of office space reduction.

The potential reductions in emissions by reducing the footprint of the estate are summarised in Table 6.

Table 6: Carbon Emissions Savings (per annum)

Item	Carbon Footprint (tonnes CO <sub>2</sub> )	Carbon Footprint Saving (tonnes CO <sub>2</sub> )
Current carbon footprint	10,000	
Carbon footprint if space reduced by 25%	7,500	<b>2,500</b>
Carbon footprint if space reduced by 30%	7,000	<b>3,000</b>
Carbon footprint if space reduced by 40%	6,000	<b>4,000</b>
Carbon footprint if space reduced by 50%	5,000	<b>5,000</b>

### 6.2.3. Wider Office Estate

#### 6.2.3.1 Running Costs

On the basis of a 20%-30% space reduction over 5 years, the running cost savings, set out in the table below, could range from £16 million - £32 million per annum (taking the broadest range). This assumes total running costs in the range of £80 million to £106 million.

Table 7: Running Cost Savings

Item	Lower Cost Range		Higher Cost Range	
	Annual Cost	Annual Saving	Annual Cost	Annual Saving
Total assumed occupancy cost	£80 million		£106 million	
Cost if space reduced by 20%	£64 million	<b>£16 million</b>	£85 million	£21 million
Cost if space reduced by 25%	£60 million	<b>£20 million</b>	£79 million	£27 million
Cost if space reduced by 30%	£56 million	£24 million	£74 million	<b>£32 million</b>

### 6.2.3.2 Backlog Maintenance

With regard to avoiding backlog maintenance liability, a 20-30% reduction in the floor space of the wider office estate could equate to a cost efficiency in the range of £13 million - £20 million.

Table 8: Backlog Maintenance Savings

Item	Estimated Cost	Potential Saving
Total assumed backlog maintenance	£67.3 million	
Liability if space reduced by 20%	£54.3 million	<b>£13 million</b>
Liability if space reduced by 25%	£50.3 million	<b>£17 million</b>
Liability if space reduced by 30%	£47.3 million	<b>£20 million</b>

### 6.2.3.3 Carbon Emissions

Reducing the floor area of the wider estate would also have a significant positive impact for environmental sustainability – reducing carbon emissions potentially by between 10,640 tonnes and 15,960 tonnes.

Table 9: Carbon Emissions Savings (per annum)

Item	Carbon Footprint (tonnes CO <sub>2</sub> )	Carbon Footprint Saving (tonnes CO <sub>2</sub> )
Current carbon footprint	53,200	
Carbon footprint if space reduced by 20%	42,560	<b>10,640</b>
Carbon footprint if space reduced by 25%	39,900	<b>13,300</b>
Carbon footprint if space reduced by 30%	37,240	<b>15,960</b>

### 6.2.4. Summary

Combining the figures for both the core estate and the wider estate, the resultant scope of opportunity for efficiency savings is as follows. This assumes an initial target at the lower end of the spectrum at an average across the estate at 25% reduction. Taking such an average approach allows flexibility for planning the programme, whereby higher goals can be pursued and achieved in certain parts of the estate, which will cover for other more constrained situations.

Table 10: Summary of Potential Efficiencies

Running Costs (per annum)

	Assumed area reduction	Potential Saving (per annum)
Core office estate	25%	£7.5m
Wider office estate (lower band)	25%	£20m
Total	(say)	<b>£28m</b>

Backlog Maintenance

	Assumed area reduction	Potential Saving £m
Core office estate	25%	£3.1m
Wider office estate	25%	£17m
Total	(say)	<b>£20m</b>

Carbon Emissions (per annum)

	Assumed area reduction	Potential Saving tonnes
Core office estate	25%	2,500
Wider office estate	25%	13,300
Total		<b>15,800</b>

In summary, the potential efficiency savings assuming an average of 25% reduction are estimated as follows:

Annual running costs	£28 million per annum
Avoidance of backlog maintenance	£20 million
Reduction in carbon emissions	15,800 tonnes per annum

More work needs to be done to refine the workings and assumptions that underpin these figures. However, what is clear is the significant property cost efficiencies that can be made.

There will be challenges over geography, limitations created by some of the existing building configurations, legal complications, possibly some political challenges, as well as some investment required. However, a new corporate approach to asset management led by a centre of expertise, with political and senior management support, can unlock very significant savings.

It is important to recognise that the running costs savings, once achieved, are recurring. The efficiency is likely to occur as a gradual ramping up to a steady running cost saving figure of £28 million by 2016/17.

### **6.3. Proactive Lease Management**

Realigning the footprint of the estate to a new and evolving space requirement as more effective use is made of the estate will require careful programming of refurbishments, the exiting of buildings and the churn of the organisations affected.

Exercising lease breaks and expiries is one tool in the toolkit available to the Scottish Government in its task of achieving the afore-mentioned ongoing alignment. Many of these lease exits are already included in the Scottish Government's plans.

It has been identified that the Scottish Government within the core office estate can exit a significant amount of space over 5 and 10 years by exercising expiries and not renewing leases that come to an end. More central control of the central civil estate will reduce running costs by ensuring that underused space right across the network is identified and released/re-used.

Other aspects of bringing a more commercial focus to lease management that will improve value in managing the estate include:

- Building a greater awareness of property market dynamics including occupational incentives and the supply and demand for space in specific locations.
- Adopting a 'helicopter' view of landlords' interests in the wider public estate to identify where landlords interests can be swapped/traded off. This may allow for example, a lease to be terminated early in return for a longer commitment to another building.
- Exercising control over entering into new leases and the renewal of leases that expire. The presumption that existing Government property assets will be used in favour of procuring other assets or remaining in other assets when an option exists to vacate should be enforced. The vacation of leasehold accommodation in favour of owner-occupied assets will reduce the revenue costs to the Scottish Government.

### **6.4. Improving Value Realisation through Disposals**

It is also vital to develop appropriate strategies for the realisation of capital tied up in heritable

assets. It is too early to identify the specific buildings that could potentially be vacated and there may well be several constraints on any particular action however this activity needs to be pursued. The centre of expertise working across all the public sector bodies in developing asset plans will identify the nature and value of the assets that are most suitable for disposal or re-assignment.

The heritable estate offers scope for rationalisation, disposal or letting. There will be alternative options and in each case a detailed appraisal should be undertaken. The Scottish Government should also consider opportunities for sharing accommodation where leases can be put in place with non-Government backed bodies to achieve income from the heritable estate. This may require a degree of investment in the property to achieve market attraction. However the income received can be shown as a capital injection over the period of any lease. For the wider estate in particular, there is an opportunity to plan disposal strategies on a much broader platform by embracing the potential to collaborate with other public sector organisations in the local civil estate.

The proposed centre of expertise would have a key role to play in maximising value from any disposals.

## **7. Enabling the Benefits**

### **7.1. Early action**

In order to implement a programme of change over a five year period there are some important and early enabling actions that are required. These are discussed below.

### **7.2. Raising Profile**

Improving asset management practice within the central Government estate should be recognised as a key enabler for achieving the goals of efficient Government and public sector reform. For high performing property and its professional management to demonstrate the impact they can have at strategic and operational levels within the Scottish Government network, the profile of property asset management needs to be raised. Property assets need to be seen as a strategic resource as well as an operational resource.

There needs to be a significant change. Tinkering with the edges of current practices will not deliver the potential benefits outlined in this report. At their heart, the changes that are necessary include revised governance and management arrangements and a more collaborative and collegiate approach across the public sector that treats property assets as corporate assets of the public sector. New leadership, fresh energy, momentum and additional commercial skills are essential ingredients for moving forward.

In comparison with the local civil estate that requires a bottom-up approach to the delivery of improvements in asset management, the central civil estate requires more of a top-down directly managed approach that creates a new framework for opportunity identification, decision-making, option appraisal and implementation.

### **7.3. Organisational Structure**

It is proposed that a new structure is created with leadership at Cabinet level. This new leadership will deliver: a message of strategic importance; an action oriented drive to make the necessary changes; the ability to work across the organisational network to enable collaboration and partnership working; and improved stewardship.

There will be challenges ahead, including the need to change some existing procedures and policies, and some re-organisation. Collaboration between public bodies is also essential and while the policy environment is conducive to good partnership working cooperation can sometimes be weak. There are some difficult surplus sites which could realise income in the short term but are in limbo due to inter-organisational barriers. New leadership is necessary to help break through these challenges.

A new central property unit should be created with a corporate wide remit. It would have the capability of providing a strategic overview, a challenge function in respect of property strategies, and the scope to identify best opportunities for the future use of property assets across the central civil estate. It would become a centre of expertise in the ownership, management and disposal of public assets, and would operate as a source of advice for all public bodies and ensure maximum value for the public purse.

It is clear that a catalyst for change is needed. The proposed central property unit should utilise both the pan public sector commercial skills within SFT and the existing skills within the Scottish Government's Property Advice Division. SFT has proven to be capable of forming the framework for delivery demonstrated by leading the implementation of the Scotland wide hub programme.

It is important that the property unit is backed by senior leadership, both politically and within the Civil Service, and it is therefore proposed that the new unit should report to a property management board chaired by a member of the Cabinet. The combined organisational structure would have accountability for the performance of the Scottish Government civil estate. This will require the new unit to have specific authority to implement the guidelines established.

#### **7.4. Information**

Information on the existing estate needs to be improved significantly. This is an important requirement but not one which should hold up progress with implementing some of the proposals that can happen in the short term.

#### **7.5. Estate Management**

A stronger emphasis needs to be placed on the ability to be more strategic and proactive as well as directional. The new organisational framework should create a strong central corporate approach that could intervene forcefully. The new central property unit should have the ability to see and work across the whole central civil estate as well as having vision across the local civil estate. A helicopter view across the whole public sector estate will elicit opportunities for additional efficiency and improved public service outcomes. There needs to be improvements in consistency for the acquisition, disposal, management and rationalisation of property.

There also needs to be a new language and accountability framework around property performance. Individual departments, divisions, agencies etc should be incentivised to make best use of their property assets and to be as efficient as possible. The costs of property ownership and occupation should become more transparent at a senior level within Government.

Some of the key components required to deliver this approach are:

- Greatly enhanced coordination and management of the estate at the centre supported

by an updated set of roles and responsibilities for central and local management of assets.

- A new approach to asset management that places collaboration at its heart rather than as an after-thought.
- The identification and reduction/removal of any financial and accounting barriers to collaborative working across Government.
- A drive for efficiency through smarter use of space and greater collaboration.
- The ability to intervene, identify solutions and assist in delivering those solutions.
- A more strategic and commercial approach to managing the value realisation of surplus office accommodation/land; also controlling disposal to ensure the market is not flooded.
- The centralised procurement and strategic management of contracts for the delivery of property and FM services.
- The establishment of property controls limiting the proliferation of new property acquisitions, and directing the public sector occupier towards the effective reuse of the existing estate.
- A system that rewards occupiers for implementing space saving measures.
- Support to ongoing work in relation to asset management plans that cut across departmental boundaries.
- The effective integration of asset management planning with human resource planning and the investment in new technologies and ways of working to support a more flexible and mobile workforce.
- The preparation of a programme of action that creates and knits together the actions required to exit, relocate, consolidate, enhance and realign the estate with the economic and service-driven imperatives of today and the next decade.

The programme of action must be pragmatic and deliverable. This would have a time frame of five years and will set out the property by property initiatives and projects that will come together under an umbrella. Critical to the robustness of the programme will be the accuracy of data on issues such as running costs, values to be realised, and the cost of implementing change.

## Appendix A - Context

### 1. Introduction

The focus on asset management has increased recently across the country. This is in recognition that saving money on occupying buildings can potentially mitigate cuts to staff and services. There is also an increasing recognition that property assets are a strategic resource and that they can enable improvements in service provision.

This report draws on learning from other Scotland and UK Government initiatives, as well as private sector experience.

Some recent initiatives, studies and reports undertaken in the public sector help to set the scene for the current exercise, as well as providing a useful reference source; and these are introduced below.

### 2. The Independent Budget Review, July 2010

The Independent Budget Review (IBR) panel, which was established in early 2010, to inform public and Parliamentary debate ahead of the next UK Spending Review (SR2010), reported in July 2010 on their view of the key challenges and choices that will exist in a significantly constrained public spending environment. In their report, the panel identified **asset management** as a key area for focus.

The report says:-

*“After payroll costs, the largest outlay for the public sector is the amount spent on the acquisition and upkeep of physical assets. The public sector in Scotland is responsible for a large portfolio of assets, much of it in the form of buildings and other public infrastructure.*

*Effective asset planning and management helps public bodies to improve their financial and delivery performance by concentrating their use and maintenance of assets. Poor asset management leads to higher running costs, longer maintenance arrears, reduced market values and shorter asset lives – all of which represent an unnecessary and preventable drain on resources.*

*These themes are being addressed across the public sector (see, for example, the Scottish Government’s Asset Management Review and Audit Scotland’s Asset Management in Local Government). Asset management is one of the key work streams in the Efficient Government programme and also features strongly in the shared services agenda. Successful shared services should help to streamline the use of property through co-location and the development of other joint facilities such as municipal waste centres. Reductions in the public sector headcount may also reduce the demand for property.*

*The most recent Efficient Government outturn report, which relates to 2008-09, records asset management savings of £82 million, or almost 10 per cent of the total for cash releasing*

*efficiency gains in that year.*

*The Panel was unable to get a comprehensive picture of the stock of surplus assets across the public sector, but believes that asset disposals can make a useful contribution to bridging the gap in the public sector's capital resources. In order to maximise returns, and not disrupt service delivery, asset sales need to be carefully planned and thought through.*

*The Panel can see advantages in pooling property market specialisms within a centre of expertise that would operate advice services for public bodies that are seeking to dispose of surplus assets.*

***The Panel suggests that the Scottish Government should consider developing the role of the Scottish Futures Trust to establish a centre of expertise in the ownership, management and disposal of public assets. This would operate as a source of independent advice for all public bodies and ensure maximum value for the public purse."***

### **3. The Scottish Budget 2011-2012**

In his report, *Scotland's Spending Plans and Draft Scottish Budget 2011-2012*, which was approved by Parliament in February 2011, the Cabinet Secretary for Finance and Sustainable Growth welcomed the recommendations of the Independent Budget Review panel and invited the Scottish Futures Trust to develop a work programme in a number of key areas, including:

*'Identifying a number of ways in which it can drive further value from effective asset management. By the end of 2010-2011 the SFT will take forward a pilot project through the South East hub Territory to assess way to improve asset management and estate planning across public bodies at a community level. It will also develop proposals by the end of the year for the Scottish Government to deliver enhanced value from centrally held land and property assets.'*

This work is now complete and this report summarises the outcomes and proposals arising from the review of the centrally held estate.

### **4. Scottish Government Asset Management Review, January 2008**

Undertaken in 2007 the review which was requested by the Cabinet Secretary for Finance and Sustainable Growth, set out to:

- clarify precisely what the Scottish Government estate consists of, and who has control of and influence over asset management and accommodation decisions, estate management and financial accountability in relation to assets across the Government estate.
- recommend actions to achieve management improvements and inform future policy direction for the Government estate.

The review covered all of the departments and organisations within central Government as well as those across the wider Scottish Government network which are NDPBs and agencies. The review made eight recommendations:

- 1) To ensure all parts of the Scottish Government have an Asset Management Plan in place.
- 2) To maintain a mandatory, single comprehensive database of property information.
- 3) To agree a set of roles, responsibilities and expectations regarding the management of assets.
- 4) To ensure that the mandatory procedures in place, within the SPFM (Scottish Property Finance manual) and HM Treasury's 'Green Book', for disposals of surplus or vacant property, and for acquisitions are known and adhered to.
- 5) To implement the use of agreed, standardised performance targets and benchmarking criteria for land / buildings to help achieve continuous improvement in the performance of the estate.
- 6) To promote the use of financial asset management assets.
- 7) To ensure all parts of the Scottish Government consider appropriate potential development and improvement opportunities.
- 8) To undertake a further review of the management arrangements and issues concerning the rural and undeveloped land estates held by Scottish Ministers.

This was a landmark piece of work and has provided the platform for the development of asset management practice since 2008. Most of the recommendations have been taken forward and are at varying stages of development. It will be useful going forward to use the good work that has already been put in place and to use this as leverage for increased performance. There is much more that can be done.

## **5. Work Undertaken by Other UK Bodies**

The UK Government has been very active in developing and now implementing a number of initiatives in asset management.

Presently there is a lot of work being undertaken within central Government to move forward an agenda that supports the Government's efficiency programme for central operations, and also locally through the Capital & Asset Pathfinders, which is supporting improvements in the delivery of local public services. SFT has engaged with the relevant departments in London to help inform the current exercise.

The recently formed Government Property Unit (GPU) is responsible for property efficiency across the public sector and is part of the Shareholder Executive within the Cabinet Office

reporting directly to its Minister, Francis Maude. It provides specialist property advice to the Efficiency and Reform Group. The work of this GPU enables a new corporate approach to property management within Government. Its work builds upon the platform prepared previously by those delivering the operational efficiency programme, the High Performing Property programme, and the agenda for transforming the Government workplace.

The Minister for the Cabinet Office has set out progress on the UK Government's recent property strategy, which is designed to save money by ensuring office space is used effectively and expensive property leases are reduced. As part of this strategy, the Government has already reduced property related costs by £48 million as a result of the lease moratorium introduced last year. In addition, as a further measure to ensure savings, the Government has appointed a new advisory panel of property experts. The Minister has said "these savings are an excellent example of how across Whitehall we are driving down back office costs so we can protect important services on the front line".

A new set of National Property Controls across the central civil estate has also now been established in England and Wales. Announced in the 2010 Spending Review, the controls impose a lease moratorium prohibiting any new or renewed leases of property without approval, limits on capital asset disposals, new criteria for facilities management contracts, and a space standard of 8m<sup>2</sup> FTE with a desk-sharing ratio of 10 FTE per 8 workspaces for new and refurbished offices.

Consideration is also being given to ways of creating new property vehicles with pilots being developed for the estate in Whitehall and Bristol. The vehicles will rebalance the management of property assets, moving away from a demand-led approach towards a more commercial focus on making the assets that are retained as a core estate work harder, while disposing of surplus. They also promote economies of scale and innovation in the way that Government provides itself with appropriate accommodation.

The UK Government estate already includes some other interesting models of 'ownership' involving the private sector, some examples are as follows:

- DWP (*the Department of Work and Pensions - let a 20-year PRIME (Private Sector Resource Initiative for Management of the Estate) PFI contract in 1998 through which it sold its estate to Telereal Trillium and transferred responsibility for the provision of fully serviced Jobcentre Plus; the Pension Service and the corporate centre accommodation. DWP currently occupies just under 1,000 properties across the United Kingdom. Under the terms of the contract Telereal Trillium is responsible for providing a full facilities management service across the estate including: all building, landscape and site maintenance and refurbishment; internal and external cleaning; mechanical and electrical equipment maintenance; appliance testing and security; catering and portage services*
- HMRC (*Her Majesty's Revenue and Customs) - In April 2001 HMRC entered into its STEPS (Strategic Transfer of the Estate to the Private Sector) 20-year PFI contract with Mapeley for the provision of comprehensive property and facilities management*

*services to most of its estate. It transferred 47 freehold properties and 454 leasehold properties which had formerly been the portfolios of the department of Inland Revenue, HM Customs & Excise and Valuation Office Agency that collectively became HMRC. Under the contract Mapeley owns the freehold properties and manages the leasehold properties occupied by HMRC providing a full facilities management service. It also carries out construction fit-out works on behalf of HMRC*

- *The MOD (Ministry of Defence) - In 2000, MoD let a 30-year PFI contract to the Modus consortium (Innisfree, Laing Investments and Amey Ventures) for the redevelopment of its Grade 1 listed Head Office Main Building in Whitehall and the adjacent Old War Office to deliver secure modern, flexible and improved working accommodation for MoD use. Through the PFI contract Modus was incentivised to complete the project by November 2004 and to provide facilities management services to the accommodation for the remainder of the contract period*

In Scotland there are no such direct private sector relationships for the Scottish Government office estate. This current degree of flexibility could therefore be beneficial as consideration is given to rationalisation of the centrally held office estate.

There is also within UK Government a fast emerging push towards embracing the concept of a 'one public sector estate'. Taking such a wider corporate approach which requires a helicopter view of the total public sector estate allows a much broader and more comprehensive understanding of the opportunities available for improving efficiency and effectiveness.