

Office politics  
Improving public sector  
property management



# Contents

- 
- 1 Foreword
  - 2 Executive summary
  - 4 Introduction
  - 6 Success factors for strategic property management
  - 19 Conclusion
- 

## **About Deloitte Research**

Deloitte Research, a part of Deloitte Services LP, identifies, analyzes, and explains the major issues driving today's business dynamics and shaping tomorrow's global marketplace. From provocative points of view about strategy and organizational change to straight talk about economics, regulation and technology, Deloitte Research delivers innovative, practical insights companies can use to improve their bottom-line performance. Operating through a network of dedicated research professionals, senior consulting practitioners of the various member firms of Deloitte Touche Tohmatsu, academics and technology specialists, Deloitte Research exhibits deep industry knowledge, functional understanding, and commitment to thought leadership. In boardrooms and business journals, Deloitte Research is known for bringing new perspective to real-world concerns.

# Foreword

When John Locke said there exists a natural right to “life, liberty, and property,” he most likely was not including governments in that equation. Yet, today, governments have become some of the largest property holders in the world. But what advantage is there to government as landlord? And how well are these assets being managed? Most importantly, in a time of fiscal austerity, what can governments do to optimize functionality, strip out waste, and ensure real value for their citizens?

In this report, we explore these questions and offer actionable steps governments can take to better manage their property portfolio. Some of these steps are operational — such as better data collection and use of analytics to model property needs. Some are aspirational — that is, changing the culture surrounding asset management decisions from one of afterthought to one that reflects its real monetary impact. All of these recommendations have been tested and borne out in the private sector — a source governments would do well to draw on when looking for ways to improve property management practices.

Until recently, those practices have largely flown under the radar. But hard economic times are now shining a light on all government activity. The more the public sector strives to deliver the best value from its property, the more “life and liberty” it can yield going forward.



**Paul Macmillan**  
Global Leader, Public Sector  
Deloitte Touche Tohmatsu Limited

# Executive summary

The onset of public sector cuts is driving fundamental changes to the size and shape of governments around the world. The impacts have penetrated the very edifices of government, where a smaller workforce translates into reduced property needs. Reforms targeting leaner, smarter working practices are prompting government leaders to take a hard look at their asset base — not only in central departments, but across local authorities, operational sites, and health and social housing.

As governments explore more compact, dynamic organizational structures that allow for flexible project-based teams, their underlying asset needs are changing as well. Efforts to evolve the asset base represent no simple task, as each government faces its own unique set of barriers to improving property management. However, five critical success factors, originally identified through a real estate study of UK public sector leaders, offer globally relevant insights on smart property strategies that address shrinking budgets and shifting needs.

## **1. Prioritize real estate management and empower asset managers accordingly**

Property should be discussed regularly at the highest level as an extension of an organization's evolving workforce strategy. To this end, leaders should look to asset managers to provide recent, accurate information. In some cases this may involve a change in culture around property management, beginning with the responsibilities

---

Reforms targeting leaner, smarter working practices are prompting government leaders to take a hard look at their asset base — not only in central departments, but across local authorities, operational sites, and health and social housing.

and authority vested to asset managers. With expanded influence, asset managers can verify that decision-makers take account of property issues across the business planning cycle. High quality performance indicators will be important to drive best practices on key issues such as vacancy management.

## **2. Join up corporate services**

Too often there is poor coordination between property management and other corporate functions. Greater integration is needed between property strategists and IT services, workforce planning and customer management. Forward-looking strategies involving property must also include projecting future workforce and IT requirements. This will equip the organization to prepare for initiatives such as flexible working, third-party access to IT systems, and co-location.

### **3. Collaborate more effectively with the private sector**

Sound management of property will increasingly rely upon credible and confident engagement with the private sector as governments utilize more ongoing services rather than the infrequent transactions associated with actual ownership. Unfortunately, pressure to deliver quick wins and anxieties about becoming “locked in” to long-term commitments undermine efforts to engage the private sector effectively. Public bodies need to understand how contractors are incentivized, such as through alternate models of joint ownership, payment by results schemes where contractors are rewarded on the basis of the efficiencies they generate, or by outsourcing property management wholesale to a third-party provider.

### **4. Work together to improve property data collection and use**

The importance of effective information management is well understood throughout government, with asset management representing yet another instance where better data has the potential to enable wider use of predictive analytics. But current standards vary significantly across public bodies. In particular, financial data (often siloed deep within separate organizations) and information about non-office property is often weak or incomplete. Management information systems function best when the value of accurate data is realized by those responsible for collecting and inputting data. A key challenge will be to create the right incentives for private landlords or joint venture partners to share data with government stakeholders.

### **5. Build an integrated strategy across agencies**

Another key challenge for public bodies in the future will be to strike a balance between central and localized control of property functions. What is the right level to assign financial and management responsibility? When British government leaders were asked in a Deloitte UK study, most felt that concentration of power in top tier-public bodies — not the center — helped drive transformational change across subordinate agencies. An integrated strategy better positions organizations to feed into a wider pan-government strategy.

Taken together, these factors show how, despite recent progress, more work is needed at a strategic level to make government property and asset management a better fit for the future. Given the size and complexity of public sector property, these improvements cannot be implemented overnight. But the current state of fiscal austerity experienced by most governments today offers a golden opportunity to confront these challenges and set public sector asset management capability on the right path to improvement. Implementing lease moratoriums is the easy part; the real business of transforming this high-cost area of government should start now.

# Introduction

Like many countries, the United Kingdom found itself in dire fiscal straits after the global financial crisis of 2008. Across the board cuts revealed an unexpected area of potential savings: property management. Headcount reductions as a result of austerity measures left the government with increasing levels of underutilized or surplus space. And senior managers, looking to whittle down their highest-cost areas, found that, with a collective worth around £385 billion,<sup>1</sup> local and central government buildings, lands, and assets were prime targets.

The issue quickly became a hot policy topic, with property management elevated to a core message on improving government effectiveness: better data, more innovation, *and more aggressive utilization of space to drive cost efficiencies*. Through better control over lease renewals, the UK government saved more than £190 million.<sup>2</sup> The prime minister even announced plans to make surplus office space in 300 government buildings available to small and medium-sized companies at low rates.<sup>3</sup>

The UK government isn't alone in recognizing the value of more strategic asset management. In 2009, sales of government property in Europe amounted to €840 million. The Greek government has looked into the possible sale of some state-owned assets and considered transferring a large portion of its real estate holdings to a real estate investment trust it would establish. In 2010, the French government set a goal of selling 6 percent of its total building stock in the next three years.<sup>4</sup> Spain, Ireland, Portugal, and Australia have also begun selling off portions of state assets.



Meanwhile in America, in the face of declining use of air mail and dropping revenues, the U.S. Postal Service decided in 2010 to sell or lease underutilized properties and produced US\$180 million in savings in the process. The postal service has identified over 3,500 additional candidates for closure and has made property an integral piece of the organization's cost reduction strategy. In the U.S. Department of Defense, a Base Realignment and Closure initiative has produced US\$1.5 billion in savings by closing 350 military installations.<sup>5</sup>



On the face of it, this trend is significant. Not only does it represent concrete savings but also a shift in mindset around the management of government assets. But in reality, the savings only illustrate the scale of the challenge. For instance, the £190 million saved by the UK government represents only a fraction of the £25 billion government assets cost each year.<sup>6</sup> And the 300 buildings cited by the prime minister? A mere 2 percent of the 13,000 assets the government holds. Nevertheless, the United Kingdom's austerity measures and related reductions to real estate offer a dramatic example for countries considering similar reductions, and therefore afford valuable lessons on rethinking real estate in tight economic times.

Globally, governments are working to consolidate operational locations and capitalize on their scale to strike value-for-money deals with landlords. But real cost penetration will require a bolder approach and will only emerge through collaboration across departments and agencies, a smarter utilization of floor space, and a fundamental rethinking of the way public sector assets are distributed. Key cultural changes, too, such as a wholesale migration to flexible working, will be another essential ingredient to transforming government property in the medium term.

As the closest equivalent to government by size and asset base, large companies typically understand the value of good property management to their businesses and have adapted similar models. As long ago as 1992, BT Group invested heavily to strengthen management capability across their corporate and operational estate, centralizing finance and administration functions into shared service centers at four principal sites.<sup>7</sup> AOL-Time Warner's expensive footprint across more than a dozen buildings in Manhattan is in the process of being substantially downsized. The anticipated US\$500 million in annual savings will free up funding to enhance its media content.<sup>8</sup> Other corporations such as Tesco have made property management integral to their regular business operations. With only a tenth of the holdings of the UK government (£36 billion), the supermarket chain has generated property-related profits of around £1.3 billion over the past five years due to a highly industrialized process for locating, acquiring, and, where appropriate, divesting sites.<sup>9</sup>

# Success factors for strategic property management



This study identifies five areas for action based on input from the private and public sector.<sup>10</sup>

Contrary to popular belief that government property is an oil tanker capable of only incremental improvements, the ideas presented here offer significant transformation from the status quo in government. A recurring theme across the identified areas is that in order for property management changes to reach their full effect, an agency's property cannot be treated in isolation. Breaking down departmental silos to integrate real estate information and thereby enrich the quality of decision making is vital. The following critical success factors would enable government property to be handled in a more streamlined, efficient fashion.

## **Success factor 1: Prioritize real estate management and empower asset managers accordingly**

By many accounts, the prevailing culture around property management must be dismantled to achieve any measurable improvements. Amidst government executives' understandable preoccupation with policymaking and meeting mission objectives, property management is often marginalized from the high-level decision-making process.

Accordingly, managing property has not been the career path of choice for high-flying civil servants or local officials. However, this typecast can be reversed with the right adjustments to the role. For instance, the government procurement function was once held in similar regard but has witnessed dramatic improvements in the last few years as senior figures have accepted its importance. Giving government property managers wider spans of control to work directly with various stakeholder groups to address property issues will be critical, as there are often policies requiring approval from specific groups such as unions in order to proceed with changes to property holdings and work conditions. Broader visibility will also help the asset manager enhance collaboration, co-location, and the prevalence of joint ventures across departments.



## United States case study

In the United States, the federal government is the country's largest property holder: it currently owns and manages 1.1 million buildings and structures. At over US\$30 billion in operating costs annually — and with 79 percent of property used by the federal government owned rather than leased — property has become a significant expense.

The General Services Administration (GSA), which handles much of the product and service purchasing for federal agencies, is tasked with managing the data of all property under the custody of the executive branch with the exception of properties excluded for national security reasons. However, GSA is not closely involved with the management of agency properties. Instead, that responsibility is vested with the agencies, which are expected to report their holdings and utilization of space to the GSA. Also, agencies will often seek out external advisors to consult on property leases, sales, or purchases prior to engaging the GSA for assistance with transactions.



With recent concerns about the national budget, the government has called for agencies to reduce real estate expenses by US\$3 billion by the end of fiscal year 2012. One of the models for this effort is the Department of Defense's Base Realignment and Closure process, which cumulatively led to the reduction of over 350 military installations over the past 25 years and has saved the government about US\$17.7 billion. A plan that would introduce a Civilian BRAC commission to similarly identify non-military properties for closure was passed in February 2012. It is expected to produce savings of US\$500 million in real estate costs.

Sources: Peter Bacon, "Defense Spending," *Harvard Political Review*, 17 September 2010; Jolie Lee, "President's 2013 budget focuses on federal performance, cuts to waste," *Federal News Radio*, 14 February 2012;; Jack Moore, "House approves 'civilian BRAC' bill," *Federal News Radio*, 7 February 2012;; "Civilian BRAC passes House," *Washington Business Journal*, 8 February 2012; "FY 2010 Federal RealProperty Report: An Overview of the U.S. Federal Government's Real Property Assets," The Federal Real Property Council, 2010.

## Australia case study



Australia's Property and Construction Division (PCD), part of the Department of Finance and Deregulation, manages the non-defense portfolio of government properties, including commercial office buildings, law courts and other special purpose properties, public interest properties, heritage buildings, residential properties, and vacant land. The portfolio includes 83 properties with a fair value of about AU\$1.04 billion as of 30 June 2011. In addition, PCD oversees the Commonwealth Property Management Framework, which includes legislation and policy for the management of property leased or owned by the Commonwealth, including acquisition, disposal, and management of property interests.

The PCD operates in a competitive market as Australian government agencies are not bound to lease their accommodations from the division. However, if an agency needs to occupy a government-owned building,

the PCD is required to provide the building on a commercial basis. The PCD must achieve a commercial rate of return on the portfolio and contain its management costs within market benchmarks as well as pay dividends from operations and make equity repayments to the Australian government from any divestment of property.

The Department of Finance and Deregulation contracts with a private entity for a range of property portfolio management services, including facilities management, valuation services, and asset strategies. Asset plans for individual properties (revised annually) help the PCD manage the portfolio, using information from property inspections, condition audits, tenant surveys, valuation reports and private sector advisers. Tenants occupying properties in the portfolio are guaranteed certain standards through comprehensive service level agreements incorporated within the contract.

Many of Australia's public assets — such as the airports — were sold during the 1990s and in this past decade. Recently, there has been discussion of the sale or leaseback of some ports — including the long-term lease of Port Botany in Sydney, which has an expected price tag of more than AU\$2 billion — state forests, and other assets.

Sources: Australian Department of Finance and Deregulation, Property and Construction Division; Annabel Hepworth, Imre Salusinszky and Paul Cleary, "After the election, the hardest sell," *The Australian*, 2 March 2011; Gillian Tan, "Morgan Stanley Wins Port Botany Mandate" *The Wall Street Journal*, 14 December 2011

Good asset management depends on having measurable performance indicators in place. To this end, targets play a key part in incentivizing better management of vacated buildings and land. In London alone, as of January 2012, about 440,000 square meters of public sector-owned land and buildings are marked as vacant. This space is held within 552 vacant property holdings, representing about 2.6 percent of total real estate by square meter — or £10 billion by value (assuming value is evenly spread across government real estate). A further 100,980 square meters is expected to become vacant in future.<sup>11</sup>

To demonstrate competency in dealings with other government bodies and private sector partners, a government's strategic property team must build a reputation as subject matter experts capable of striking well-structured deals with the private sector.<sup>12</sup> Asset managers must be willing to engage finance colleagues to challenge policies that constrain innovation.

The team must also consider how incentives to manipulate numbers for short-term gain can be removed and how value for money can be considered as a reflection of performance. The onus will be on governments to acknowledge good asset management as a reflection of responsible stewardship of taxpayer funds. Government will need to build consensus on investing now to save in the future, cutting waste by trimming unnecessary space. In the United States, where the Federal government owns more than a million properties,

the White House anticipates that it could generate US\$22 billion in the next decade simply by selling off underutilized property.<sup>13</sup>

Planning ahead, while often a challenge in government, offers clear advantages where the purchase and sale of real estate is concerned and a property manager's decisions of when to buy and sell property should be evaluated in the context of market conditions. For instance, fire sales are often viewed as a boon for buyers at the expense of the shortsighted seller. Impromptu sales of government assets may be viewed primarily as a cost cutting tool in the short term without fully considering future implications.

In Greece, €50 billion in assets have been put up for sale to address the country's economic woes, yet as of February 2012 only €180 million had actually been raised using this tactic. Konstantinos Mihanos of the Athens Chamber of Commerce has noted that, "If we go by today's values, as a result of the recession and the crisis the country finds itself in, [Greece] will be really selling the crown jewels at a pittance of their cost."<sup>14</sup> Nevertheless, many other governments are scrambling to realize quick-fix savings, from the Netherlands' €1 billion austerity drive to Portugal's €592 million sale of energy infrastructure, to France selling 1,700 state-owned properties.<sup>15</sup> Forward-thinking asset manager advice would offer a much needed step towards more careful government property management.

## Canada case study



The Government of Canada manages state-owned property — including office buildings, harbors, prisons, national parks, and post offices — through its Real Property Branch, part of Public Works and Government Services Canada (PWGSC). The department is responsible for the stewardship of CA\$6.5 billion worth of holdings and 7.14 million square meters of space. Of this space, 43.5 percent is owned by the government, 49 percent is leased, and 7.5 percent is lease-purchase. They manage 1,500 leased buildings, with 2,116 lease contracts at a cost of around CA\$1.11 billion and own 345 properties (Crown assets) and 10 lease-purchase properties. Overall, federal government real estate accommodates about 265,000 public servants and Parliamentarians in 1,855 locations across the country.

PWGSC Real Property employs approximately 3,800 full-time employees and is involved in all aspects of property, from initial investment strategies, the construction and leasing of facilities, to the maintenance,

Source: Public Works and Government Services Canada.

repair, and disposal of property assets. Planned spending by the department for 2012-13 is estimated at CA\$3.9 billion. Since 1998, PWGSC Real Property has outsourced property management and project delivery services in most of its office portfolio.

While the Government of Canada's property is constitutionally exempt from local taxation, since 1950 it has shared in the cost of local government where it owns property by making payments in lieu of property taxes. Across Canada, annual payments of more than CA\$460 million are made on approximately 22,500 federal properties.

In 2007, the Government of Canada launched its Real Estate Initiative, culminating in the sale and leaseback of seven federal office properties after an independent review of 40 state-owned properties. The properties were sold for CA\$1.41 billion to one private entity who will lease the properties back for a total of 25 years. PWGSC Real Property is also currently undergoing a national initiative that will install industry-standard real estate business processes supported by an integrated information technology system. Slated to go live in 2013/14, the system will integrate existing stand-alone systems, resulting in improved efficiency and effectiveness of day-to-day information management.

### **Success factor 2: Join up corporate services**

Property functions would benefit from becoming more closely integrated with other corporate services. At present, there is often a lack of coordination between key services such as IT, workforce planning, or customer management. To be effective, a property strategy must take account of the current and future needs of each business unit.

In one example, a high-profile UK agency decided to upgrade a number of its customer facilities to make them fit for purpose for the foreseeable future. The agency chose the sites for refurbishment with limited consultation with its own customer team. Shortly afterwards, the agency changed its customer access policy. As a result, the agency found itself owning a number of sites that are hardly used — but are too politically embarrassing to close<sup>16</sup> — including one that underwent a major refurbishment (with a commensurately major budget) and remained largely idle after reopening.

Levels of coordination of course vary across government. Administrative centers with more straightforward IT and workforce requirements tend to be better integrated than operational sites that have volatile workloads and more complex IT systems. Current constraints on the budgets of many government agencies represent a good moment to consider implementing joint ventures or co-location to save money and improve communication.

The basic process for designing a property strategy could include an initial forward look by workforce and IT planners to project likely requirements over the lifetime of a property contract. Scenarios such as remote working, third-party access to IT systems, and feasibility studies for co-location should be considered.

Strategic asset management might also involve cross-subsidy of, for example, IT investments to generate greater property savings. These functional areas are typically managed in isolation in many public bodies. By coordinating capital investments with other business areas, IT and human resources teams could help make buildings capable of flexible, multi-departmental occupancy.

### **Success factor 3: Collaborate more effectively with the private sector**

Assessing value for money in property management is a long game, and public sector asset managers often puzzle over the best way to assess the whole-life cost and benefits of a real estate investment. While adapting the lens to view investments may offer modest improvements, such as adjusting contract and payback periods, the terms of the real estate commitments themselves also stand to be improved. Given the pressure to deliver quick wins, as well as institutional anxieties about becoming “locked in” to long-term commitments, engaging the private sector to identify mutually beneficial agreement terms represents a promising opportunity.

## Finland case study



Government property in Finland is managed by the state enterprise, Senate Properties. Senate manages all the national governments' real estate — around 6.5 million square meters in rented floor space. Running costs are around €554 million annually, with the book value of buildings and other assets around €3.2 billion.

The company employs 266 staff to manage business across four separate portfolios: ministries, universities, and special properties; defense and security; offices and development; and regional premises. Senate also acts as the central repository for all data about property. It purchases nearly all of its design, property development, and maintenance services from external service providers.

Source: Government of Finland, 2011.

Recently, Senate recast its business strategy to drive harmonization on how public sector real estate assets are overseen. It divided up its portfolio into strategic and non-strategic assets, and took steps to concentrate ownership of property into the hands of as few state agencies as possible. It has also developed a program of 40 service agreements through which Senate experts consult with departments and agencies to review accommodation requirements for clusters of public sector businesses such as court services, police, and transport hubs. The company also acts as the central point for electricity trading between departments.

Senate also leads the Finnish government's investments and asset disposals program. Assets worth €95.4 million, or about 0.3 percent, of its total estate were divested in 2010. Around €255 million worth of property improvements were made in 2010, including a number of major infrastructure renewal projects. As a trading company, Senate is encouraged to make a profit through rents and returns on investments. In 2010, it made around €182 million in profits.

---

## Partnerships require a willingness to take professional advice on complex contracting and revise current practices when shortcomings are identified.

Accounting policy and centrally issued restrictions on specific actions such as lease renewals drive current practices. Unfortunately, they constrain innovation and a willingness to develop genuine partnerships where risks and rewards are shared equitably. Efforts to extricate government organizations from outright asset ownership will only heighten the need for close cooperation between the public and private sector. For collaboration or joint ventures to succeed, there are a number of critical elements:

- **Private sector partners have to understand the core business of their client organization.**

It is not enough to manage prime contractors at arm's length. Regular communication and knowledge sharing that consolidates management information into one place are critical.

- **Create the right incentives.** Public bodies need to understand how private sector organizations are incentivized, how their strategy might change over time, and how their constant drive for innovation and efficiency (which, apart from access to capital, is the underlying reason for

using the private sector in the first place) might be harnessed to create benefits for both parties. Private property companies typically look for scale, cash, and revenue certainty. How might those impulses be utilized to create value for the taxpayer?

- **Shared risk.** In a true partnership, risks are shared. In the current spending climate, it is expected that contractors will take on a greater share of risk, but also share the proceeds of innovation and efficiency with their client. Closer working might be better incentivized through models of joint ownership or by outsourcing property management wholesale to a third-party provider with a track record of excellence in other industries. In one government department, it was found that around 50 percent of the property team were in fact employees of a private sector partner that were bringing a more commercial focus to the organization.<sup>17</sup>

## Czech Republic case study



The central government in the Czech Republic employs around 69,000 people occupying nearly 1.9 million meters worth of office space across 5,000 buildings. About 3,500 of these structures are owned by the central government. Costs for their operation totals €88.4 million, with full value estimated at €2.18 billion.

In response to a need to modernize its property portfolio, the Czech government is developing a relocation program that involves significant divestment of assets and buildings. At present, there is no central agency

Source: Government of the Czech Republic, 2011.

to manage this work, with individual departments responsible for managing their own facilities. However, the government is actively considering the creation of a central management unit for state property.

This unit would include a central registry for all state property data, set single standards for contracts, increase transparency of rentals and sales, accelerate work to relocate and consolidate key departments, and boost income from sales of redundant holdings.

At around 27 meters per employee (and upwards of 43 meters for some units), the efficiency rate of government property is significantly lower than other Central and Western European governments, where space per employee runs at about 12 meters and 14 meters, respectively. The Czech government plans to tackle this disparity in the near future as part of a more strategic approach to its property management.



---

## Overzealous centralization puts power in the hands of people who don't understand local government businesses and their specific property requirements.

Partnerships require a willingness to take professional advice on complex contracting and revise current practices when shortcomings are identified. When one criminal justice organization decided to review its framework contracts for maintenance and new build programming, it discovered that some work packages were being awarded to contractors without competition. The department took professional advice on how to introduce some competition without dismantling the entire framework and quickly realized that it could generate 15 percent savings simply by using a set of commercial dynamics within a closed market.<sup>18</sup>

### **Success factor 4: Work together to improve property data collection and use**

Better data has significant potential to enable centralized dashboards and wider use of predictive analytics in property management. The barriers to these improvements are not typically related to ineffective software or bad process, but rooted tensions between central and local

control of information. Management information systems function well when those responsible for collecting and inputting data have clear incentives for doing so correctly, and understand how the data will be used.

In 1992, the Swedish government shifted its approach to real estate management towards more market-based principles, shifting asset management responsibilities to a more centralized entity. This authority became responsible for hitting targeted rates of return on government properties to encourage efficient use of space and negotiation of contracts. Requiring specific, measurable targets allowed for more purpose-driven data collection.

The final challenge on data will be to create the right incentives and contractual arrangements for private landlords or joint venture partners to share data with their government stakeholders.

## New Zealand case study



Around 334,000 central government employees in New Zealand occupy property worth €23.67 billion. Running costs for this portfolio come to about €14 billion — one of the highest levels of operating costs relative to overall book value in the developed world.

Land Information New Zealand (LINZ) manages most disposal and sales on behalf of the government and routinely sells around €3.4 million worth of assets each year. Other agencies do sell land directly — but all land sales are subject to a settlement process unique to New Zealand where assets have to be offered to other public agencies first as well as the original land owner before it can be placed on the open market.

LINZ also has oversight of public sector land and property management, although most individual agencies administer their own property. Some

Source: New Zealand Government, 2011

agencies can acquire or dispose of Crown land; however they must follow the Crown property land standards and guidelines set by LINZ and submit work to LINZ for statutory approval.

The New Zealand government has also established a capital asset management framework to improve asset management through:

- Greater leadership across the public sector
- Use of a common framework for cost-effective management of assets over their economic lifecycle
- Improving the quality and relevance of information to support decision-making processes
- Greater assurance about asset management practices and performance in departments and Crown entities

The government has established a center of excellence within the Ministry of Social Development that is responsible for the guidance, support, and monitoring of property management in the public sector. The center of excellence concept is consistent with the approach taken in other areas, such as fleet management, where one agency is nominated to play a whole-of-government role.

**Success factor 5: Build an integrated, collaborative strategy across agencies**

The final action for government as a whole on property management is to choose between a centrally managed program or one that is highly delegated with only “light touch” machinery at the center. Neither extreme is likely to be suitable. Overzealous centralization puts power in the hands of people who don’t understand local government businesses and their specific property requirements. Total “subsidiarity,” by contrast, doesn’t suit the highly centralized system of accountability that characterizes many governments around the world: officials at this level cannot be held responsible for what is happening in some part of their domain unless they have control over it. The way performance information is typically siloed around governments also makes total devolution more complicated. In addition, the majority of government assets are small holdings, with the highest number of actual public sector assets being at the local level. In general, public sector properties in most countries are a patchwork of complex holdings, leases, land, and buildings — and would be impractical to manage from a single central office.

---

In Japan the government centrally manages 75 percent of all property in use by government agencies and the Government Buildings Department even constructs or adapts new government properties to meet the specific requirements of the department that will be using the space.

For central government at least, it may be preferred for power to reside at the top of individual departments — not the center — to drive transformational change across subordinate agencies. This would require departmental leaders to work closely with the center to ensure asset management work aligned to the agency's strategic priorities.

A fully coordinated, pan-government strategy coordinated from the center will most likely be essential to improving property management. For instance, in Japan the government centrally manages 75 percent of all property in use by government agencies and the Government Buildings Department even constructs or adapts new government properties to meet the specific requirements of the department that will be using the space. All property-related services are carried out in-house by the government, requiring strong communication across departments about changing space needs.

While many public bodies have effective asset management capabilities, in a more collaborative structure individual agency requirements could address wider needs. Integrated occupancy management could become more common, and the quality and flow of management information up to decision-makers could be improved. It would endorse departmental decisions not approve them.

With the break-up of existing delivery chains and initiatives like place-based budgeting making departmental boundaries less relevant, now may be the time for governments to award specific budget responsibilities and powers to a central team. This team would bring experience of getting the best from the private sector and understand how to optimize assets. It could also work with regional partners to develop equivalent strategies in specific areas with a high concentration of government activity and help departments manage key operational portfolios. If the right set of behaviors can be encouraged, the opportunity for relocation, co-location, and freeing up surplus property for redevelopment is significant.

# Conclusion

Recognizing the need to tackle one of its largest spending areas, governments around the world are starting to take steps to better manage their property. Concrete progress has been reported, showing that immediate, mostly centrally-controlled actions have had an impact. Little by little, government departments will continue to make progress and take steps to rationalize their assets in response to near-term cost pressures.

But in the medium term, there remains a set of structural and capability weaknesses that demand attention, not only to professionalize public sector asset management, but also ensure property takes its rightful place at the heart of work to modernize government. Partial progress has been made in the five key areas: longer term professional capability, corporate service interdependency, managing the private sector, data, and introducing the right powers and accountabilities at the right level to form a pan-government vision of property requirements. Yet significant room to make progress across these areas remains.

Progress can occur on two fronts. At departmental levels, senior figures who understand their businesses best should take the lead on developing professional capability and a set of strategic asset management targets that align future business objectives with property requirements. Central governments are not best placed to define these requirements. The role of the “center” should be to ensure specific property strategies reflect pan-government requirements and to challenge departmental reluctance to collaborate with other bodies, co-locate, agree to joint ventures with the private sector, or increase the frequency of multi-use assets.



---

## As public bodies take ultimate accountability for contract failure or poor value for money, a right of access to key data and visibility of how deals are structured between contractors may be the price of assurance.

But the single biggest challenge for individual governmental bodies will be to get the best from private sector partners and benefit from the liquidity, innovation, and efficiency they can offer. Recognizing that the spending climate has changed fundamentally, both sides may need to accept that in future, the “pain” and the “gain” sides of complex deals may have to be shared more evenly. This is also true at the interface between prime and subcontractors. It is not the role of governments to police inter-contractor relationships. But as public bodies take ultimate accountability for contract failure or poor value for money, a right of access to key data and visibility of how deals are structured between contractors may be the price of assurance.

This study represents a call to arms on asset management. Improvements in data handling and contract management have led to real progress in this part of government. But there is still a long way to go to develop an overarching capability that is commensurate with the size and value of government property. The tactical improvements taken by governments over the past few years represent a great start. But a series of underlying challenges must be confronted immediately if these achievements are not to be overtaken by the sheer scale of the challenge.

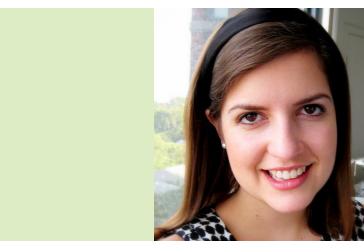
# About the authors



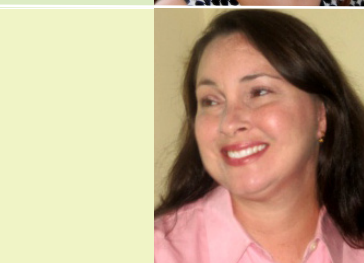
**Tom Harris** leads the Government and Public Sector thought leadership programme at Deloitte UK. This involves producing analysis on a range of management challenges affecting government departments, agencies and local authorities. Specific, recent areas of study include:

- Payment by results: the mechanics of effective performance contracting;
- Accountability: the impact of changes such as Police & Crime Commissioners and Foundation Trusts.
- The evolving role of private and third sector suppliers in public markets.
- Public service reforms across welfare, social care, local public service, education, defence
- The impact of spending cuts on key commercial sectors and the shifting interface between public and private markets;

Previously, Tom was a Civil Servant working for the UK government. He worked in a number of roles including as a Private Secretary to the Minister for the Cabinet Office, and as a clerk to the Intelligence and Security Committee.



Megan Schumann is a Consultant in Deloitte Consulting LLP's Strategy and Operations practice. She has served clients in the financial services sector and is currently working with Deloitte's Global Public Sector industry to develop a book that explores new frontiers of public services. Megan graduated from Georgetown with a dual degree in Finance and International Business.



Elizabeth Henry is Senior Writer for Global Public Sector, Deloitte Touche Tohmatsu Limited. She has more than 15 years experience writing and editing reports, speeches, books, and articles. Previous work at Deloitte includes Communications Manager for the DTTL Board of Directors and speechwriter for the DTTL Board Chairman.

# Acknowledgments

Thank you to William Eggers, Research Director, DTTL Public Sector, for editing the study and coordinating its global development.

# Recent public sector thought leadership

- **Public Sector, Disrupted:** How disruptive innovation can help government achieve more for less
- **Getting Unstuck:** How to work *As One* in government
- **XBC:** Creating public value by unleashing the power of cross-boundary collaboration
- **Letting Go of the Status Quo:** A Playbook for Transforming State Government
- **Unlocking Government:** How Data Transforms Democracy
- **Red Ink Rising:** The road to fiscal sustainability
- **If We Can Put a Man on the Moon...** Getting Big Things Done in Government (Harvard Business Press, 2009)
- **Partnering for Value:** Structuring Effective Public-Private Partnerships for Infrastructure
- **The Changing Landscape for Infrastructure Funding and Finance**
- **The Public Innovator's Playbook:** Nurturing Bold Ideas in Government (Deloitte Research, 2008)
- **Changing the Game:** The Role of the Private and Public Sectors in Protecting Data
- **Government Reform's Next Wave:** Redesigning Government to Meet the Challenges of the 21st Century
- **Web 2.0:** The Future of Collaborative Government
- **Changing Lanes:** Addressing America's Congestion Problems Through Road User Pricing
- **Mastering Finance in Government:** Transforming the Government Enterprise Through Better Financial Management
- **One Size Fits Few:** Using Customer Insight to Transform Government
- **Bolstering Human Capital:** How the Public Sector Can Beat the Coming Talent Crisis
- **Serving the Aging Citizen**
- **Closing America's Infrastructure Gap:** The Role of Public-Private Partnerships
- **Closing the Infrastructure Gap:** The Role of Public-Private Partnerships
- **States of Transition:** Tackling Government's Toughest Policy and Management Challenges
- **Building Flexibility:** New Models for Public Infrastructure Projects
- **Pushing the Boundaries:** Making a Success of Local Government Reorganization
- **Governing Forward:** New Directions for Public Leadership
- **Paying for Tomorrow:** Practical Strategies for Tackling the Public Pension Crisis
- **Medicaid Makeover:** Six Tough (and Unavoidable) Choices on the Road to Reform
- **Driving More Money into the Classroom:** The Promise of Shared Services
- **Are We There Yet:** A Roadmap for Integrating Health and Human Services
- **Government 2.0:** Using Technology to Improve Education, Cut Red Tape, Reduce Gridlock, and Enhance Democracy (Rowman and Littlefield, 2005)
- **Governing by Network:** The New Shape of the Public Sector (Brookings, 2004)
- **Prospering in the Secure Economy**
- **Combating Gridlock:** How Pricing Road Use Can Ease Congestion
- **Citizen Advantage:** Enhancing Economic Competitiveness through E-Government
- **Cutting Fat, Adding Muscle:** The Power of Information in Addressing Budget Shortfalls
- **Show Me the Money:** Cost-Cutting Solutions for Cash-Strapped States



# Endnotes

1. "Francis Maude reveals £3.75 billion in savings," *UK Cabinet Office*, August 1, 2011, <http://www.cabinetoffice.gov.uk/news/francis-maude-reveals-%C2%A3375-billion-savings>
2. "Government saves more than £100 million on property this financial year," *UK Cabinet Office*, January 12, 2012 <http://www.cabinetoffice.gov.uk/news/government-saves-more-100-million-property-financial-year>
3. Christopher Hope, "Set up your companies in one of my Government departments, David Cameron tells Britain's entrepreneurs," *The Daily Telegraph*, January 23, 2012, <http://www.telegraph.co.uk/news/politics/9031067/Set-up-your-business-in-one-of-my-Government-departments-David-Cameron-tells-entrepreneurs.html>
4. Richard Holberton, "What Role for Property Sales in Government Deficit-Reduction Programmes?" CB Richard Ellis, July 10, 2010, page 2.
5. Edward Wyatt, "Cash-Short, U.S. Weighs Asset Sales," *The New York Times*, September 29, 2011, <http://www.nytimes.com/2011/09/30/business/washington-considers-sale-of-spare-properties-to-raise-revenue.html?pagewanted=all>
6. The Efficiency and Reform Group's role in improving public sector value for money, *National Audit Office*, 2011.
7. Getting the best from public sector office accommodation, *National Audit Office*, 2006.
8. Amy Chozick, "Time Warner Trims Its Excesses," *The New York Times*, October 31, 2011, <http://www.nytimes.com/2011/11/01/business/media/time-warner-trying-to-trim-its-excesses-goes-back-to-basics.html?pagewanted=all>
9. "Property – developing and building stores for customers," Tesco Annual Report, 2011, [http://ar2011.tescopl.com/pdfs/business\\_review/Property.pdf](http://ar2011.tescopl.com/pdfs/business_review/Property.pdf)
10. Leadership perspectives collected in a 2011 UK study conducted by Deloitte UK figure prominently into these action areas and the study's findings are considered here in a global context.
11. e-PIMs, 2012.
12. Getting the best from public sector office accommodation, *National Audit Office*, 2006.
13. Edward Wyatt, "Cash-Short, U.S. Weighs Asset Sales," *The New York Times*, September 29, 2011, <http://www.nytimes.com/2011/09/30/business/washington-considers-sale-of-spare-properties-to-raise-revenue.html?pagewanted=all>
14. Rachel Donadio; Steven Erlanger, "Some Greeks Fear Government Is Selling Nation," *The New York Times*, June 22, 2011, <http://www.nytimes.com/2011/06/23/world/europe/23greece.html?pagewanted=all>
15. Tom Bawden; Charlie Cooper, "Everything Must Go! The Great European Fire Sale," *The Independent*, February 18, 2012, <http://www.independent.co.uk/news/world/europe/everything-must-go-the-great-european-fire-sale-7079815.html>
16. Deloitte Research, 2012.
17. Ibid
18. Ibid.

# Contacts

## Global

### Paul Macmillan

Global Leader  
Public Sector  
Deloitte Touche Tohmatsu Limited  
Toronto, Ontario, Canada  
+ 416 874 4203  
pmacmillan@deloitte.ca

### Jerrett Myers

Chief of Staff  
Public Sector  
Deloitte Touche Tohmatsu Limited  
Toronto, Ontario, Canada  
+ 416 775 2328  
jermyers@deloitte.ca

### William Eggers

Global Research Director  
Public Sector  
Deloitte Services LP  
Washington, DC  
+1 571 882 6585  
weggers@deloitte.com

### Amy Leonard

Marketing  
Public Sector  
Deloitte Touche Tohmatsu Limited  
Arlington, VA  
+1 571 882 7888  
aleonard@deloitte.com

## Americas

### Brazil

Eduardo de Oliveira  
+55 11 5186 1675  
eoliveira@deloitte.com

### Canada

Paul Macmillan  
+1 416 874 4203  
pmacmillan@deloitte.ca

### Caribbean Cluster

Taron Jackman  
+1 345 814 2212  
tjackman@deloitte.com

### Chile

Jose Benguria  
+56 2 7298272  
jbenguria@deloitte.com

### LATCO

Armando Guibert  
+54 11 43204022  
aguibert@deloitte.com

### Mexico

Alonso Yanez  
+52 55 50807085  
ayanez@deloittemx.com

### United States

Jessica Blume  
Government & State Sector  
+1 813 273 8320  
jblume@deloitte.com

### United States

Robin Lineberger  
Federal Sector  
+1 571 882 7100  
rlineberger@deloitte.com

## Asia-Pacific

### Australia

Andrew Johnstone-Burt  
+61 (0) 2 9322 7525  
ajohnstoneburt@deloitte.com.au

### Guam

Dan Fitzgerald  
+(671) 646 3884 x229  
dafitzgerald@deloitte.com

### India

Vedamoorthy Namasivayam  
+91 80 6627 6112  
vnamasivayam@deloitte.com

### Japan

Takashi Nagata  
+08035899317  
takashi.nagata@tohmatsu.co.jp

### Korea

Min Keun Chung  
+82 2 6676 3101  
mchung@deloitte.com

### Malaysia

Theng Hooi Tan  
+603 7723 6590  
tanth@deloitte.com

### New Zealand

Cobus Scholtz  
+64 4 4703727  
cscholtz@deloitte.co.nz

### Singapore

Patricia Lee  
+65 6216 3283  
patricialee@deloitte.com

### Thailand

Marasri Kanjanataweewat  
+66 (0) 2676 5700  
mkanjanataweewat@deloitte.com

### Vietnam

Ha Thu Thanh  
+84 4 6288 3568  
hthanh@deloitte.com

## EMEA

### Austria

Guido Eperjesi  
+43 1 537 00 2522  
geperjesi@deloitte.com

### Denmark

Lynge Skovgaard  
+45 36102666  
lskovgaard@deloitte.dk

### Greece

Nicos Sofianos  
+30 210 678 1100  
nsoufianos@deloitte.gr

### Italy

Alberto Donato  
+39 0647805595  
aldonato@deloitte.it

### Netherlands

Hans van Vliet  
+31 (0) 882881538  
hvanvliet@deloitte.com

### Spain

Gustavo Garcia Capo  
+34 915145000 x2036  
ggarcia capo@deloitte.es

### United Kingdom

Mike Turley  
+44 207 303 3162  
mturley@deloitte.co.uk

### Belgium

Wim Vergeylen  
+ 32 2 800 28 12  
wvergeylen@deloitte.com

### Finland

Markus Kaihoniemi  
+358 20755 5370  
mkaihoniemi@deloitte.fi

### Iceland

Jonas Jonasson  
+354 580 3044  
jjonasson@deloitte.is

### Luxembourg

Thierry Hoeltgen  
+352 45145 2559  
thoeltgen@deloitte.lu

### Norway

Helge Torgersen  
+47 23 27 97 35  
htorgersen@deloitte.nolu

### Sweden

Kim Hallenheim  
+46 (0)8 506 722 11  
kim.hallenheim@deloitte.se

### CIS

Justin Bancroft  
+99532244566 x8660  
jbancroft@deloitte.ge

### France

Gilles Pedini  
+33 1 40 88 22 21  
gpardini@deloitte.fr

### Ireland

Harry Goddard  
+353 1 417 2200  
hgoddard@deloitte.ie

### Mid Africa

Joe Eshun  
+255 (22) 2116006  
jeshun@deloitte.com

### Portugal

Filipe Simoes de Almeida  
+351 21 0422515  
fialmeida@deloitte.ptSouth

### Switzerland

Matthias Scherler  
+41 43 500 30 10  
mscherler@exsignodeloitte.ch

### Cyprus

Panicos Papamichael  
+357 22 360 805  
ppapamichael@deloitte.com

### Germany

Thomas Northhoff  
+49 (89) 29036 8566  
tnorthhoff@deloitte.de

### Israel

Chaim Ben-David  
+972 2 5018860  
cbendavid@deloitte.co.il

### Middle East

Abdelhamid Suboh  
+971 50 552 0437  
asuboh@deloitte.com

### Africa

Nazeer Essop  
+2712 482 0268  
nessop@deloitte.co.za

### Turkey

Saim Ustundag  
+90 212 366 60 46  
sustundag@deloitte.com

**About Deloitte**

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

**Disclaimer**

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms or their related entities (collectively, the "Deloitte Network") is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relied on this publication.