National Audit Office

Report
by the Comptroller
and Auditor General

Cabinet Office

Progress on the government estate strategy

HC 1131 SESSION 2016-17 25 APRIL 2017

Key facts

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

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

Summary

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

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

Scope of this report

3 This report focuses on three questions:

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

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

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

Key findings

Departments have continued to reduce their estates

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

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

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

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

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

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

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

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

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

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

- **The Hubs programme**

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

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

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

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

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

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

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

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

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

- **It can be difficult to find suitable buildings and negotiate leases in the right timescale.** For example, the GPU was unable to find a suitable hub building within a short timescale in Stratford and has now let a building in Canary Wharf to achieve the timescale. HMRC is continuing to plan for a regional centre in Stratford, and the GPU is now looking for further East London hub locations.

- **There is likely to be local opposition to some office closures.** Office closures will be the result of departmental plans for their workforce as well as the centre of government's expectations that departments move to hubs. Nevertheless, the GPU requires that the local business cases consider the local economic impact for each hub before final approval. These assessments are at an early stage and we saw no evidence of mitigation of the likely impact of office closures, for example through negotiations with local authorities.

- **There are uncertainties over costs.** Changes, for example over the rent levels which can be achieved and the level of landlords' contribution to the costs of fitting out buildings, may mean that some provincial hubs are more expensive per square metre than the current arrangements.

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

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

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

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

Conclusion on value for money

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

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

Recommendations

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

HM Treasury and the Cabinet Office should:

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

The GPU should:

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

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

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

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

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

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

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