



National Audit Office

Getting the best from public sector office accommodation

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Getting the best from public sector office accommodation

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CONTENTS

FOREWORD	1
TERMS COMMONLY USED IN THIS REPORT	2
EXECUTIVE SUMMARY	4
ANNEX TO SUMMARY	11
PART 1	
Introduction	12
Well-managed property is vital to efficiency and service delivery	12
The use of office property in the UK is changing	13
Changes in the use and management of public sector space	15
The NAO's examination	18

PART 2

Best practice property and space solutions	19
How the performance of the case studies compares to industry benchmarks	22
An assessment of the financial savings achievable from wider adoption of good practice	26
The further benefits that could be delivered by continued development of Shared Service Centres	28

PART 3

Flexible offices and proposals for the future	30
The emergence of a flexible office market	30
The demand for flexible office solutions	31
Proposal for future public sector estate management	34
The opportunity for change	36

ANNEXES

1 Methodology	40
2 Flexible Managed Offices	41

FOREWORD



Virginia Gibson, Professor of Corporate Real Estate, University of Reading

Property is a key resource for all organisations – the dance floor for staff, customers, and a host of other related groups. Getting the property resource “right” has implications for organisations’ cost base and productivity, and the way they are perceived by the community. In the dynamic world in which we all exist, continuing to align the property to the needs and objectives of an organisation is challenging. Flexibility is the by-word of all property managers: how can they create a property solution that is able to flex with ever-changing operational needs?

During the last decade, the debate on the role of property has come to the fore and property issues are now on the agenda of many senior management teams. Sometimes for the right reasons...*How can property contribute to the wider organisational change agenda?*...and sometimes for the wrong reasons ...*What is the true cost of past property decisions in terms of liabilities and exposure to property market risk and how can these be minimised?* In either case, because property is often critical to success, it is being taken seriously.

Knowledge and understanding of the role of property has improved over the last decade. It is now clear that property cannot be planned or managed in isolation. The key drivers of property demand are in constant flux. Organisational boundaries are relentlessly changing through reorganisation, outsourcing and off shoring. The workforce has become increasingly footless facilitated by the increased power of technology linked to the reduction in its cost. Thus, organisations are rethinking their whole

approach to the location and timing of work, and the office is no longer always the place where value is created. That means strategies for human resources, information and communications technology and property need to be explicitly linked and even better, developed in unison.

So what does this mean for government? There is a unique opportunity to link property to the wider change agenda: the ability for government to “step-change” and do things differently. The Gershon and Lyons Reviews have set government departments and agencies ambitious targets. The key question is what role can property play? This report starts to address the possibilities – helping those at the most senior level think differently about how property could deliver some of the savings. It also discusses the issue about whose property is it anyway. Numerous organisations have grappled with the federal versus centralised model and many have found that there are significant efficiency gains from shared, centrally managed “generic” space. This poses a key ideological challenge for senior decision makers: should government property, generic at least, be managed centrally or should the devolved approach continue?

I commend this report to senior decision makers in government. It provides a vision of the possible. It will help to open the debate, challenge the status quo, and ensure that innovation is possible. Ultimately, the goal is to deliver the right property, in the right place, at the right time, at the right cost. This will require asset management strategies closely linked to the organisation’s capabilities in both ICT and HR, and aligned to the core organisational objectives. Property is not special but it is a unique resource with particular attributes. Understanding the drivers, and leveraging the opportunities created, is what superior property asset management is about.

TERMS COMMONLY USED IN THIS REPORT

Break-out areas	Informal meeting areas positioned to encourage interaction and communication between people.
Campus	A group of buildings built near each other, and their surrounding grounds, where an organisation carries out its work.
Churn rate	Measures of the amount of people moves over time. One hundred per cent annual churn means that the equivalent of all staff move desk once during the year.
Concierge service	An extended reception service that provides additional functions including room and desk booking, business services and personal support services.
Core and flexi space	Under best practice estate management principles, organisations identify their core long-term holdings (and drive commercial discounts accordingly) and their requirements for short term flexible space to manage peaks and troughs in the business cycle.
Cost per workstation	The total cost of occupation divided by the number of workstations in the building. Total costs include rent, rates, landlord's service charge, facilities services (including catering, cleaning, maintenance, reception, security, telecoms, utilities).
Flexible Managed Office	Occupiers' requirements for space, including facilities management, are provided under a single short-term contract and unitary charge.
Hot desks or shared workstations	Desks that are shared, that allow an organisation to increase the number of people supported by a given building.
Hotel.Gov	A term coined by the National Audit Office meaning a bespoke Flexible Managed Office solution tuned to the government's needs, which provides the flexibility to expand and contract at short notice, to offer temporary space for individuals or project teams and to act as "swing space" enabling Departments to move when required.
Net internal area	The area of a building which is the gross area less common areas, lifts, fire escape routes and other landlord areas.
Occupancy level, occupancy density	An efficiency measure – normally expressed as persons or desks per square metre of net internal area.

Shared Service Centre	A Shared Service Centre (SSC) is a facility that performs administrative and transactional functions for multiple divisions or subsidiaries of the same organisation, rather than having those transactions conducted in separate operating areas.
Swing space	A term used in the property sector to describe space that is used on short-term basis to facilitate a relocation project or programme. It is often used as a staging post within the overall migration, allowing the permanent space to be refitted or made ready.
Touch-down areas	Shared desks, but unlike hot desks (see above) these are not bookable. It is therefore available to everyone in an organisation including visitors.

EXECUTIVE SUMMARY

This is not a traditional National Audit Office report for Parliament. It is instead a report to departments, designed to contribute to current thinking around how best to use, and manage, public sector office space. Rather than a forensic examination of the current situation it is forward looking, exploring what it might be possible to achieve by drawing on examples of best practice in the public and private sectors, as well as the latest developments in the market. As such, it complements our programme of work examining and supporting the drive towards improved public sector efficiency.

The National Audit Office commissioned Concerto Consulting to carry out the work on this report, including presenting to us a volume containing 15 case studies of best practice in property management and three case studies drawing out the property benefits of Shared Service Centres. The case study volume plus a toolkit intended to help senior managers explore the potential property options open to them are available alongside this report on the NAO website.

1 This report presents a series of recommendations that are designed to lead to significant value for money improvements in the way the public sector uses its office accommodation. It has three main themes: the many opportunities and benefits of adopting best practice; the need for greater flexibility in the public sector property portfolio; and the need for central strategic planning across the whole estate.

2 On the first theme, the report presents examples of best practice property management. It challenges current thinking, and sets out recommendations supported by a broad analysis of the costs and benefits of change supported by illustrative case examples. It considers:

- the improvements to efficiency and service delivery achievable through implementation of best practice property and space solutions; and
- the further benefits achievable through the use of Shared Service Centres in tandem with best practice property solutions.

We support our advice with recent case studies of best practice which, taken together, show clearly the scale of the potential benefits. The ideas, benchmarks, and ways of working would have been groundbreaking a few years ago. With today's technology and modern management approaches, they are now highly attainable.

3 On the second theme, the report examines recent developments in the Flexible Managed Office market. We consider the benefits that increased flexibility could bring to public sector operations on both a single building basis as well as more widely across the government estate.

4 On the third theme, we recognise the good work that the Office of Government Commerce is already doing in planning and co-ordinating parts of the public sector property portfolio, but also the limitations in a regime of departmental planning with voluntary coordination. To realise the opportunities for the efficiency savings we have identified, and to create flexible property solutions that respond to the needs of modern public services, we believe there is a strong case for a central executive estates capability for the public sector, providing a more centralised approach to strategic planning across the government estate. We propose an approach that keeps accountability for asset management with departments, but which also creates authoritative enabling machinery for cross-departmental planning and challenge.

5 The Office of Government Commerce's remit was strengthened in late 2005, with the Cabinet approving a more interventionist role where departments may be departing from best practice. In addition, under the Efficiency Programme, the OGC has a more hands-on role in working with departments to improve efficiency. These changes will create a climate where the transformation in property management we outline in this report is becoming more possible. In addition, the OGC is currently developing an asset management programme designed to take forward the recommendations of Sir Michael Lyons¹; this includes developing a 'routemap' to improved property asset management with the aim that this will provide a framework within which a more centralised approach to strategic estates planning can take place.

Findings on the implementation of best practice

6 Property can be a catalyst for broader organisational and cultural change within public sector bodies. Well-managed property projects (whether in a cycle of continuous change or as major one-off events) are enablers of, or catalysts for, wider corporate change. Organisations that put property solutions at the heart of their business thinking, combined with progressive human resource policies and modern technology support, can improve their operational performance as well as staff satisfaction and retention. With many departments presently considering relocation projects, for example, because of the Lyons Relocation initiative, there is a step-change opportunity now open to departments to make material efficiently savings and process improvements.

7 Better asset management through more efficient use of property could generate very significant savings each year, and contribute to the wider Government agenda of sustainable solutions and lower environmental impact. Organisations that see property, technology, and human resource policies as inter-related, and implement business transformation based on that insight, usually achieve substantial operational benefits and productivity improvements, better staff satisfaction, and cost savings. Our case studies show how organisations, by implementing good practice standards in their estates planning and management, have achieved major savings.

Better-planned office layouts, desk-sharing policies, technology-enabled mobile working outside the office and flexible human resource management approaches offer great potential for significant efficiencies. Several of the case study organisations house their staff at densities of nine square metres per workstation or less, while improving staff satisfaction. The results of the first data-gathering phase of a recent benchmarking study carried out for the Office of Government Commerce show occupancy densities of 15 square metres per person, which indicates the scale of the potential saving.

8 The government's total office area is more than 12.5 million square metres. If all public sector bodies can achieve space usage of 13 square metres per person,² there would be a significant financial saving of the order of £1.5 to £2 billion per annum in the medium term. To achieve this level of savings would require additional investment of around £1 billion, phased over a five-year period to fit in with government planning horizons (in other words an investment of around £200 million per year over a five-year period to trigger the release of £1.5 to £2 billion savings year on year). The full potential for savings is greater than this, not least because in many circumstances tighter occupancy densities could be achieved. To ensure our estimates are realistic, however, we have scaled them back to reflect the fact that lease lengths and lease break timings will constrain disposals on some properties, and that some smaller properties may have to stay in their current locations in order to provide local access to services. Our view is that the cost savings from adopting best practice warrant consideration in any event, even without the spur of a relocation project.

9 Shared Service Centres (SSCs) can enable businesses to simplify and give more visibility to relatively hidden or dispersed administrative processes. The case studies show that SSCs can save up to 30 per cent of the operational costs previously associated with the services provided. Some of the savings come from simplified business processes, clearer measurement and management, removing duplication of effort and gaining economies of scale. Others come from an estates perspective, by locating SSCs in areas with relatively low property and labour costs, and by adopting best practice space standards. As such, organisations should consider SSC solutions within their overall integrated estates strategy.

¹ Towards Better Management of Public Sector Assets, report to HMT by Sir Michael Lyons, HMSO 2004.

² Thirteen square meters per person is the average performance of the case study organisations (many of whom were not trying to achieve tighter occupancy densities). This is the net internal area (NIA), which is the whole internal area of a building minus the toilets, lift wells, stairways, and service cores such as boiler rooms, tank rooms, fuel stores and plant rooms. NIA includes open circulation areas and entrance halls, corridors, atria, and kitchens.

10 On a wider note, efficient use of office space supported by flexible working policies will contribute significantly in reducing the adverse environmental impacts associated with the creation and running of buildings. People do not travel as often or as far. More importantly, the office buildings are more adaptable, thus improving the potential to avoid wasting materials, resources and costs in reconfiguring or creating and running new buildings.

Findings on strategic estates management and the opportunities emerging in the Flexible Managed Office market

11 The Property Services Agency (PSA) used to be responsible for all aspects of the estate, but departments took on responsibility for their own estate planning and management from the mid 1990s. This brought much greater clarity and accountability, but a natural consequence was that it became much harder to achieve economies of scale and other synergies between departments. The Property Advisor to the Civil Estate (PACE), established in 1996 was set up to provide oversight and information on the civil estate, but the centralised strategic planning role once held under the PSA no longer existed and over time there was a diminution in the extent and quality of information on the combined estate.

12 Recently the Office of Government Commerce has been addressing these issues, increasingly providing cross-departmental coordination and direction. This has included establishing a central database about the estate on a national basis, the e-PIMS database. Since July 2005, it has been mandatory for central government bodies to submit estates information to e-PIMS.³ The OGC also facilitates transfers of space between departments, typically achieving transfers of around 50,000 square metres per year. It has also introduced mandated controls on property acquisitions in London and the South East, leading to a release of some 87,000 square metres of accommodation and a reduction in the public sector rent bill by around £11.5 million per year. The property-benchmarking project OGC is currently undertaking will also provide it with the basis for greater probing of departments' management of their property and use of their space.

13 The "departmental silo" approach contrasts with the estates strategies seen in the case studies. There the approach was usually centralised, enabling strategic estates planning across often very fragmented and widely dispersed parts of the businesses. As a result, the case study organisations have introduced and delivered radical and successful coordinated solutions. Several of the case studies contain good examples of campus-based solutions, bringing substantial economies of scale and better facilities, and national approaches to flexible or mobile working, which are directly relevant to the government's situation. However, it is hard to see how the current dispersed planning environment will enable similar levels of best practice performance in the public sector.

14 Flexible space solutions, similar to those already evident in the commercial market, play only a minor role in the government estate. However, such space greatly assists organisations expanding, contracting, or moving (for example in response to the Lyons relocation initiative). It also supports project-based work and greater staff mobility. Over short periods, flexible property costs are competitive with traditional solutions. Their true value, however, comes from the operational flexibility they create, enabling organisations to achieve savings on a greater scale.

15 In our view the departments should begin moving towards integrated strategic estates planning across the whole Government office portfolio (**Figure 1**), in which there is:

- **A core of long-term stable property** (freehold, or renegotiated long leases on new discounted rental levels), supported by Shared Service Centres as appropriate. The long-term arrangements, under the direction of a new central strategic planning unit, would gravitate over time (as leases expire) towards integrated campus-based arrangements thus yielding further economies of scale and other benefits.
- **A new, deliberate, and explicit use of flexible managed office space**, giving departments the ability not only to expand or shrink their office portfolio but also to provide the catalyst for new ways of working and transformational change. This would enable departments to deploy people more easily to locations where the work is actually required, to support project-based working, to achieve economies of scale between smaller units who might otherwise require separate facilities management services, and

³ DAO(GEN)08/05 'Recording Property Information on e-PIMS'.

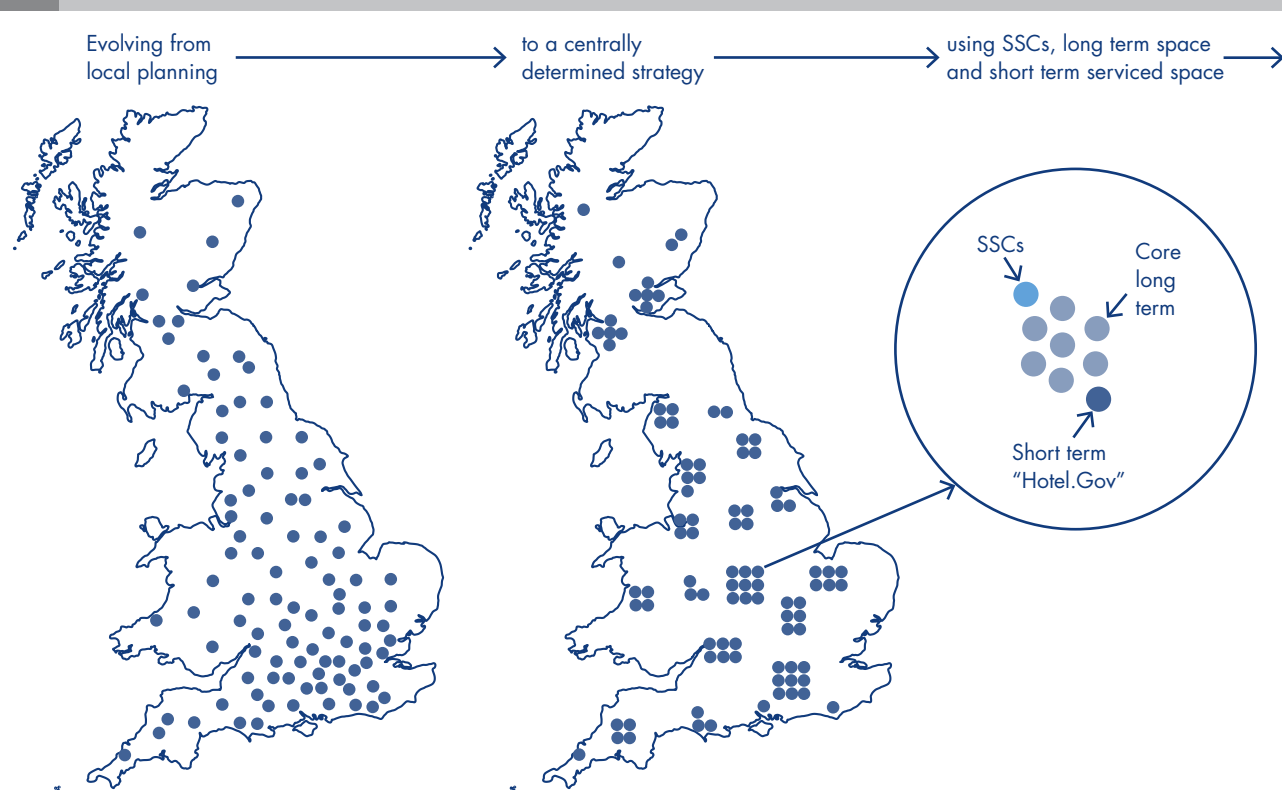
to achieve greater physical resilience. This principle would apply both to standard occupancy solutions and to PFI parts of the estate.

16 There are significant barriers and risks in implementing the proposals outlined above. Cultural change will most likely be a major barrier, and the difficulties and time needed in overcoming this should not be underestimated. Departments, and individuals to a lesser extent, are not used to mobile working in this way, even though shared buildings (occupied by two or more departments or agencies) form about 16 per cent of the estate. Technology solutions will be required. The government as a whole will need to be able to offer a generic IT platform, in order for people to have mobility around the estate. Security standards and delivery will need addressing. With regard to the new central strategic planning arrangements, which, with its recently strengthened remit to intervene, may well be best provided by the Office of Government Commerce – decision-making roles, authority levels, and procedures will need

to be developed afresh and there may be asset ownership responsibilities to clarify. The scale of the changes, added together, means that there is an inherently high level of risk, and that in some parts of the public sector the changes we have identified could not happen quickly. However, from the case studies that we examined, and from the workshops held with Departments and with suppliers of flexible office space, we believe that these risks can be overcome and managed.

17 The flexible office market is relatively small, covering less than two per cent of the current UK national office space. We doubt whether this market could cope with the potential scale of the Government's potential requirements in this area, and a new solution would probably be required, which we term *Hotel.Gov*. This would in effect be a bespoke flexible space offering tailored to suit the volume, IT, security and operating requirements of the Government's circumstances.

1 How the government estate of the future might look



Source: National Audit Office workshops with suppliers, departments and OGC

NOTE

The placement of properties is purely illustrative and not intended to indicate any preference for location.

2 Pre-conditions for a successful business transformation using property as a catalyst

Pre-condition

Benefits to efficiency and service delivery

1. Have a clearly stated business agenda

Projects have clarity, relevance, and focus, increasing the prospects of successful delivery.
Property becomes aligned to the business operational needs and is a management priority.
Creates operational efficiencies and leads to savings.
Creates direct savings from property efficiencies.

2. Adopt a coherent, explicit, change management approach, led from the top

Places the transformation programme at the heart of a wider business change agenda, and gave it visible sponsorship and impetus.
The property initiatives act as catalysts to achieve a cultural change or to improve working practices.
Staff take ownership in what is usually a major change programme. This fosters a wider sense of ownership for other business change activity.
Improved morale, productivity, and sense of shared vision.

3. Integrate property, people, and technology solutions from the outset

The business planning activities link together across all three resource areas.
Integrates valuable resources and cuts down waste and improves efficiency.

4. Use best practice real estate management techniques

Open plan environments supported by breakout spaces, web-enabled space booking methods, concierge support, state-of-the-art security access and high quality facilities management service provision were common features in all of the case studies. This results in more efficient use of the physical space, thus saving direct costs.
It usually also results in improved performance, by providing the right environment (e.g. break-out space) to suit modern working patterns.

5. Provide high levels of support for mobile or remote working

Staff receive excellent support, ranging from advanced technology and communication solutions to courier collections and off-site 24/7 administrative support. Helping to maintain productivity for highly valuable people.
The staff (regarded now as customers) receive excellent support to maximise their productivity and satisfaction.

6. Provide office services to a high standard, often through outsourced arrangements underpinned by appropriate service level agreements

Reduced Facilities Management costs plus explicit Facilities Management performance data, enabling organisations to manage more explicitly the trade-off between cost and service level.
Allows the organisation to concentrate on its core business process, out-sourcing property management to others.

7. Consider adopting an evolutionary rather than revolutionary approach

Many of the case study organisations now regard property transformation as a continuing on going evolutionary process. Evolutionary processes suit organisations that

- are budget constrained;
- are subject to regular operational changes; and
- want to create a sense of staff involvement, learning and ownership.

8. Consider the use of Shared Service Centres, within the overall property solution

SSCs can bring operational and financial benefits through process simplification and economies of scale.
In addition, they can form an integrated part of a well-planned property portfolio – taking advantage of best practice space standards and lower rental costs in different locations.

Example

Vodafone's business agenda was to rationalise its organisation, processes and estate after a sequence of Mergers and Acquisitions activity. Its estate was inefficient and comprised 69 buildings in and around Newbury, which it reduced to seven buildings on an attractive campus and facilities in a nearby business park.

The business case for the changes made at the Adult Learning Inspectorate was based on the need to achieve post-merger integration, and to put their people in the right places, properly equipped for mobile working in order to improve performance.

Cambridgeshire County Council restructured their organisation and business processes, increasing their customer-facing activities and streamlining their support functions. This business change programme centred on a property transformation, involving best practice standards and techniques.

Operational pressures, together with the need to reengineer business processes to meet changing external requirements led GCHQ to adopt an innovative accommodation solution. The resulting PFI facility involved major cultural change driven by accommodation, process, and technology projects.

Sun's established worldwide iWork programme aligns Real Estate with ICT and HR practices, allowing employees the freedom to choose when and where to work.

BP's HR policies tie in closely with the accommodation and technology strategy, and promote home working and involve radical policies such as nine day fortnights (improving building utilisation).

New hotel-style desk sharing, combined with technology support and home working practices, enabled Ernst & Young's business to support many more fee-earning staff per floor.

At PricewaterhouseCoopers, a hotel-style space management system allows staff to book a workspace via the internet or telephone. Touch screens at floor entrances enable staff to check into and out of the system. Screen displayed floor layouts show where workstations are occupied while concierge staff provide a Meet-and-Greet reception and help desk service.

Travelling inspectors at the Adult Learning Inspectorate have high-level remote support e.g. home courier services. For working at home, they receive an allowance to purchase office furniture and IT.

When IBM extended its flexible working programmes, it supported staff making the transition to the new ways of working. IBM also provided enhanced reception services and a "post at home" service.

At Cambridgeshire County Council, Service Level Agreements for newly centralised FM services achieved economies of scale and higher corporate standards for the Council and its tenant partners.

Allocating space and facilities to business teams on a "cross-cutting" basis has improved client services at Suffolk County Council by locating together people working on common issues from across different departments.

Norfolk County Council used the opportunity of a pilot for flexible open-plan working to learn lessons for wider application and to resolve variability in estate performance and standards.

By "moving peoples minds rather than walls", BAA's Unity pilot enabled open-plan flexible working, with anyone working from any location, to replace the old "me and my desk" culture.

Transport for London consolidated its HR services from multiple locations into one centre, saving costs, improving staff satisfaction and morale and improving performance.

Recommendations

18 Our recommendations are in two parts:

- to all departments; and
- to departments with central strategic responsibility for public sector property.

19 Our recommendations to all departments are as follows. They should:

- Assess the advantages of adopting flexible approaches to their estates and operations in line with the good practices identified in this report, and establish clear plans for moving towards best practice performance (justified by robust business cases).
- Seek property efficiencies from flexible managed offices for the use of Agencies and NDPBs that are within the parent departments' responsibility.
- Use any property project as an opportunity to achieve wider transformational or cultural change, and place the project at the heart of the management agenda.
- Use **Figure 2** to enhance the prospects of success when carrying out property-related business transformation activity. The ideas in it are a distillation of the good practice seen in the case studies. Further detail on the good practices identified is set out in the case study volume, published alongside this report, together with a simple decision tool to help public sector bodies think about how Flexible Managed Office space might meet their requirements (the latter is outlined in the Annex to this summary). Both these additional products are available on the NAO web site.

20 Our recommendations to departments with central strategic responsibility for public sector property are as follows:

- Determine how best to embed a process of cross-government estates planning and challenge designed to stretch departmental ambitions and promulgate best practice; and most importantly to identify and realise opportunities and synergies between the estates strategies of multiple organisations, unless there are very compelling and fully justified operational and commercial requirements for adopting departmental-specific estates solutions.

- Determine the best new management and organisational arrangements to support the new central strategic planning process. Given that there are over 50 departments, around 130 executive agencies and over 220 NDPBs, there should be a suitable co-ordinating forum in place covering the main interest areas and user groups to help a strategic planning process to succeed. The groupings established under the Shared Service Centre agenda might provide a useful framework for such a forum. Whatever the shape of the forum, it would need to be chaired by a person who will have real influence with Government departments and the wider public sector.

- Determine how best to achieve a national cross-departmental integrated estates solution comprising

- a core of space procured and managed on a longer-term basis, at economic rates; and
- a flexible element to the estate, enabling staff mobility and organisational contraction or expansion.

To achieve this may require rethinking how departments own and manage assets.

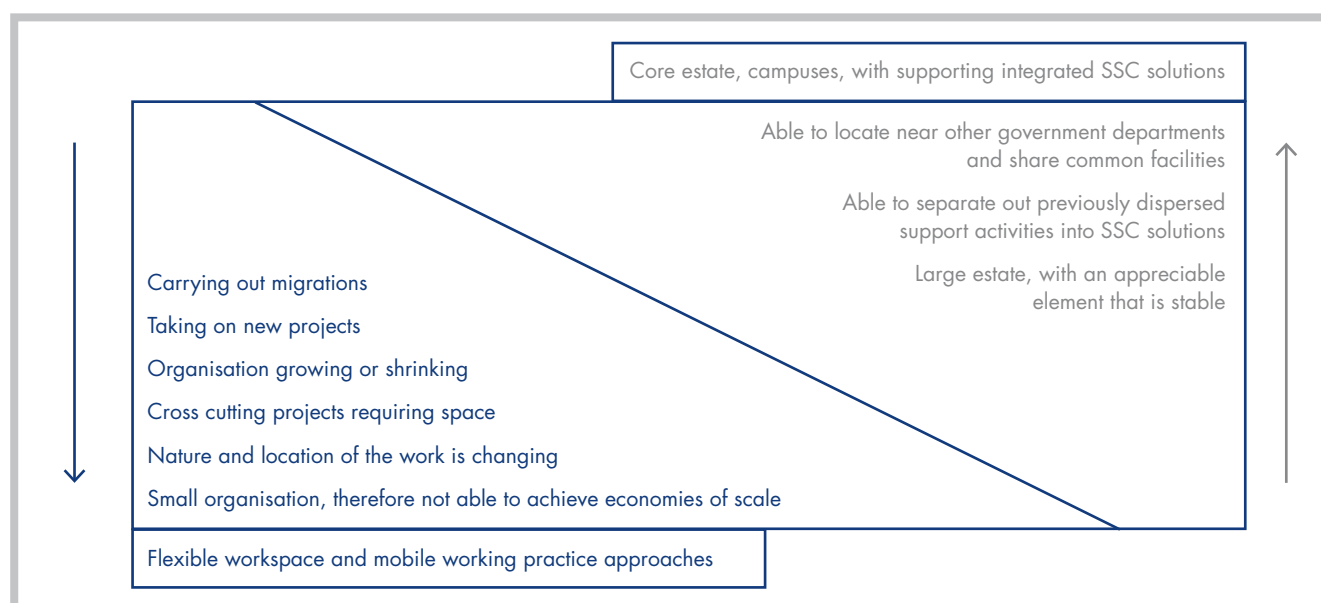
- Consider the extent that Flexible Managed Office solutions could support relocations by offering flexibility, or could create opportunities to generate economies of scale by consolidating smaller units into fewer buildings. This could involve use of a pilot to evaluate the potential of the flexible property model. The pilot would usefully consist of two buildings, one in London, and one in a Lyons-relocation-destination town or city.
- Build on the current benchmarking initiative and on the conclusions here to set new, challenging, and appropriate targets for government occupancy levels.

ANNEX TO SUMMARY

Flexible Managed Office Space decision tool

The choice of an estate's strategy depends on a large number of interacting factors. There is no prescriptive set of rules governing a strategy's development. However, those organisations undergoing change, or that are too small to achieve economies of scale, would probably benefit from flexible managed space solutions. Larger organisations would probably benefit from separating out their estate into core and flexi space, with the former on highly competitive long-term commercial arrangements and the latter used to manage peaks and troughs. Shared Service Centres need to be considered as part of the overall business and estates strategy.

The diagram below shows the main factors to consider, when striking the balance between the amount of long term core space, campuses, Shared Service Centres, and short term flexible space in an organisation. The web version of this document available on the NAO website contains additional checklists for each topic.



PART ONE

Introduction

Well-managed property is vital to efficiency and service delivery

1.1 The government estate (**Figure 3**) comprises some 10 per cent of the total UK office market. The portfolio is a mixture of front-line delivery properties (for example courts and job centres) and administrative offices. The three areas with the most office property are London, the North West, and South East (**Figure 4**).

1.2 It is important to align the property strategy with that of the overarching business. Property, planned in tandem with progressive human resource strategies, process engineering and technology solutions, can drive out unnecessary property costs (**Case Example A**). It can also transform service delivery operations and lead to efficiencies, and organisations increasingly recognise that well designed and managed work environments are important to successful recruitment and retention of skilled staff in competitive markets.

1.3 Conversely, without alignment with the business strategy, property can become a constraint – holding back improvements to productivity, efficiency, and service delivery. Behind staff, property costs are usually the second largest revenue costs for most organisations. Poorly managed and under utilised property assets can lead to unnecessary costs (for example, rent, utilities, repairs and maintenance), reducing the resources available for frontline service or business delivery. Potentially it also represents an unrealised opportunity to generate capital receipts from the release of spare capacity.

3 Overview of the government estate

Central government occupies over 12.5 million square metres of office space within England, Scotland, and Wales, accommodating some 570,000 civil servants.

Of the office space greater than 1,500 square metres in area, approximately 40 per cent is freehold property, 37 per cent is owned by the private sector under PFI/PPP arrangements, and 23 per cent is leasehold property.

In total, the Government has more than 8,700 property interests, allocated to over 260 cost centres. The most significant occupier is the Department for Work and Pensions, with more than 1,700 holdings, at just over 2.5 million square metres.

Source: Office of National Statistics, Office of Government Commerce

CASE EXAMPLE A

Using strategic property planning to drive out savings

The Royal Mail has just less than 3,000 operational buildings across the UK. These are intensively used at ground level (for example for letters delivery and sorting) but less so on the upper floors. Recognising this, the Royal Mail Property Group developed a plan to make better use of the available free space across the operational portfolio.

By fitting out the upper floors of operational buildings as office space, the Royal Mail was able to shrink its portfolio of office administration buildings by a factor of 10, from 182 units to 18, saving more than £36 million per year in on-going costs.

The use of office property in the UK is changing

1.4 In the UK, the past decade has seen a quiet but radical revolution in the procurement, occupation, and use of office space in both the public and private sectors. This has been driven by cost pressures, increasing competition, skills shortages, legislative changes and by changes in work-life preferences. For example, open plan offices are now the norm, whereas 20 years ago personal offices were far more common (**Case Example B**). This trend arose as a response to cost pressures initially, but became embedded as management realised the benefits of open plan arrangements for team-based working. A prime example in the public sector of a move from cellular to open plan space is the move of the Office of the Treasury Solicitor to CAA house. This illustrates how open plan working can succeed, even in organisations where confidentiality is of prime importance.

Further details are provided in the associated case study volume.

1.5 At the same time, advances in information and communications technologies are enabling new and more mobile ways of working. Increasingly people are working from a selection of office locations and from home. For example, the Adult Learning Inspectorate has given its field teams a high level of technology support

CASE EXAMPLE B

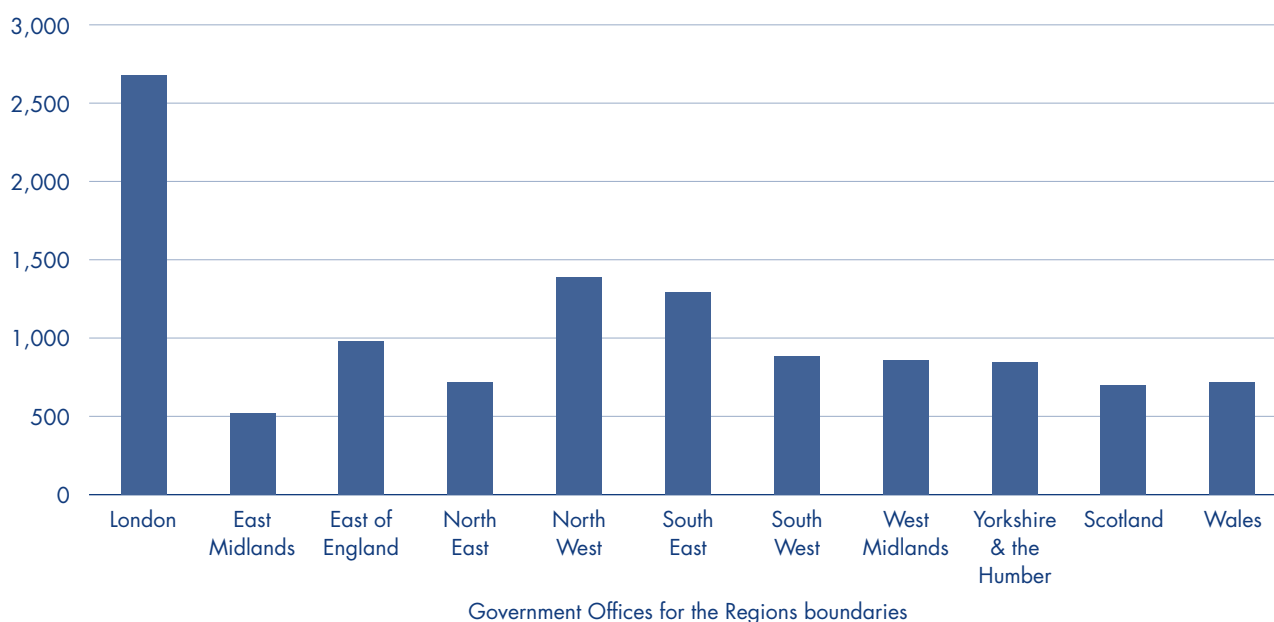
Using open plan space coupled with modern technology to drive down costs

BAA halved its Heathrow office property requirement in one part of its estate by consolidating into open plan and flexible IT-enabled workspace. Aside from being able to claim financial savings (£1.3m per annum reduction in rent) and an 80 per cent reduction in churn costs, it is also able to point to improvements in staff interaction, satisfaction, and productivity.

4 The location of central government's civil estate¹

Property split between regions

Area in square metres '000



Source: National Audit Office analysis of e-PIMS database

NOTE

¹ e-PIMS holds information about all the properties owned, controlled or used by central government departments and their sponsored bodies. Bodies are responsible for entering complete and accurate information about all the properties they use and control to the following timetable: all office properties by 31 March 2006; and all other properties, including land, by 31 March 2007. The arrangements do not apply to local authorities, the NHS (except for Special Health Authorities), public corporations, privatised railway undertakings, the Crown Estate or the Defence Estate (subject to some exceptions).

and administrative back up, enabling them to work from virtually any location in the country. The implications for organisations are profound: the office is no longer essential. Work now takes place in other locations and at unorthodox times more suited to the worker's lifestyle, whether from a client's premises, home, a café, a hotel, or a business park.⁴ Employers that recognise these possibilities are now providing radically different working environments to their staff.

1.6 Increasingly, government organisations are taking up the opportunities provided by best practice estates planning and management techniques, and by modern technology supported by appropriate ways of working and human resource policies to achieve significant cost savings and improve operational performance. The current project being undertaken by the Learning and Skills Council project (**Case Example C**) illustrates this very well.

1.7 On the supply side of the property market, the concept of "Flexible Managed Offices" (FMOs) – in which occupiers' requirements for space, including facilities management, are provided under a single short-term contract, is becoming more commonplace. Flexible offices

give occupiers more flexibility than traditional rental or freehold arrangements, enabling organisations to match better their property provision to changing needs (**Case Example D**).

1.8 Enabled by the advances in technology, and by new enabling human resource policies, different types of flexible working patterns have emerged in the last five years, for example:

- people work under different forms of contract, ranging from being a permanent employee, to having a fixed term contract, or to being self-employed;
- people have more flexibility in the hours that they work, whether full time, part time, job sharing or under an annual hours contract;
- people work from a greater variety of places, including from home, from other external locations, or by "virtual team work" within an organisation (behaving as a team, but not being co-located).⁵

A recent YouGov survey illustrates these trends and the benefits obtained (**Figure 5**).

CASE EXAMPLE C

Using best practice estates, technology and human resource solutions to achieve transformational change in the Learning and Skills Council

The Learning and Skills Council for England occupies 52 offices in each of the counties of England. The Council is responsible for all post-16 education and training in England excluding Higher Education, with an annual budget in 2004-05 of £9 billion.

The property portfolio was largely inherited from predecessor organisations, and over time has been changed as and when an opportunity arose, but is larger than required for the needs of the business.

The LSC is undertaking a major business transformation programme involving reorganising the structure of the business and adoption of different ways of working. This has presented an opportunity to make major change to the property portfolio to make it more fit for purpose.

This programme involves creation of a design of a "kit of parts" from which each office will be reconfigured with reduced numbers of desks, and increased use of touch down and collaborative space. It will also include a range of other spaces within each office to support different types of work according to need, major cultural change, and a more efficient and effective core business.

The interesting feature about this programme is that the Council is looking to avoid the problems created by organisations that acquired long leases – thus creating a long-term property liability for Government. The LSC is structuring its arrangements for its estate on shorter-term contracts and looking to move towards a single managed service arrangement.

The programme has support from the Chief Executive and Senior Management, and is expected to save approximately £16 million per annum with a payback under two years. The programme requires a significant investment equivalent to the current annual accommodation running costs (mainly on capital refurbishment and the buying out of leases) to realise the regular annual savings stream. It is expected that the investment will have a two year payback.

It will lead to a major reduction in long-term estate liabilities by providing a more flexible estate solution that is free of long-term legal obligations, as well as improved operating efficiencies. It will provide the government with greater flexibility to handle any future re-organisation of the Learning and Skills Council or the post-16 sector.

⁴ "Working in the Twenty-First Century" – Michael Moynagh and Richard Worsley. Published by The Tomorrow Project and Richard Worsley. ISBN 0-9541278-1-1, 2005.

⁵ University of Reading, 'Flexible Working in Central Government: Leveraging the Benefits', February 2004 (Report commissioned by the Office of Government Commerce).

Changes in the use and management of public sector space

1.9 Further changes have taken place across the public sector (**Figure 6 overleaf**). The emergence of the Private Finance Initiative in the 1990s, for example, has resulted in the transfer of ownership and management of parts of the public sector estate to the private sector, ring fencing major parts of the public sector into separate commercial environments. This brought many benefits, for example, clearer accountability and increased competitive action, but at the same time, flexibility may have reduced as departments are tied into longer-term contracts.

1.10 More recently, there has been an emphasis on improving efficiency and asset management, and relocating civil service staff away from London. The efficient and effective utilisation of property is now more of an operational imperative, and a properly planned and executed estates strategy fits well with the wider cross-government drive for improved efficiency and service delivery.

1.11 Recently there has been an increasing focus on asset management across central and local government, for example the Lyons Asset Management initiative⁶, alongside significant interest in the development of Shared Service Centres (both within departments and between them). Both of these areas of activity have considerable relevance to management of the government estate, and to the subject matter of this report.

1.12 The Office of Government Commerce⁷ has responsibility for co-ordination of the civil estate, and the provision of guidance to departments on, for example, property disposals. It does not carry executive authority, but is proactively filling important gaps (**Figure 7 on page 17**) in planning and co-ordination within the current decentralised approach.

CASE EXAMPLE D

Using flexible space to achieve cost reductions and improved performance

A major central London insurance company reduced cost and improved staff satisfaction by enabling staff to work more often from home, and making use of a serviced office facility in Croydon when they needed meeting space and normal office services.

The company selected a serviced office close to Croydon station. The office contained standard workstations, hot desk and touch down points. The staff were given laptops, and the company also set up secure PCs for access to restricted areas of its intranet via the serviced office's central communications room. The staff were provided with secure access using swipe cards and additional office support, including print, copy, fax, binding, and post and courier services.

The company has been able to claim a major cost saving: the annual central London cost for the group of 25 people was previously £362,500. The contract for the serviced office space, for 12 months, is a fully inclusive occupancy cost of £65,000. At the end of 12 months the company can renew, and expand if required. The staff have also benefited from a better work-life balance. Previously their average door-to-door commuting time was 80 minutes, or 53 hours a month, and the average rail ticket cost was £3,200. Staff feedback shows higher job satisfaction and reduced stress.

Source: Concerto Consulting

5 2006 YouGov survey of Company Director views on flexible working

In a survey of 1,000 company directors, 667 reported adopting flexible working policies and ranked the benefits as follows:

- improved staff motivation (65%)
- increased productivity (50%)
- improved client service (38%)
- reduced absenteeism (36%)
- improved resilience against transport problems (29%)
- better quality job applicants (26%)
- improved candidate perception of the company (20%)

Source: YouGov survey, 'The Times', 2 May 2006

⁶ Towards Better Management of Public Sector Assets, report to HMT by Sir Michael Lyons, HMSO 2004.

⁷ The Office of Government Commerce is an independent Office of the Treasury reporting to the Chief Secretary of the Treasury. It is responsible for a wide-ranging programme, which focuses on improving the efficiency and effectiveness of public sector procurement.

6 Key changes in the management of public sector office space

Key change

1990 Direct accountability for estates management devolved to Departments. Property Services Agency (PSA) sold and Property Holdings (PH) established, responsible for managing the “common user estate” which was envisaged to be a reusable core of office property that could be recycled from one department to another depending on demand – or sold if necessary.

1996 PACE (Property Advisors to the Civil Estate) set up under DAO GEN 1/96

PFI, having been developed mainly for new assets (roads and hospitals or example) emerges in the property sector in the mid 1990s.

1999 Establishment of the Office of Government Commerce (OGC) and OGC.buyingsolutions

2002 Work carried out by PACE (Property Advisors to the Civil Estate) becomes the responsibility of the OGC

2002-03 Introduction of full Resource Accounting and Budgeting for departments.

2004 The Efficiency Programme

Implication for the management of public sector property

Departments take on direct responsibility for their property. With the disposal of the PSA, the private sector became able to take responsibility for delivering maintenance and capital projects.

The PH arrangement continued the principle of having a central pool of flexible office space across government. However, the model was never fully implemented in the envisaged format because a number of major departments opted out of the arrangement.

PACE was created in order to fulfil three different needs.

- The Central Information Unit offered best practice management advice
- It offered a coordination role (although this was difficult for some departments)
- It fulfilled the “intelligent client role” on projects

Under both the PH and PACE models, the centralised strategic planning role once held under the PSA no longer existed.

The PRIME deal between Trillium and the then Department of Health and Social Security (the client is now the Department of Work and Pensions) and the Mapeley deal with the Inland Revenue and HM Customs and Excise (now Her Majesty’s Revenue & Customs) were landmarks. The innovation was the use of PFI concepts for the management and improvement of existing assets.

At one level creating direct advantages for the Departments concerned, this move also began the process of separating and “ring fencing” major tranches of the overall national estate into separate commercial environments.

Created to facilitate efficiency savings, by a combination of external monitoring and highlighting best practice, the Office of Government Commerce has brought greater focus on property – beginning to fill the void left by the dismantling of the Property Services Agency.

OGC.buyingsolutions is an executive agency, and effectively the trading arm, of the Office of Government Commerce. Its role is to deliver value for money gains for central civil government and the wider public sector through a dedicated, professional procurement service providing central purchasing contracts and catalogues. It offers a range of services in the office accommodation market, from simple “call off” contracts for products or consultancy services, through to “managed services” in which there is an element of performance management.

This brought together some of the previously fragmented responsibility for coordinating and administering the estate

Property is no longer a free asset to Departments who have to for the first time identify and account for the full costs of owning assets.¹ Departments had to identify and account for the costs of owning their property assets since the break-up of the civil estate in 1996. The introduction of Resource Accounting and Budgeting moved this onto a more formalised, consistent and complete basis across all assets.

In line with the recommendations of the Gershon Review,² the Government’s Efficiency Programme aims to deliver over £20 billion of efficiency gains a year by 2007-08 and embed efficiency into the culture of the public sector for the long term.

The implication from the real estate perspective is greater focus on property costs – often seen as a “first port of call” when seeking savings.

6 Key changes in the management of public sector office space *(continued)*

Key change

Implication for the management of public sector property

2004 Lyons reviews of relocation and asset management

Sir Michael Lyons, in two separate reviews³ commissioned by the Chancellor of the Exchequer has examined how departments can relocate at least 20,000 civil service jobs from London between 2005 and 2010, and how government assets can be rationalised with the aim of selling £30 billion of government assets by 2010. Both reviews have significant implications for the property management strategies of departments who will need to demonstrate how they are making efficient use of existing workspace.

2004 The introduction of Financial Reporting Standard 12

Although this is a general requirement that applies to the public and private sectors it will have a particular impact on the public sector as it brings "off balance sheet" transactions including PFI solutions "on balance sheet" and ensures financial recognition of leases and property exit costs. The full effect of this is yet to become evident, but is likely to make business occupiers more aware of their total liabilities regarding the true cost of property ownership.

2005 revisions to the Comprehensive Performance Assessments

Local authorities encouraged to focus more on their physical assets than before.

2006 Development of the Asset Management Programme

In response to the Lyons report on asset management, the OGC in the first half of 2006 has been developing a programme to deliver long-term excellence in property asset management across the public sector. The programme is still in the development phase but OGC plan to launch it formally in Autumn 2006.

NOTES

1 For example, Government as a whole incurs an interest cost (the cost of capital) representing the cost of borrowing or using taxpayers money to finance departments' assets, that could be otherwise used for alternative purposes. Under resource accounting, this financing cost is passed to departments to ensure their accounts reflect the full cost of services and to provide an incentive for better use of their assets, including property. If a department's assets are unused, under utilised, or incorrectly valued then it will be incurring unnecessarily high costs of capital as well as other costs such as maintenance.

2 Gershon, Sir Peter (2004) *Releasing Resources to the Front Line* HMSO, London

3 Lyons, Sir Michael, *Independent Review of Public Sector Relocations*, HM Treasury (2004); and *Towards Better Management of Public Sector Assets*, HM Treasury (2004).

7 Recent actions taken by OGC to improve the management of public sector property

2000 onwards - Property database (e-PIMs): The OGC is assembling a comprehensive view of the central civil government estate to help promote good practice in estates planning. This will enable challenge of Departmental estates strategies by, for example, identifying opportunities for more joined up property solutions or alternative options. Departments can use the database on a "self help" agency basis, registering surplus properties or new requirements for others to see.

Mandated property controls in London and the SE: these have already led to the release of 87,000 square metres of accommodation and a rent bill reduction of some £11.5 million per year.

2004 Working Without Walls: a study using case examples into the benefits of modern ways of working in Government.

2004 University of Reading – Flexible working in Central Government: Leveraging the Benefits (report sponsored by the Office of Government Commerce)

2005-06 Benchmarking pilot: in which four departments initially, followed by more in the next wave, will establish a benchmark database covering a range of property-related indicators, such as the office space per person, the cost of occupancy per person, and the cost per desk, together with some broader indicators of effectiveness and sustainability. When fully deployed, this database will enable comparisons across all 260 cost centres established nationally by departments.

2006 'Routemap to Excellence': a current project to help deliver the target disposals and efficiencies in asset management identified by Sir Michael Lyons and create efficient, effective and flexible asset portfolios in the public sector (coverage includes property benchmarking, skills and capability assessments, and networking arrangements).

2006 Civil Estate Coordination Agreement: an improved coordination protocol and Civil Estate Agreement. Its purpose is to set out the arrangements for shared occupations by Government Departments, and it builds on previous arrangements.

The NAO's examination

1.13 The focus of this NAO report is on how organisations across central government and the wider public sector can improve their use of office space to reduce costs, increase efficiency, and improve service delivery. The report highlights best practice in property planning and management. It challenges current thinking and sets out proposals for the future management of public sector property supported by a broad analysis of the costs and benefits of change.

1.14 Specifically we examine:

- the improvements to efficiency and service delivery achievable through implementation of best practice property and space solutions;
- the further benefits achievable through the use of Shared Service Centres in tandem with best practice property planning and management; and
- recent developments in the flexible managed office market and how the public sector can organise itself to take best advantage. We provide an assessment of the financial savings and efficiency gains that might be achievable across the public sector and highlight other benefits to performance and service delivery such as, for example, improved staff recruitment and retention.

1.15 We have worked closely with the Office of Government Commerce during the period of this report, and with the departments involved in the current OGC led property-benchmarking exercise.

1.16 In addition to this report we have published:

- A volume commissioned from Concerto Consulting containing case studies from both public and private sector organisations, which have transformed their businesses using property as a catalyst, and have adopted best practice techniques. It also highlights examples of best estates practice within the context of Shared Service Centres.
- A simple decision making tool for public sector bodies – for use in developing an estates' strategy focusing on striking the right balance between long-term and short-term flexible space.

PART TWO

Best practice property and space solutions

2.1 Best practice property management and planning requires several important processes to be in place. First, resource planning covering people, property, and technology must work as a coherent, integrated whole. Second, there has to be a suitably agile and responsive estates strategic planning process, ensuring that property supports the needs of the business. Third, excellent support services are essential – providing for the daily needs of the increasingly mobile and discerning occupants.

2.2 In this part, we comment on the progress that Departments have made in the way they plan, manage, and use their estates drawing on 18 case studies of organisations that have recently carried out business transformation programmes in which property played a major part, some of which relied on Shared Service Centres. This part of the report covers:

- an overview of progress towards best practice across the Government estate;
- key findings from the case studies;
- how the performance of the case studies compares to property industry benchmarks;

- an assessment of the financial savings achievable from wider adoption of good practice;
- the further benefits that could be delivered by continued development of Shared Service Centres.

An overview of progress towards best practice across the Government estate

2.3 Some Departments have made significant progress towards smarter occupancy, as evidenced in *Working Without Walls*,⁸ together with more recent experience identified as part of this study (**Figure 8 overleaf**). Departments are increasingly aware of the potential to adopt best estates management practices, and are supported in this mission by the Office of Government Commerce. These positive trends reflect the more dynamic business context in which most Departments now work, and the growing need to support projects and short-term requirements rather than the traditionally more steady-state, process-led style of work.

8 Allen T, Bell A, Graham R, Hardy B & Swaffer F (2004) *Working Without Walls* Office of Government Commerce, and DEGW, London.

8 Examples of good progress by Departments

The Department for Trade and Industry has recently consolidated its London estate from eight buildings to three, by a combination of business process change and by taking up modern space management techniques. In its headquarters in One Victoria Street (Westminster, London), the Department organised the workspace on a principle of eight desks per ten people. This increased the capacity of One Victoria Street by over 40 per cent, and created a more flexible environment, with “team villages” with technology systems enabling staff mobility. The consolidation exercise means they can claim annual savings of £7.7 million per year. In this particular example much of the surplus space was taken up by other departments, illustrating the impact of DAO(GEN)05/05 which requires Departments or their agencies to reoccupy surplus space wherever this makes economic sense.

In London the **Office of Government Commerce** achieved a 20 per cent reduction in space use overall and a 25 per cent reduction in space per workstation. The Department enabled mobile working through the introduction of a variety of work settings, electronic room booking, and mobile phone technology. Staff satisfaction and self-assessed productivity increased as a result.

The **Department for Environment, Food, and Rural Affairs** is introducing a hotel office environment for its building at 55 Whitehall, London where its “family” of agencies and functions, and staff visiting from out-of-London locations can find short-term space. It has also embraced the potential offered by Shared Service Centres and has established one in York, where it provides Department-wide estates, finance, human resources and procurement services.

In Newcastle, **HM Revenue & Customs** and the **Department for Work and Pensions** rationalised 17 buildings into four strategic sites using a PFI vehicle, known as the “Newcastle Estate Partnership”. The new PFI contract, together with another for soft services, consolidates into two commercial deals services ranging from creche provision to cleaning services. The Departments have overcome technological and security issues, standardised space and furniture to secure economies of scale and introduced desk sharing. Of greater significance, they have not only broken the link between “me and my desk” but also between “me and my building”. The buildings are now a general resource from which to work, and operate on a campus basis. Due to changes in working patterns and behaviours, 17,000 people are now accommodated compared to 13,400 previously.

2.4 More generally, though, the estate often does not match best practice levels as many offices still have cellular formats, thus restricting flexibility and taking up unnecessary space. Culturally, people tend to associate office “ownership” with seniority. Even in open plan areas, there are strong territorial behaviours, and the way people regard and use the estate is a barrier to efficiency and to achieving savings.

2.5 While there is no national picture of office densities across the Government estate, we estimate that that the amount of space per person is between 18 and 21 square metres.⁹ We believe this is higher than industry benchmarks, and we return to this point below. The Office of Government Commerce is currently carrying out a benchmarking project. The early results from that work, which include two departments that have recently taken significant action to move themselves towards best practice, shows an average occupancy density of 15 square metres per workstation.

Key findings from the case studies

2.6 The case studies used best practice in the planning and management of their estates to help achieve their business transformation programmes. The main features of the case studies are shown in **Figure 9**.

⁹ We based our estimate on area occupancy data in e-PIMS, plus information on the numbers of civil servants employed sourced from the Office of National Statistics. We adjusted the latter for suppliers, contractors and consultants and the associated amount of space occupied.

9 Case studies overview¹

Adult Learning Inspectorate – Showing how a property strategy, supported by integrated IT and HR policies, and by new working practices, helped two organisations with highly mobile workforces merge. Building occupancy levels rose from 50% to 90%, yielding savings and giving rise to improved staff satisfaction.

BAA – Demonstrating the value of evolution rather than revolution. With the progressive implementation of flexible working BAA now uses 50% less office space, and has measured higher staff satisfaction and productivity.

BP – Showing how a large organisation can use a campus environment to significantly reduce operating costs, and adopt mobile working and innovative HR policies to generate improved business performance. This project reduced property costs by 35%.

BT – A large business transformation project, involving major reductions in space and property costs, while at the same time introducing radically new working patterns, accommodation solutions, and technology support. As a result, BT is claiming annual savings in occupancy costs of over £70m.

Cambridgeshire County Council – Illustrating achievement of an improved service offering to the public through integrating a new property strategy with new working practices, led and supported by senior management with alignment between resource areas and the newly centralised Facilities Management support function.

DTI – Showing a Government Department undertaking a change programme to reduce its property costs and through introducing cultural changes and moving to team-based, flexible working. The DTI used this project to shrink its main London estate from eight to three buildings, saving more than £7m pa.

Ernst and Young – An example of how a major property rationalisation and relocation was the enabler of a business transformation, based on a strong vision, senior management involvement and clear business and technical targets. E&Y halved its floor space by 50%, while housing the same number of staff, and adopted team-based accommodation solutions.

GCHQ – A large PFI property deal involving thorough project programming in order to achieve whole-business change, including a new approach to workplace planning, while satisfying strict security demands. The building has been able to

accommodate a significant increase in staff through a number of measures, including the introduction of approximately 15% desksharing.

Hertfordshire County Council – Showing that, having had one project fail, an organisation can learn from the experience and then carry out a full change management programme by aligning its business, property, ICT and HR goals.

IBM – Showing improved operating efficiency and a 20% occupancy cost saving by extending flexible working arrangements supported by integrated space management, technology, and HR strategies.

Norfolk County Council – Illustrating how a public body can introduce flexible working and change its management culture through piloting new standards of accommodation and services, leading to improvements in service delivery and value for money, and achieving a reduction of 16% in occupancy costs.

PricewaterhouseCoopers – Showing how a decision to invest in innovative methods and service levels for managing space and facilities captured the imagination of staff and clients, improved working arrangements, released surplus space, and cut overheads by £3m pa from just two properties. Floor area reduced by 45%, and capacity rose by 119%.

Suffolk County Council – An example of how agility and responsiveness to a property opportunity greatly enhanced a live business transformation programme to become a catalyst for further change.

Sun Microsystems – Showing how state-of-the-art technology and aligned HR and real estate strategies enables flexible working, improves staff retention and productivity and saves large amounts of overhead cost. The total cost avoidance in real estate globally, under this programme over five years since 2000, is estimated as \$319 million excluding technology and utilities.

Vodafone – Showing how moving to a new campus environment helped a rapidly growing and changing organisation leave behind its legacy business cultures and enabled it to modernise working practices and integrate the business culture. Vodafone occupies 30% less space than before, and has measured significant improvements in staff satisfaction.

NOTE

¹ Excluding the three Shared Service Centre case studies.

2.7 They all share a number of common themes, summarised in **Figure 10**. In particular:

- The projects all had **clearly stated business drivers**. This gave them authority, momentum, clarity, and focus.
- The organisations adopted a **coherent, explicit change management approach, led from the top**. They placed the transformation programme at the heart of the wider business change agenda, and gave it visible sponsorship and impetus. Usually, the property initiatives were catalysts for wider cultural change or helped embed new working practices.
- **Integrated property, human resources, and technology solutions** are planned together from the outset. The transformation programmes relied on and were supported by well-aligned technology solutions. Progressive HR policies underpinned the programmes, including home working, time-shifted working, nine-day working cycles, and flexible part-time working.
- **Best practice real estate techniques** featured extensively. Typically, the case study organisations provided open plan space (including for senior management) and comprehensive support including breakout spaces, web-enabled space booking methods, concierge support, state of the art security techniques, and facilities management service provision operating to a good level of service.
- **Campus environments**, where found, proved to be excellent ways for larger organisations to achieve economies of scale and greater business flexibility. They include facilities (such as conference halls, cafeterias, and training facilities) that would otherwise be uneconomic and they create a sense of focus and cohesion for the staff. **Figure 11** shows a view of the Vodafone campus, which comprises seven buildings (Vodafone occupied 69 buildings before building the campus).
- **Mobile or remote working staff received excellent support**, ranging from advanced technology and communication solutions, to courier collections and off-site 24x7 administrative support.
- **Office services were provided to a good standard**, often through outsourced arrangements with appropriate service level agreements. As a result the staff (regarded now as customers) receive excellent support.
- Several, but not all, case studies adopted an **approach of evolution** and continuous change. This suited better those businesses with budget constraints, or those that overtly preferred an exploratory rather than a “big bang” approach. Pilot activity in this form of transformation is a successful way of gaining staff engagement, and of developing a wider sense of continuous learning across an organisation.

How the performance of the case studies compares to industry benchmarks

2.8 Several organisations regularly carry out periodic surveys across the property sector, measuring the amount of space occupied per person. There is no universally accepted benchmark, and occupiers have to judge from a range of indicators where they are in relation to best practice (**Figure 12 on page 24**).

2.9 More recently, IPD (a specialist property benchmarking organisation) working on behalf of the Office of Government Commerce surveyed four Government Departments, two of which have recently transformed parts of their estates. The average amount of space per person in that survey was 15 square metres. This fits with our observation that more generally across the estate, which has not yet achieved best practice, the space allocation is in the range of 18 to 21 square metres per person.¹⁰ This is also consistent with the results of recent National Audit Office examinations of office accommodation of the Department for Culture, Media and Sport and its sponsored bodies – where occupancy levels range between 8 and 58 square meters per person, with an average occupancy density of 15.9 square metres per person. The report concluded that the additional cost of providing space in excess of 14.5 square meters per person was £4.2 million each year.¹¹

¹⁰ There are 570,000 civil servants, at an average occupancy density across the whole estate of 21 square metres per person (source), with some 128,000 in London and 446,000 across the regions. Allowing for consultants and contractors, although there is no substantial data to support this, we estimate the true average occupancy is nearer to 18 square metres per person.

¹¹ National Audit Office report ‘The Office accommodation of the Department for Culture, Media and Sport and its sponsored bodies’, HC 942 Session 2005-2006, 16 March 2006.

10 The case studies all have a clear business-driven agenda, supported by combinations of best practice

Case Studies – examples

	Clear business agenda	Change management approach	HR, Estates and IT integrated	Best practice property planning & management	Support for workers away from office	Office services solutions	Evolutionary approach
Adult Learning Inspectorate	●	●	●	●	●	●	
BAA	●	●	●	●	●	●	●
BP	●	●	●	●	●	●	●
BT	●	●	●	●	●	●	●
Cambridgeshire County Council	●	●	●	●		●	
Department of Trade & Industry	●	●	●	●			●
Ernst & Young	●	●	●	●	●	●	●
GCHQ	●	●	●	●		●	●
Hertfordshire County Council	●	●	●	●	●	●	●
IBM	●	●	●	●	●	●	●
Norfolk County Council	●	●	●	●		●	●
PwC	●	●	●	●	●	●	●
Suffolk County Council	●	●	●	●		●	●
Sun Microsystems	●	●	●	●	●	●	●
Vodafone	●		●	●	●	●	

Key: ● Strongest features ● Other good examples ● Supporting elements/aspects

11 A view of Vodafone's Newbury campus

The campus released 67 buildings of varying sizes, and has enabled economies of scale and the development of a consistent and integrated culture across the organisation.



2.10 Many of the case studies that we reviewed achieve occupancy densities that are better than the industry norms (**Figure 13**). The amount of space per workstation in the case studies is typically 13 square metres, in a range of 8 to 20 square metres. Those at the high end of the range include buildings with lecture theatres and presentation suites. Those at the lower end of the scale cover mobile workforces (for example, field inspectors and consultancies).

2.11 **Figure 14 on page 26** shows that the amount of space allocated to each user in the case study organisations is also better than the established benchmarks. Clearly, when translated across the scale of the Government estate, this represents a major savings opportunity.

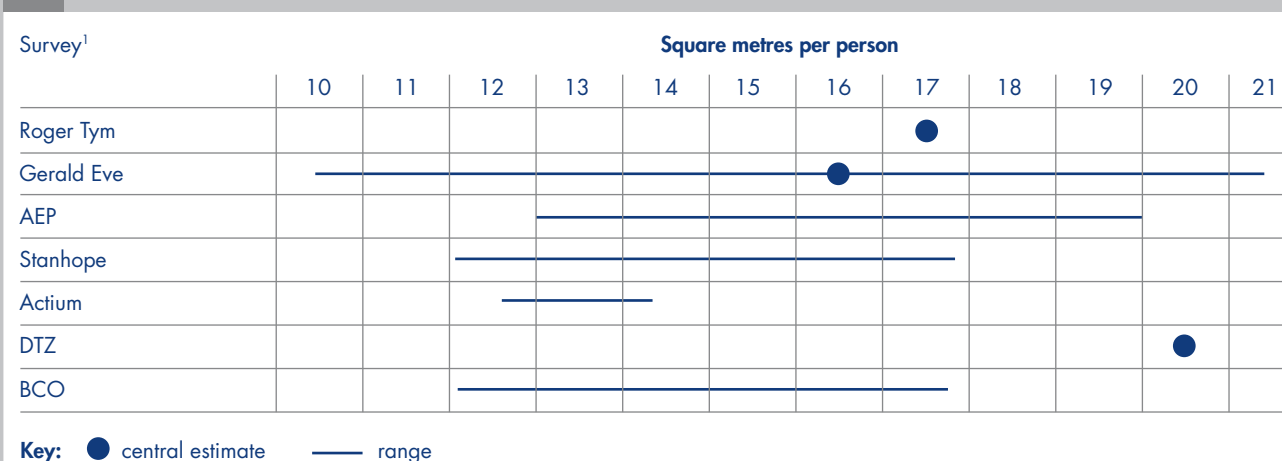
2.12 Taken together, the 15 case studies reveal some consistent themes and trends:

- Some organisations used best practice space management techniques simply to save space – **by 37 per cent** across the relevant case studies. For example, Ernst & Young, a management consultancy, doubled its London occupancy levels by breaking the “me and my desk” culture, and by providing staff with enabling technology and flexible human

resource practices. Others chose to retain the same estate, and create more capacity within it – **by 67 per cent across the relevant case studies**, thus avoiding new costs. For example, Norfolk County Council introduced innovative layouts and hot-desk arrangements to increase capacity and reduce their headcount costs.

- These findings have two implications. First, Government can release surplus space and reduce maintenance costs, thus reducing the total costs of occupancy. Second, the concept of “spaceless” growth, in which flexible working and accommodation solutions enable organisations to grow without significant cost increases, is a major advantage.
- Where measured and reported, the case study organisations **reduced their total costs of occupancy by a quarter**. We estimate that the Government estate has total occupancy costs of £8 billion per annum¹², of which the cost of the London estate is £2.4 billion per annum. Introducing best practice across the entire estate could yield significant savings.

12 Typical occupancy densities, measured in a range of surveys²



NOTES

1 Arup Economics and Planning (2001) *Employment Densities: A Full Guide* AEP, July 2001; Actium Consult & CASS Business School (2003) *The Total Office Cost Survey – Jan 2003* Actium, London; British Council for Offices (2005) *BCO Guide 2005: Best Practice in the Specification for Offices* BCO, College of Estate Management, Reading; DTZ Research (2004) *Use of Business Space and Changing Working Practices in the South East* SEERA, Guildford; Gerald Eve (2001) *Overcrowded, Underutilised or Just Right?* Gerald Eve/RICS, London; Stanhope Properties Plc (1993) *An Assessment of Occupation Density Levels in Commercial Office Buildings* Stanhope Properties.

2 These surveys are the results of research commissioned by property agents or developers and illustrate the general trends as well as the variability across the sector.

12 We calculated these costs by applying benchmark cost data to the property areas listed in the e-Pims database.

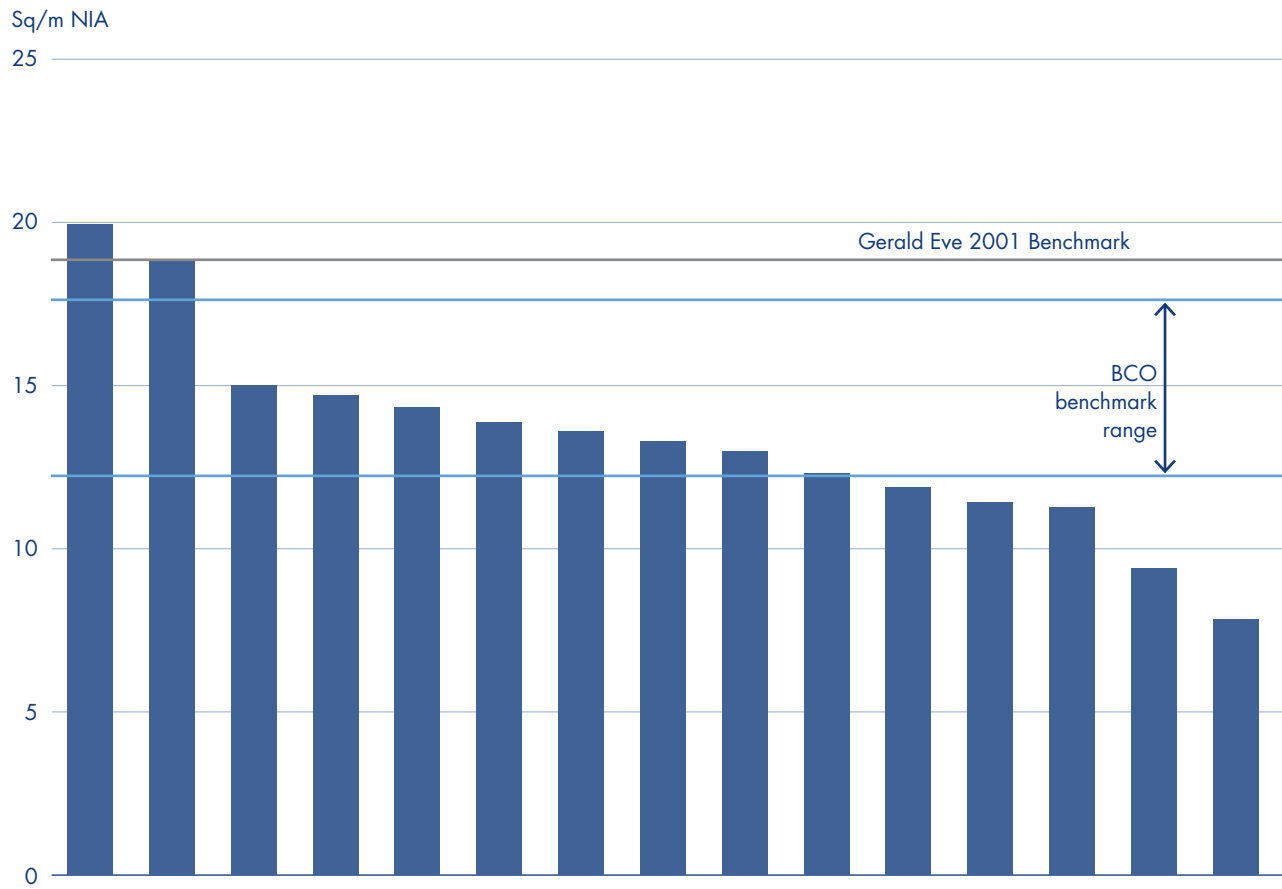
- **The average portfolio size reduced from 24 to three buildings.** For example, BT reduced its estate from 76 buildings to eight, saving some £70 million per year in occupancy costs. It would be unrealistic to consider reducing the entire Government estate by such large factors, but there is clearly a big opportunity to drive out savings in this way. Smarter use of space in this way strongly supports wider sustainability agendas, as there is great potential for reducing environmental impact by reducing the numbers of buildings required to support government operations.
- **Desk sharing was a common feature of the case studies (Figure 15 on page 26).** The range of people sharing desks was large (from 8 per cent of the workforce, up to 100 per cent in five organisations). This is a particularly high level, reflecting their mobile and dynamic business models. High desk-sharing ratios may not be suitable for some public

sector organisations, but the message is clear: the more this approach can apply the greater the potential for significant savings.

An assessment of the financial savings achievable from wider adoption of good practice

2.13 In some cases public sector bodies have already delivered major efficiency savings by adopting best practice in the planning and management of their estates. For example, Nottinghamshire County Council claims to have cut the space per person to as low as 6.3 square metres.¹³ However, most have not reached their full potential. We analysed the scope for further efficiency gains based on the case study work, and extrapolated this across the rest of central government and the wider public sector.

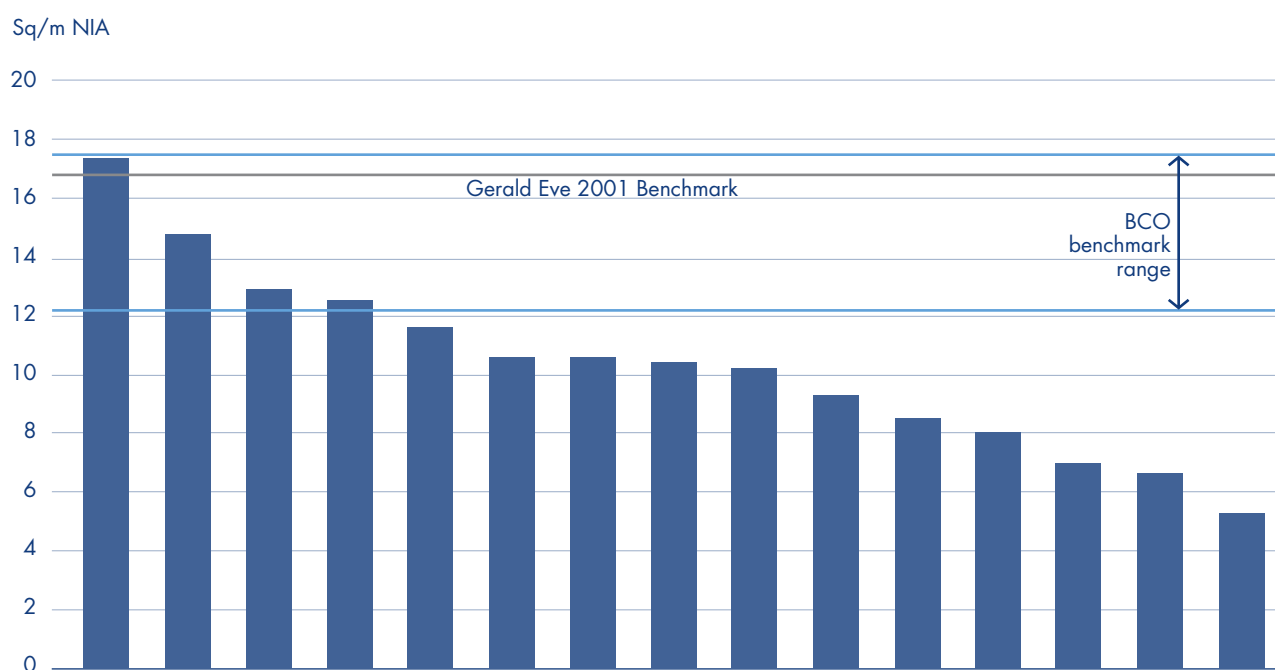
13 The Net Internal Area per workstation in the case studies is better than the industry norms



Source: Concerto Consulting analysis of case study organisations

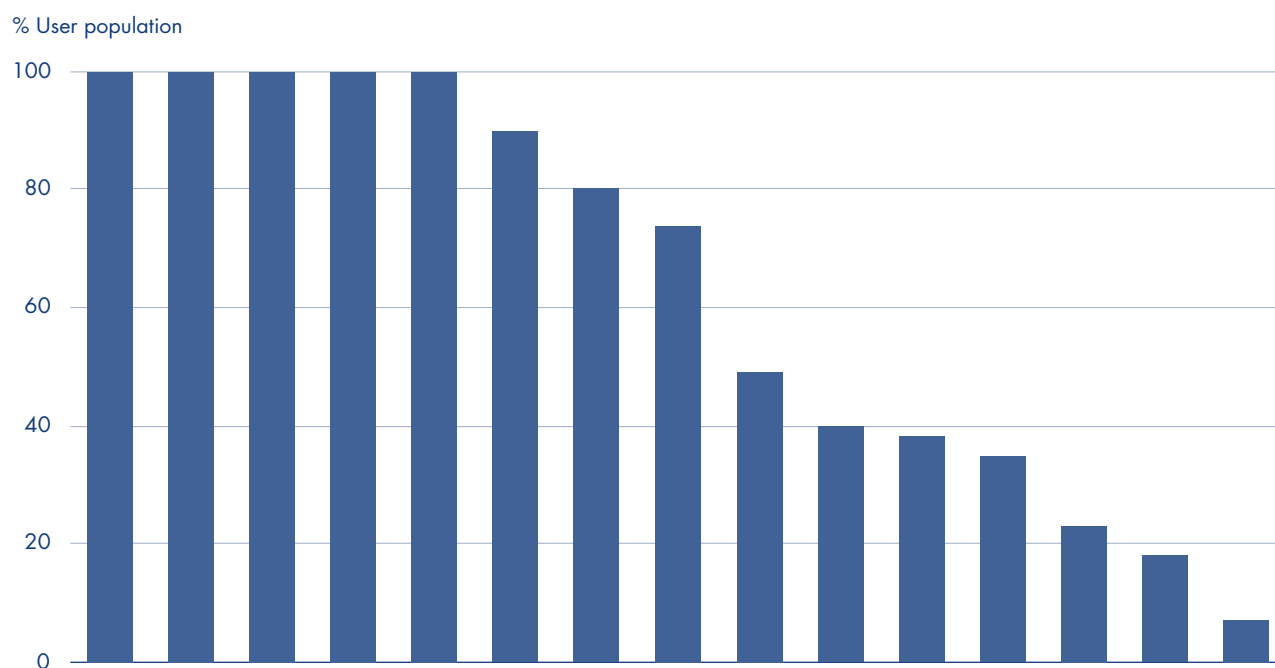
13 'Property Week', 27 January 2006.

14 The Net Internal Area allocated to each user is mainly below (better than) the industry averages



Source: Concerto Consulting analysis of case study organisations

15 Percentage of users sharing workstations: desk-sharing is in common use across the case studies



Source: Concerto Consulting analysis of case study organisations

2.14 We estimated the maximum level of savings, assuming that the standards seen in the case studies could be achieved across the government estate, then reducing the scale of the savings by excluding:

- properties on long leaseholds or without lease break options (as savings on those properties will be harder to achieve within the next five years); and
- office space smaller than 1,500 square metres, typically covering front-line properties that cannot be consolidated without reducing service provision. This is conservative, but represents a practical “de minimus” for initial migration to the best practice standards.

The targeted potential benefits are indicative of what is possible across the entire public sector. However, each organisation will need to make its own detailed business case to establish the benefits and assess the costs involved.

2.15 If the Government could achieve an occupancy density of 13 square metres per workstation, this would reduce the London estate by one million square metres and the regional estate by 3.5 million square metres.¹⁴ Given that the benchmarks for total occupancy costs are £900 per square metre in London, and £600 per square metre in the regions, the potential annual savings in London are £919 million, and in the regions of £2.14 billion (**Figure 16**) making a total of £3.06 billion per annum. However, taking into account the abatements described above, we believe the cost savings are more likely to be in the range of £1.5 to £2 billion per annum, i.e. 20 to 25 per cent.

2.16 **Figure 17** shows how the savings would vary, depending on the space allocation. The tighter the space per person, the greater the savings. These benefits are simply indicative of the potential – each organisation will need to make detailed business case plans to establish the benefits and assess the delivery costs involved.

2.17 The Lyons relocation initiative, in particular, presents a significant opportunity for Departments to adopt best practice and achieve additional savings when carrying out relocation projects. Even if organisations are not planning to move, it is likely that in many cases there will still be a justifiable business case for adopting best practice.

16 The potential savings by adopting best practice space standards

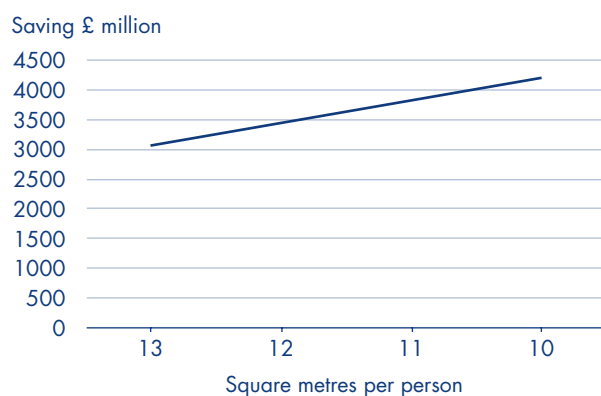
	London	UK	Totals
Current net internal area (million m ²)	2.68	9.37	12.05
Population (000s)	128	446	574
Net internal area @ 13m ² /head in million m ²	1.66	5.80	7.46
Area saving (m ²)	1.02	3.57	4.59
London cost saving in £m, per annum (@ £900/m ²)	919 2,141 3,060		
UK cost saving in £m per annum, (@ £600/m ²)			
Total saving in £ million (£ per annum)			

Source: Concerto Consulting

NOTE

The financial and management data about the estate is not complete. The Office of Government Commerce has identified this as an issue, and is currently working with Departments to populate completely the e-PIMS database. The exact levels of the savings should be treated with some caution in the meantime. However, as the data is incomplete, the position is conservative.

17 The less space used per person the greater the cost savings



Source: Concerto Consulting

¹⁴ The Government estate measures approximately 12 million square metres for units whose size is greater than 1,500 square metres, of which approximately 2.7 million square metres is in London.

2.18 The implementation costs associated with achieving these savings will be material. Seven of the case study organisations we examined are in technology industries or are in high margin businesses, with greater potential to make the necessary supporting investments (and in the case of the former, to maintain market share, need to demonstrate how they apply their technologies to their own businesses). Departments considering whether or not to embark on projects to realise such savings should take account of:

- capital costs of fitting out the space;
- professional fees;
- business and staff disruption during the transition; and
- physical constraints, such as the need for temporary accommodation.

2.19 The costs of implementation may be significant, and Departments should carry out their own appraisals according to their individual circumstances. However, the case studies in the report indicate that the payback periods can be relatively quick given the scale of the potential savings in relation to the investments required (for example, the Learning and Skills Council – see case example C on page 14).

2.20 The total level of investment would, if no other factors were driving the process, be of the order of £3 to £4 billion pounds, giving a payback period of around two years. However, many organisations are already planning major projects, and we conservatively estimate the additional level investment to be of the order of £1 billion, phased over a five year period to fit in with government planning horizons. In other words, a relatively modest investment of around £200 million per year would trigger the combined release of some £1.5 to £2 billion in savings year on year.

The further benefits that could be delivered by continued development of Shared Service Centres

2.21 A Shared Service Centre is “a business unit that performs administrative transactions for numerous divisions or subsidiaries of the same company, rather than having those transactions conducted in every division or subsidiary”.¹⁵ According to Hackett Group¹⁶, top-quartile companies achieve cost savings of 21 per cent to 41 per cent by implementing a Shared Service Centre model.¹⁷

2.22 The use of Shared Service Centres (SSCs) is a major element of the government’s current efficiency agenda. In recent years, SSCs have been seen as useful entities within a department or public body, but the interest is now broadening towards efficiencies that can be achieved through the development of Shared Service Centres that meet the needs of multiple public sector bodies. The Shared Services team in the Cabinet Office is looking at how government and the wider public sector can achieve significant savings and increased effectiveness from modernising the provision of corporate services (human resources, finance and estates management) and other shared services. The view is that there is considerable scope to consolidate and share services across organisational boundaries so that common processes are provided faster, better and cheaper. This is currently being examined in the context of nine Government sectors (ten if the two ‘Whitehall’ groupings are counted separately), including Local Government as one of these.

2.23 The savings from SSCs originate from:

- **Economies of scale and business process simplifications** – SSCs can enable organisations to standardise on a single set of efficient processes, and to adopt a continuous improvement approach within their operations. It is then possible to achieve significant economies of scale, which enable headcount reductions. Savings are typically of the order of 30 per cent against the previous comparable levels. For example, between 1992 and 1998 BT centralised its finance and administration functions into SSCs. The number of staff reduced from 4,200 people at 64 sites to 800 staff located at four sites.

¹⁵ Deloitte Consulting, *Deloitte Research ‘The Future of Shared Services – 2003’*.

¹⁶ A global Business Process Advisory Firm providing benchmark studies among other services.

¹⁷ *Business Finance*, August 2005.

- **Best-practice space management solutions** – SSCs generally require the refurbishment and expansion of an existing site, or the development of a new facility. The organisation therefore has an opportunity to adopt the best practice space management techniques described earlier in the report when delivering those projects.
- **Locating the centres in areas of relatively low labour and property costs** - By locating SSCs in areas of the country where rates are lower, employers can save costs and create new local job opportunities, which mean that SSCs are highly compatible with the Lyons relocation initiative. Separating out and then grouping the corporate support processes and associated staff into a new SSC environment enables organisations to locate those new units in virtually any part of the country. Two of the three case studies featured in the report have located their Shared Service Centres out of central London into cheaper rental and labour areas (**Figure 18**).

18 Achieving headcount reductions and improved performance

Transport for London, through setting up its purpose-designed, centralised Human Resources SSC (serving 19,000 staff and 60,000 job applications per annum), claims savings of £8 million per annum against a baseline cost of £20 million per annum, and improved operating performance against a wide range of metrics.

Quote *"This programme has provided both a visible integration of TfL for all employees and given TfL a leading edge infrastructure: operational HR people are better able to work together, support management capability, improve our understanding of our workforce, and focus better on strategic activity – all at a cost saving."*

Hugh Hood
HR Director Transport for London

Source: Concerto Consulting case study

2.24 The three Shared Service Centre case studies examined in this study also demonstrate:

- **Improved staff satisfaction levels**, according to routine annual measurement processes – probably arising from clearer roles and responsibilities, and new goals and management processes.
- **Improved customer satisfaction levels**. For example, Television Licensing operations with a customer base of 26 million households, through establishing two purpose-built linked Shared Service Centres with advanced technology, improved its business performance.
- **More robust disaster recovery approaches**: made possible by the better-defined and managed business processes. Most SSCs operate from several sites, enabling secure data duplication at one of the other sites. This increases the resilience of the business.

2.25 Shared Service Centres can offer Government a genuine opportunity to reduce cost and enhance service levels, but inevitably require consideration of factors such as union responses, diversity policies, and employment priorities both within the UK and on an international basis. The property solutions implemented need to be framed at the time the Shared Service Centres are designed, be well thought through, and support to the greatest extent possible the newly organised business processes and the use of technology. Without the appropriate property solutions, the potential benefits available from a Shared Service Centre solution are unlikely to be fully realised.

PART THREE

Flexible offices and proposals for the future

3.1 This part of the report covers:

- the emergence of the flexible office market;
- demand for flexibility across the estate;
- proposals for future public sector estate management; and
- our assessment of the opportunity for change.

The emergence of a flexible office market

3.2 The property market contains a high level of inertia for occupiers. Disposal or acquisition is a complex process that takes a good deal of management effort and planning. The on-going management of the estate requires significant effort too. Recognising these drawbacks, a new market has begun to emerge, in office space that is immediately ready for occupation. Providers make office space available including the attendant support services. Occupiers can decide at short notice to take space, and use it to cope with short-term peak demands. Small businesses use it to gain economies of scale, for example, by sharing the costs of security, catering, and infrastructure.

3.3 The new flexible office market represents less than two per cent of the total UK commercial office market, but its popularity is increasing with an annual growth rate estimated at five per cent.¹⁸ The market, small as it is, is characterised by a very long tail of sole operators or investor-owners and only a handful of larger providers, who are in the process of establishing nationally and internationally branded business models. We describe the market in more detail in Annex 2.

3.4 Flexible Managed Offices (FMOs) have the following benefits for occupiers over conventional office space:

- ability to match space solutions to changing business growth patterns;
- rapid mobilisation and ease of exit;
- reduced overhead costs through shared common services such as reception, mailroom, security and meeting rooms; and
- predictable, fixed costs covering the costs of the rent and rates, and the full range of property support services.

3.5 These benefits make Flexible Managed Offices attractive for occupiers, requiring small amounts of space. They apply as much to the public sector as to the private sector, bringing direct cost savings and the wider benefits of operational flexibility. They suit:

- those who have unpredictable or rapidly changing short-term space requirements;

¹⁸ DTZ Research (2004) *The Flexible Managed Office Market* DTZ Tie Lung, London.

- organisations running large projects, undergoing mergers or demergers, experiencing rapid expansion or contraction, or managing relocations and requiring temporary space to facilitate the moves (called “swing space” in the market); and
- start-up organisations where growth profiles are uncertain. They are particularly relevant to NDPBs and special delivery agencies, whose existence may be required over a relatively short timeframe – perhaps just one or two parliamentary cycles. In those circumstances, the FMO solution not only helps with the rapid mobilisation and growth phases, but also avoids any long-term residual liabilities that would otherwise arise from more traditional occupancy routes.

3.6 FMOs can be less suitable for large occupiers of space who have long-term, predictable occupancy profiles, because they can carry a cost premium relative to the steady state market (**Figure 19 overleaf**). There is little point in a large occupier paying for the price of flexibility if there is no need for that flexibility. The risk for occupiers who require such flexibility is in staying beyond the point at which conventional arrangements would better suit their needs.

The demand for flexible office solutions

3.7 The potential demand for Flexible Managed Office space exists at two levels:

- at an organisation level, involving substantial areas of space; and
- at an individual’s level, from the perspective of someone wanting to follow flexible working practices. For example, by working flexibly across their main office, other government offices, and from home.

3.8 At the organisation level, the Office of Government Commerce provides a useful facilitating role in helping Departments exchange office space, through its cross-Departmental coordinating group.¹⁹ However, despite this support, our workshop discussions indicated that there is not enough flexibility within or across the Government office estate. Departments find the process of offloading or

acquiring space difficult. One of the problems is the poor quality or unsuitability of the surplus space. Further, demand for new space does not always coincide with availability of surplus space. When a department takes on surplus space previously occupied by another department it may alleviate the financial burden for government as a whole, but it may produce an unsatisfactory operational outcome.

3.9 Our analysis of the OGC’s estates database (e-PIMS) reveals many requests to increase or decrease space across a range of organisations. In particular, there are a small number of major space requirements, but a large number of minor requirements (**Figures 20 and 21 on page 33**). This suggests that a Flexible Managed Office solution, suitably tailored to Government requirements, would fulfil a useful purpose within the regular management of the Government estate.

3.10 As a further illustration of this demand, we are also aware of at least two departments (DEFRA and the Department for Transport) taking steps to provide flexible managed office solutions for their NDPBs and agencies. Rather than having each organisation occupy separate buildings the parent departments are making buildings available for their families of NDPBs and agencies to occupy, either on a “touchdown” or on a longer term basis. This achieves business flexibility and economies of scale through shared common central facilities.

3.11 In terms of individuals wanting to work on a flexible basis, the workshops also highlighted some major issues.

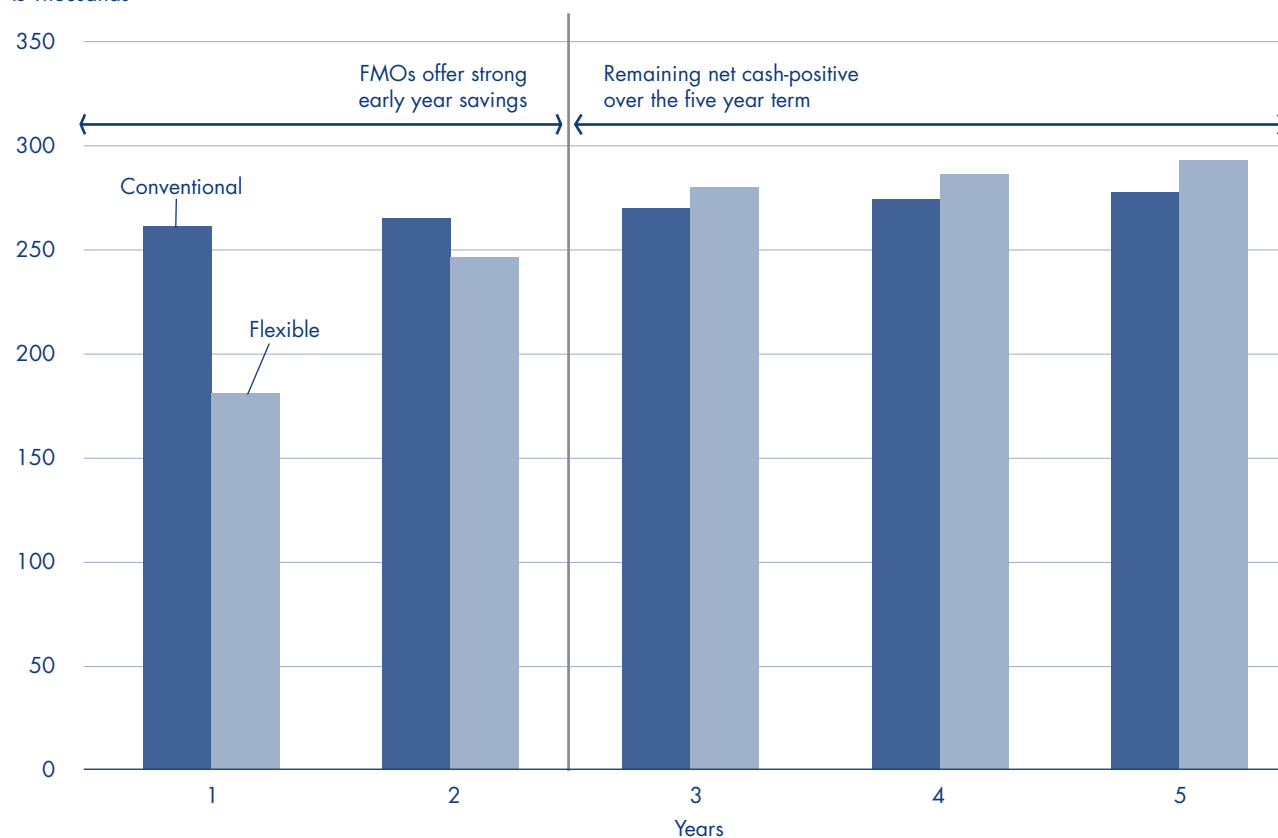
- First, the broad culture across government is that each person generally works in buildings run by their own department. This creates a major inflexibility across the estate, as the “me and my building” culture means there is little or no cross-departmental way of sharing desks and meeting rooms, and no supporting technology and security infrastructure.
- Second, but as a lower order issue, departments have little flexibility even within their own buildings – creating poor desk occupancy ratios. While some departments, such as the DTI, have made good progress in overcoming the link between “me and my desk” it is clear that this practice is not yet widespread and that there is a long way to go for mobile working to become widely adopted.

¹⁹ Property Coordination Group is made up of Departmental representatives and meets quarterly to identify issues affecting effective workspace coordination.

19 Flexible Managed Offices save costs by enabling an organisation to match its property size to its headcount

The chart shows the savings that a rapidly growing government agency made. Using a Flexible Managed Office solution it was able to match its changing headcount profile to the space taken, thereby generating savings in relation to a more conventional option in which the full amount of space would be taken from the outset.

£ Thousands

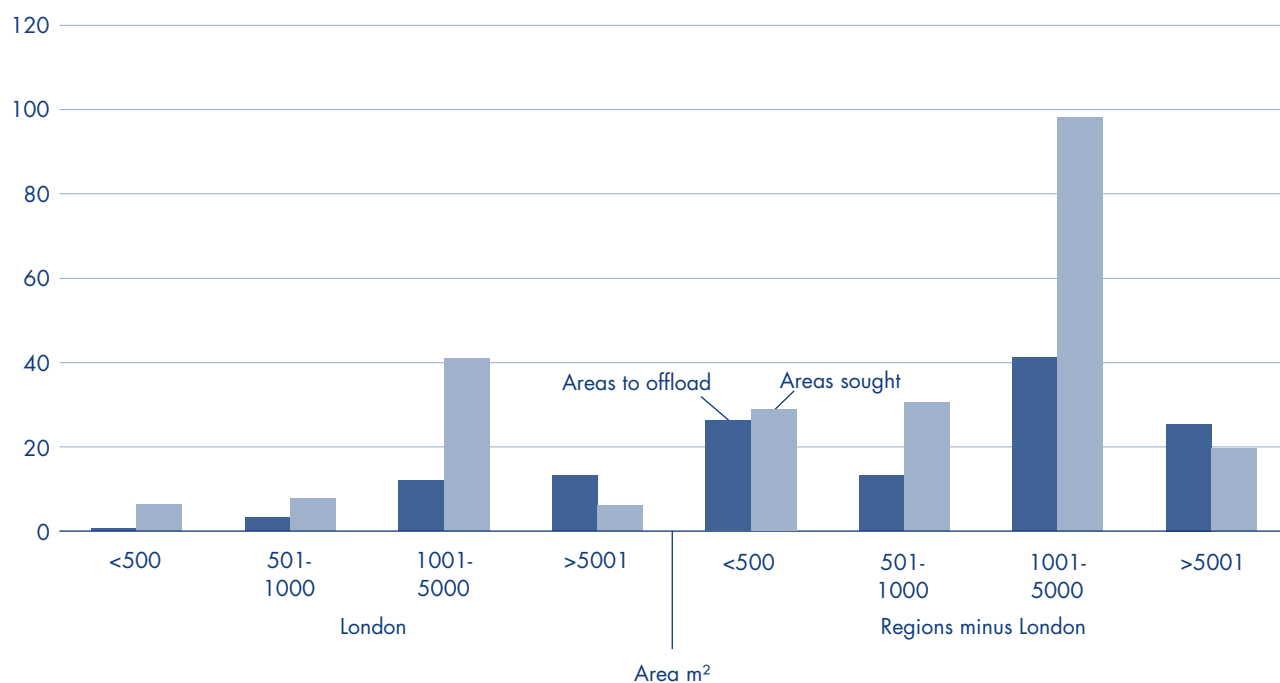


Source: NAO analysis of data provided by Stonemartin plc

20 Space that departments want to offload or find

Total areas – supply and demand for space

Total '000 m²



Source: e-PIMS database, February 2006

21 The numbers of requests to find or offload space

Number of properties – offload and demand

Number of properties



Source: e-PIMS database, February 2006

Proposal for future public sector estate management

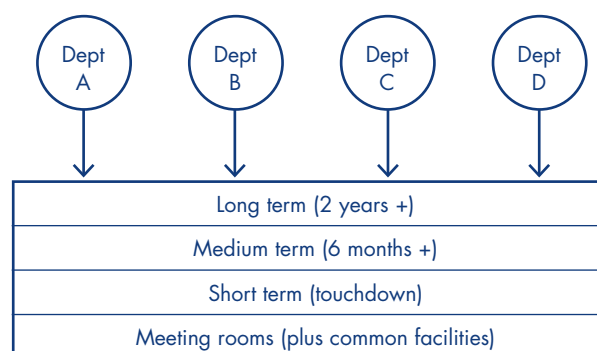
3.12 We considered different models for the management of the government estate, and the role of Flexible Managed Office solutions. We tested our ideas in workshops with several Departments, with Flexible Managed Office providers and the Office of Government Commerce from both commercial and practical perspectives. We developed ideas as to how the government could operate some buildings on a flexible basis with several suppliers from the market, at a practical level. We then examined the commercial implications of these models on several existing buildings, to test their suitability.

3.13 Based on this work, our proposition is that in future the estate could comprise:

- **A core set of properties**, if possible arranged in campus clusters around the UK that achieve economies of scale and enable a wider range of support services. These properties would have long leases at renegotiated relatively lower rental levels, or would be freehold properties. They would have defined consistent quality standards, in terms of occupancy density and quality of fit out.
- **Collections of Shared Service Centre properties**, grouping together previously dispersed activities within or across departments into new entities housed in appropriate buildings.
- **A number of flexible space solutions**, suitable for the public sector's security and IT arrangements. We term these *Hotel.Gov* properties. They would provide Government with the flexibility to expand and contract at short notice, to take space for project teams and to act as "swing space"²⁰ enabling Departments to move when required. In practical terms a network of serviced offices, in central and highly useful locations near other Government buildings, would provide a flexible expansion or contraction mechanism for Government users to take space, either on a "pay as you go" basis for a single desk, through to team areas or entire floors (**Figure 22**). It would be available nationally across the estate in key locations (**Figure 23**).

²⁰ "Swing space" is a term used in the property sector to describe space that is used on short-term basis, in order to enable or facilitate a relocation project or programme. It is often used as a staging post within the overall migration, allowing the permanent space to be refitted or made ready.

22 Illustration of the Hotel.Gov concept

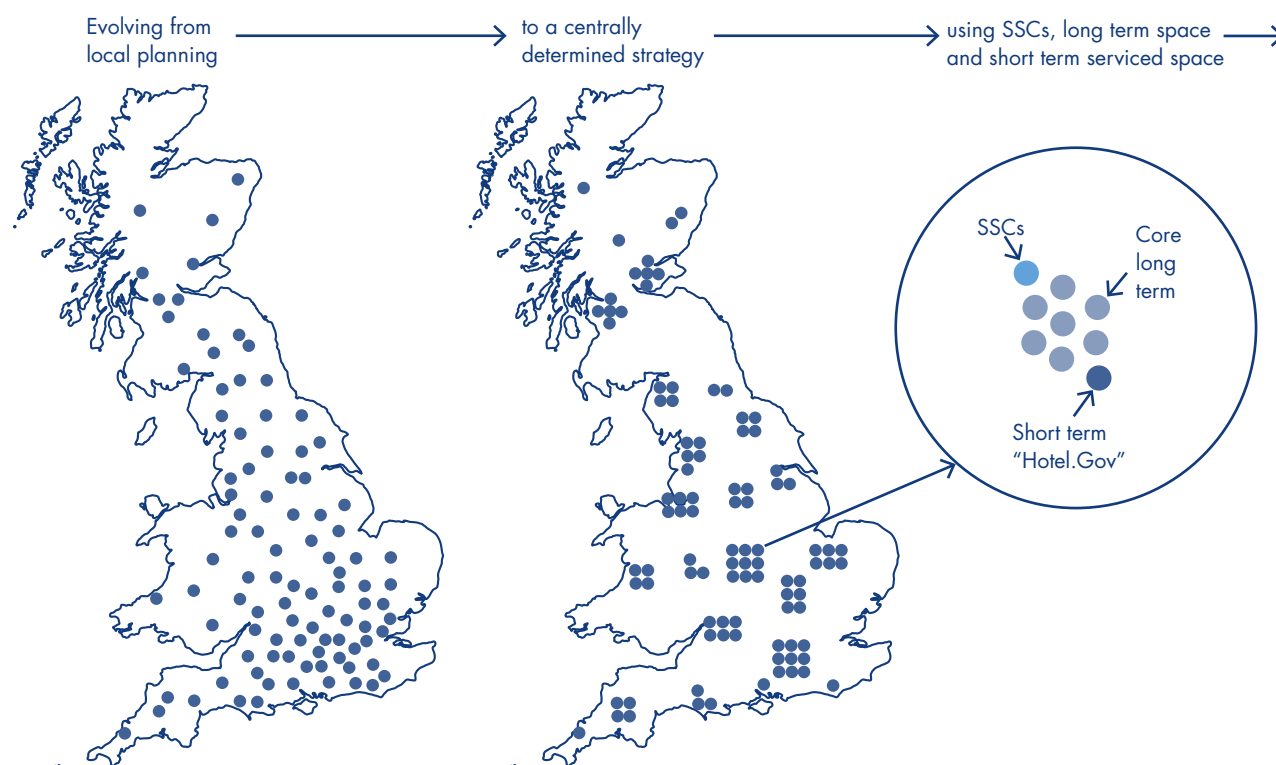


Source: National Audit Office workshops with suppliers, departments and OGC

3.14 The proposals outlined above would bring the following benefits to the Government estate:

- A national network of campus buildings, each containing a mixture of core (relatively inert) properties and flexible Hotel.Gov buildings, would give the Government very significant business flexibility, enabling Departments to deploy more easily resources to the most appropriate locations. It would also greatly increase Government's physical disaster recovery resilience, and would reduce costs as discussed earlier in the report.
- Departments carrying out relocations, refurbishments or any form of business transformation would now have an enabling mechanism, through short-term rental, desk-based hiring, or "drop in" space, to support their migration projects.
- Flexible space in various towns and cities would also enable more Departments to release current properties, thus giving the Lyons relocation programme additional impetus. It would enable smaller public bodies to co-locate and benefit from shared central facilities (receptions, meeting rooms, and security) and thus improve their environment while enjoying financial savings. The availability of flexible managed office space would greatly facilitate the continuous cycle in which NDPBs form, operate for a number of years, and finally wind down and dissolve – not only by simplifying the property management aspects but also by avoiding long-term liabilities that can extend for many years beyond the life of the NDPB.

23 How the government estate of the future might look



Source: National Audit Office workshops with suppliers, departments and OGC

NOTE

The placement of properties is purely illustrative and not intended to indicate any preference for location.

3.15 The core long-term properties would remain as assets of the relevant departments or other public bodies involved. We examined three different ways of delivering Flexible Managed Office space

- The parent organisation retains the assets, and an external or in-house service provider manages the space. This would suit situations in which organisations want or have to retain and use existing assets. The existing properties can be redeployed for this new purpose, providing the incumbent property owner with a way of recovering revenues from otherwise vacant or under-used assets; or by providing the flexibility for the parent organisation to run its transformed operational model.
- Alternatively, the service provider owns the asset and fulfils the service requirements. This would be particularly suitable in locations without an existing Government office presence, or becomes a disposal solution in which the new service provider can take on the liability for an existing building. Such financial and operational models are already common in the FMO market; and
- A DIY variant, in which either the parent organisation or a central government framework manager such as the Office of Government Commerce makes the space available. In this scenario, incoming organisations would manage their own service requirements, using a set list of service providers. This would potentially give organisations more control over the service within the space, although they would have to put in more management effort. If the assets remain within the control of the parent organisations, the current enabling mechanisms for sharing space would hold good. If a central body, such as the Office of Government Commerce, becomes responsible for the assets some new mechanisms would be necessary.

3.16 Annex 2 sets out further assumptions and illustrative calculations regarding the Hotel.Gov proposals. It would be the role of the new central strategic planning unit to determine and recommend the best approach.

3.17 It will not be possible to achieve what is outlined above under the current arrangements across government, in which departments are responsible for their assets and in which the Office of Government commerce provides guidance, benchmarking and facilitative support. More executive authority is required in the process. We believe the arrangement requires the creation of a central planning unit, carrying executive authority. The unit would be responsible for setting standards, for creating synergies through planning campus solutions where appropriate and for establishing mechanisms to balance supply and demand within the estate. Instead of multiple locally driven estates solutions, the central strategic planning function would gradually organise, as leases expire and as opportunities arise, much of the estate into campuses over a number of years. The estate would ultimately comprise a mixture of long-term solutions (on very competitive cost terms), supported by Shared Service Centres and short-term *Hotel.Gov* space solutions.

3.18 It would be important that the central planning group is led by an individual with sufficient authority to command the respect and trust of departments – whose business plans may be critically dependent on changing their property portfolio. In terms of resources it is difficult to be precise about the additional skills and resources required, but clearly some additional resource would be required to run the proposed processes, building on what is already available in central government. With so many public sector bodies and cost centres to deal with it would seem sensible to support the proposed central strategic planning group with an arrangement that groups common, work-related or geographical interests. For example, the nine groupings established to take forward the Shared Service Centre agenda could form a suitable support structure to the central group.

The opportunity for change

3.19 There is now a good opportunity, with the Lyons relocation initiative prompting Departments to reconsider their estates' strategies, to adopt the principles of central strategic planning, supporting a national estate plan based on long-term space, Shared Service Centres and flexible office space.

3.20 Some elements of the estate are more constrained than others. The public sector's has complete flexibility with regard to its freehold properties. Those properties on short leaseholds could also be released when their leases expire. **Figure 24** shows that about one third of the estate is on long leases, with the majority either being freehold or on short lease arrangements.

24 Leasehold break or expiry sequence for Government offices and freehold government offices

Leasehold expiry date between	Location	Number of buildings	Space (000s m ²)
Start 2006 to end 2010	London	68	651
	UK excluding London	106	363
Start 2011 to end 2015	London	29	174
	UK excluding London	72	292
2016 onwards	London	35	346
	UK excluding London	39	367
Freehold	London	73	836
	UK excluding London	356	2,957

Source: NAO analysis of e-PIMS

3.21 The benefits of adopting the approach outlined above are

- Distinguishing between long-term core property holdings and short-term flexible space would enable Departments to achieve lower rental levels for the longer-term space. Short-term rental periods carry a price premium. We estimate, from discussions with property agents, that occupiers would receive a 15 per cent rental discount for a 25-year lease instead of a 10-year lease.
- Consolidating numerous smaller properties into fewer larger units, supported in a serviced and managed office arrangement, would enable Departments to achieve further economies of scale. The Government estate comprises numerous small units of space (**Figure 25**) mainly based in the regions. The process of strategic planning and *Hotel.Gov* solutions could lead to the majority of those smaller properties being consolidated into larger, more efficient properties.

We estimate that the combined effects of these two benefits could lead to additional annual savings of the order of £500 million over and above the savings that could be achieved by moving towards best practice identified earlier in this report.

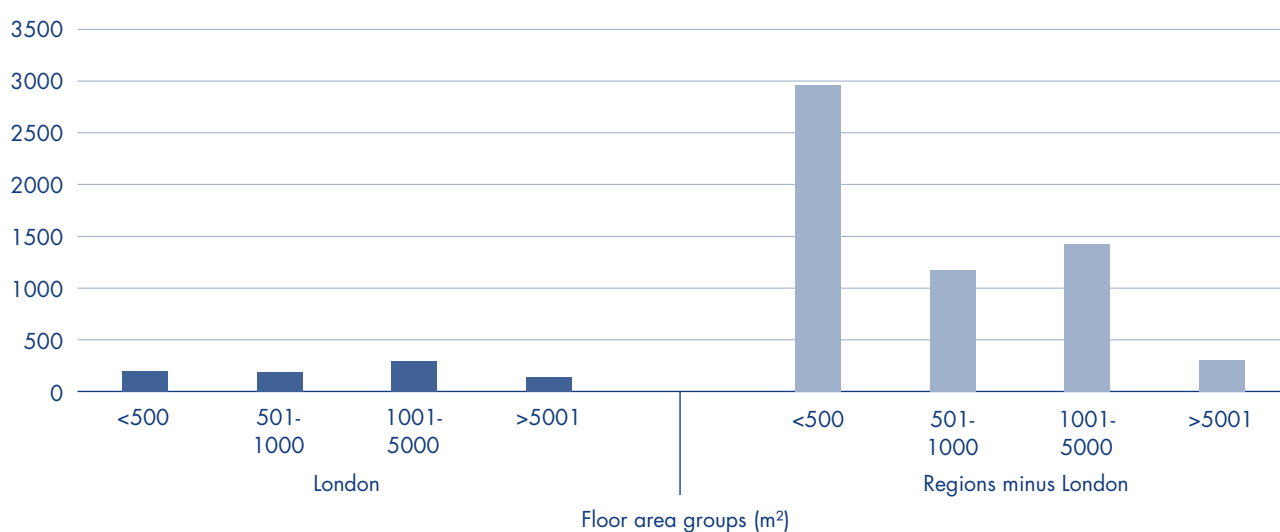
3.22 There are practical problems with implementing this type of strategy. We identified several major issues that public sector organisations would have to tackle at practical, strategic, and cultural levels (**Figure 26 overleaf**). These include:

- practical challenges – including security, IT, telecoms arrangements;
- structural or strategic factors – the provision of central strategic planning and the nature of the authority or mandate required;
- culture change – not only breaking the habit of “me and my desk” but extending this to “me and my building” and full mobile working; and
- cost and commercial challenges – the solution would be an ideal opportunity to develop a discounted variant to the currently available commercial offerings in the FMO market. Not only are the volumes of activity significant, thus creating aggregation discount opportunities, but the government could adopt a risk-sharing/partial underwriting approach that would bring sizeable commercial discounts, according to the FMO service providers attending our workshops.

25 The large tail of smaller buildings in the public sector estates portfolio creates a significant consolidation opportunity

Number of property/holdings grouped by size

Number of property/holdings



Source: e-PIMS database, February 2006

26 Barriers to change, risks, and actions

Barriers and risks	Potential consequence	Options/actions for resolution
Practical challenges		
Departments have different security requirements	Unwilling to share open plan space with other Departments	<ol style="list-style-type: none"> 1 Provide cellular secure areas for teams with these requirements 2 Adopt a common security standard across the estate
IT and systems access will restrict mobility	Staff unable to roam between buildings	<p>The technology solutions are now becoming available.</p> <ol style="list-style-type: none"> 1 Departments, agencies and NDPBs to adopt common GSI approach 2 IT solutions would need to provide secure access to the "home" server
Strategic challenges		
The model requires proactive central estate planning and delivery with executive responsibility. At present, such a role does not exist.	No delivery mechanism for <i>Hotel.Gov</i>	<p>Create a central estates coordination unit, with executive authority over the estate planning process.</p> <p>The unit could be provided by</p> <ol style="list-style-type: none"> 1 The Office of Government Commerce, with additional resources and perhaps supported by the emerging Shared Service Centre groups 2 A new separate estates planning group, perhaps within HM Treasury or the Cabinet Office, or as an independent body in its own right
Solution may require <i>Hotel.Gov</i> assets to be owned by Government – this goes against current policy of Departments being responsible for their assets	Difficult to deliver <i>Hotel.Gov</i> for campus solutions, (but note that Departments could provide local versions within their own portfolios)	<ol style="list-style-type: none"> 1 OGC become responsible for the <i>Hotel.Gov</i> assets 2 Use a model in which the assets remain with the service provider – so asset ownership is not an issue
The solution requires a "spend to save" approach. Capital investment is required, in order to be able to capture the savings later. The current spending cycle is highly constrained, and the investment levels required by Departments may be difficult to justify on a short-term view.	Unfulfilled savings potential	<ol style="list-style-type: none"> 1 Prioritise the investment areas, focusing on the "easy wins" 2 Office of Government Commerce to identify programme synergies (for example while single isolated moves may not be viable, coordinated migrations to a campus might be)
This concept fails because it is seen as too radical, and lacks sponsorship	Lost benefits and flexibility	<ol style="list-style-type: none"> 3 Establish very senior Government sponsorship, with cross-Department authority, and/or 4 Establish a pilot programme to demonstrate potential and understand risk
Cultural challenges		
Departments like their name plate/branding on the building	Silo behaviour, not prepared to share	Campus strategy enables key buildings to be branded; with shared buildings remaining neutral. This solution demands central estate planning and management.
People will not want to do this – part of a wider cultural issue of "being seen in the office"	Lost benefits and flexibility	Culture change programme supported by training and leadership by example

Source: NAO analysis of e-PIMS

3.23 Our own view is that many of these issues can be overcome:

- The Office of Government Commerce has already identified the need for greater coordination across the Government estate, and is taking up a facilitation role. It would be a natural progression to give, for example, the Office of Government Commerce executive authority for strategic estates planning as an extension of that service. This combines the principles of the previous Property Holdings model of the early 1990s and the current arrangements to good effect. We feel that with a robust mandate, and given that departments are now focussing more acutely on their property costs, the model would be effective.
- The Office of Government Commerce should address the “invest to save” constraint. Many of the business cases may not be viable when considered in isolation, but when taken together (particularly if campus solutions are suitable) the programme-wide business case may be more compelling than the sum of the Departments’ individual cases.
- The biggest obstacle is probably cultural – we see significant barriers: for example, managers unwilling to relinquish “the name on the front door” and their Departments’ brands, and at a personal level where some staff will be unable to adapt to flexible mobile working. Nevertheless – the case studies in the accompanying volume demonstrate that many departments and agencies have successfully carried out significant change programmes. In our view, this is a manageable risk.

ANNEX 1

Methodology

The study was led by the National Audit Office, and was contracted out to Concerto Consulting.

The approach taken comprised

1 Case study evaluations

- We developed case studies of business transformation exercises involving property projects. This involved visiting each case study location, interviewing key staff and seeing the physical estate in its normal operational condition. The criteria for selection of the case studies were that the organisations had achieved a major step change in their performance using their real estate project as an enabling mechanism in a wider transformation programme. We deliberately sought out examples where this had happened.
 - We also developed case studies of business transformation projects involving the use of Shared Service Centres. Again, this involved physically visiting each site and interviewing key staff.
- ### 2 Discussions with providers of Flexible Managed Offices (FMOs), including
- Regus;
 - Stonemartin;
 - HQ/Arlington; and
 - Land Securities Trillium.

3 Discussions with service providers who provide Facilities and Property Management Services to both Private and Public sector occupiers

- ISS Coflex;
- Jones Lang LaSalle;
- DTZ;
- MacLellan International; and
- Johnson Controls.

4 Validation and challenge workshops with case study contributors. The purpose of these workshops was to discuss common patterns and trends across the various organisations, and distil out consistent learning points and examples of good practice.

5 Validation and challenge workshops with departments and agencies. The purpose of these workshops was to test the emerging ideas, particularly with regard to flexible working, and determine practical issues that would be faced in implementing the proposals.

6 Discussions with numerous other government occupiers who contributed to the report, or provided content in addition to the main case studies.

7 Discussions with the Office of Government Commerce, to develop the ideas and principles.

Analysis of the information in the e-PIMS property database, with the help and assistance of the OGC staff responsible for its management.

ANNEX 2

Flexible Managed Offices

- 1 In this annex we
 - describe the different types of flexible office solutions available in the market and their operating models; and
 - consider how these models could be adapted to provide Government with flexible space with the development of Hotel.Gov.

The Flexible Managed Office Market

2 The Flexible Managed Office market represents less than 2 per cent of the total UK commercial office market, but its popularity is increasing with an annual growth rate estimated at 5 per cent.²¹ The market, small as it is, is characterised by a very long tail of sole operators or investor-owners and only a handful of larger providers, who are in the process of establishing nationally and internationally branded business models.

3 The Flexible Managed Office market has two distinct, but complementary, sub-sectors – managed offices and serviced offices.

- 4 Managed office providers
 - Providers prefer to take management control of an entire building.
 - The provider or institutional investor owns the asset.
 - The provider and investor share any gains in asset value and consider whole life costs of occupation when making investment decisions.
 - FMOs are usually aimed at space requirements of between 40 to 1,000 workstations with the package designed to fit a specific company's requirements.
 - FMOs provide more flexibility of tenure than is offered by a landlord on a conventional lease and usually include fitting out, telecoms and data packages and a menu of on-site services.

- 5 Serviced office providers
 - Generally providers lease part of an office building from a landlord and subdivide the property to fit their business models and customer profiles.
 - In most cases the serviced office operator takes the rental risk including the cost of dilapidations at the expiry of the lease.
 - Serviced offices are characterised by providing space for smaller companies on a rolling 90-day licence with full on-site services including secretarial support.
 - The serviced office model also assumes a high density of workstations with a range of 6-8 square metres per person being achieved and meeting rooms and other facilities being provided centrally
- 6 The distinctions between the two sub-sectors are becoming less with a number of serviced operators obtaining access to capital to acquire freeholds.
- 7 The range of organisations taking serviced office space is also changing with more corporates using serviced offices for projects and short-term requirements.

Hotel.Gov Solutions

8 Departments can already take space in serviced offices and lease managed offices; however, there is limited capacity within the current market to cope with the volume of demand envisaged by this report. Additionally, a more tailored form of contract reflecting the Government's covenant is required. To increase the range of flexible solutions a bespoke solution for Government should be developed, that applies many of the features of serviced offices, meets specific operating requirements, and leverages the Governments' buying power.

21 DTZ Research (2004), *The Flexible Managed Office Market*, DTZ Tie Lung, London.

9 In Part 3 of the report the Hotel.Gov concept is introduced, and for ease of reference, the three different ways of delivering such space to the public sector is repeated below:

- **Serviced.** Public sector organisations retain the flexible “Hotel.Gov” assets, and an external service provider manages the space.
- **Managed.** The service provider procures or owns the asset and fulfils the service requirements.
- **DIY.** This is a variant, in which the Government makes the space available and Departments manage their own service requirements, from a list of service providers on framework arrangements.

Hotel.Gov Commercial Models

10 To illustrate the commercial aspects of the three models we examine below a simple scenario based on a freehold government building in Central London. For comparative purposes, a snapshot of all of the options is taken at Year 3 when the occupancy levels have built up and the development work has been completed.

11 The financial scenarios are for illustrative purposes only and in practice, the figures will depend on the actual location of the building, its physical attributes (such as floor layouts), redevelopment potential, who funds additional refurbishment works and the negotiating position of the parties.

Common assumptions for the three scenarios:

- 70,000 sq ft net lettable – 60,000 sq ft net usable office space, after division into separate suites and provision of central facilities;
- 700 workstations available in total;
- occupied at average of 85 per cent capacity;
- central facilities include meeting areas and shared workstations and touchdown space available on demand;
- conventional rent level – £35/sq ft;
- other running costs (Rates, FM costs and office support costs) – £30/sq ft;
- serviced office charge out rate – £90/sq ft (assume charge is at a discount to normal serviced office rates); and
- income and costs of any additional services are excluded.

1 Serviced

Principle

- Host department retains the asset and outsources to a serviced office operator (e.g. Regus, HQEO, MWB) on say a 10 year contract.
- The serviced office operator provides serviced flexible space to host and other departments and occupiers on licences or short-term contracts.

Commercial Arrangements

- It is assumed that the host department will not underwrite an occupancy level and therefore the serviced office operator will be reluctant to guarantee payment of rent until a level of occupancy has actually been achieved.
- However the serviced office operator is prepared to take on the risk of management and the buildings running costs.
- In the model below after 3 years the host department achieves full recovery of the conventional rent and shares 25 per cent of the profit after deduction of the rent and other running costs.

Hotel.Gov – Serviced Operator Year 3 Financial Position

Income received from occupiers	£5.35m
■ 60,000 sq ft x £90/sq ft x 85% = £4.59m	
■ Income from central facilities = £0.76m	
Running Costs	(£2.1m)
■ 70,000 sq ft x £30/sq ft = £2.1m (Serviced office operator risk)	
Conventional rental return to 'Host Dept'	(£2.45m)
■ 70,000 sq ft x £35/sq ft = £2.45m	
Net profit – shared between serviced office operator and Host department	£800,000
Profit share of 'Host Dept' @25%	£200,000
Total return to 'Host Dept'	£2.65m (equates to £38/sq ft)

2 Managed

Principle

- Host department sells asset and investor establishes Special Purpose Vehicle (SPV) to develop or refurbish and manage the building.
- The SPV provides serviced flexible space to other departments and occupiers on licences or short-term contracts.

Commercial Arrangements

- Asset is sold to SPV with 50 per cent of conventional rent being paid underwritten or guaranteed by selling Department.
- The 50 per cent rental guarantee ensures Government commitment to the project, although the actual percentage will also depend on the price received for the sale of the asset.

Hotel.Gov – Managed SPV Year 3 Financial Position

Income received from occupiers	£5.35m
■ 60,000 sq ft x £90/sq ft x 85% = £4.59m	
■ Income from central facilities = £0.76m	
Running Costs	(£2.1m)
■ 70,000 sq ft x £30/sq ft = £2.1m	
Conventional rental return to SPV	(£2.45m)
■ 70,000 sq ft x £35/sq ft = £2.45m	
Net profit	£800,000
Profit share of SPV 50/50	£400,000
Total return to SPV	£2.85m
Profit share of Dept selling asset from SPV operations (in addition to receipt of the disposal capital)	£400,000

3 DIY

Principle

- A sitting Department with surplus space rents space to another Department.
- Host department employs service providers under a framework agreement (e.g. OGCBuying.solutions) to operate the building.

Commercial Arrangements

- There is no transfer of occupancy or rental risk from host Department to outsourced service providers.
- There is an additional management cost of 10 per cent of the running costs for managing the operation and commercial transactions.
- The framework provider could enter a direct contract for the various services with the occupying Department.

Hotel.Gov – DIY Year 3 Financial Position

Income received from occupiers	£5.35m
■ 60,000 sq ft x £90/sq ft x 85% = £4.59m	
■ Income from central facilities = £0.76m	
Running Costs	(£2.31m)
■ 70,000 sq ft x £30/sq ft = £2.1m	
■ 10% additional management charge = £0.21m	
Conventional rental return to SPV	(£2.45m)
■ 70,000 sq ft x £35/sq ft = £2.45m	
Net profit	£590,000
Total return to Host Dept	£3.04m (equates to £43.50/sq ft)

