Communities
and Local Government

Developing the local government services market

Working paper on local government asset management and construction

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PricewaterhouseCoopers LLP
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Executive Summary

1 This working paper sets out the key findings from recent research undertaken by PricewaterhouseCoopers LLP (PwC) on behalf of the Department for Communities and Local Government. The paper considers the development of the asset management and construction services market in local government, and is part of a wider study of key local government supply markets. It contains key messages for policymakers, suppliers, and commissioners operating in the sector. The paper was completed in August 2006; opinions expressed in the paper are not necessarily shared or endorsed by PricewaterhouseCoopers or the Department.

2 The asset management and construction services sector in local government is of a significant scale. The local authority estate has been valued at more than £78bn, with annual running costs of £5bn, making it the second largest corporate cost after staff costs. The sector faces complex policy drivers and operational challenges, which trigger the need to consider:

- a strategic approach to asset management and construction services
- appropriate selection from the diverse sources of finance for major capital projects
- better coordination with initiatives aimed at improving service delivery
- the nature of longer-term trends in requirements for property assets

3 The existing market is serviced by a sub-set of the private sector providers who are active across the wider construction market, suggesting opportunities to bring in additional capacity to service local government's requirements. In addition, despite innovative work by a number of leading edge authorities, local authority asset management does not always enjoy the strategic profile that it might have in influencing local government service delivery. The challenges and opportunities available to raise the profile of this area within local government include:

- increasing access to a range of procurement options appropriate to the wider strategy and the needs of individual projects
- leveraging capability to aggregate both demand and supply across the authority, its neighbours and other local agencies as appropriate, and to integrate usage where appropriate
- building capacity and capability within commissioners to achieve efficiency of asset utilisation, by keeping abreast of new development in the market

4 The future development of service delivery options could take place via a variety of options including:

- more willingness to consider new propositions from other parts of the public and private sectors such as Strategic Property Partnerships
- extension of partnership working to deliver against flexible requirements

- market making activities to ensure a vibrant supply-side to tackle smaller-scale and ‘niche’ opportunities

- more commitment on the supply side to a more proactive approach to developing innovative offerings that reflect the particular requirements of the local government sector

5 The Department’s *local:vision* debate on a longer-term strategy for local government also has a number of implications for the future development of this market sector, including:

- the challenges posed by a shift to more user-centric services and more integrated physical spaces for the delivery of public services that span a number of public sector agencies

- a shift towards a focus on areas, and the implications for local authority property portfolios of more integrated models of service delivery, and a stronger emphasis on neighbourhoods and the potential for more local ownership of assets

- the need for strategic leadership, at both political and managerial levels, in developing a longer term vision for the configuration of the asset base of the local authority of the future, and the commissioning strategy needed to deliver it

6 This working paper suggests a range of issues for wider consideration by stakeholders on the demand and supply sides in this sector, in order to stimulate further progress towards meeting the challenges and realising the opportunities offered across this key local government market.

Introduction and context

Background

1 This paper is one of a series that highlight sector-specific findings from a study of key local government services markets undertaken by PricewaterhouseCoopers LLP on behalf of the Department for Communities and Local Government. This working paper highlights specific findings in relation to the local government asset management and construction services market. Evidence was drawn from a roundtable meeting convened in 2005 involving local authorities, stakeholders, relevant professional bodies, suppliers and policymakers. Evidence from subsequent roundtables on other market sectors and cross-cutting issues, reviews of relevant literature, and written comments on an earlier draft of this paper are also incorporated into this working paper, which was completed in August 2006.

2 Our work has been undertaken in accordance with the terms and conditions agreed between ourselves and the Department for Communities and Local Government on 26th July 2004. We do not accept any duty of care or responsibility to any party other than the Department. The issues identified in this discussion paper are those that arose during discussions with stakeholders and review of research papers. This does not purport to be a comprehensive or complete list of the issues relevant to this market sector. Any oral comments made in discussions as concerns our reports and letters are not intended to have any greater significance than explanations of matters contained in the final written reports or letters. We shall not be held responsible for oral advice unless we confirm such advice formally in writing. Opinions expressed in the paper are not necessarily shared or endorsed by PricewaterhouseCoopers or the Department.

The local government context

3 In 2004, the Government set out to develop a longer term strategic approach to local government in England.[1] The Department for Communities and Local Government[2] subsequently opened up a Government-wide debate with local government and key stakeholders on the future of local government, under the banner of *local:vision*. The importance of the effective functioning of supply markets to achieving the vision led the Department to commission a study of local government supply markets.

4 The asset management and construction services sector was included in the study because:

- there is a growing recognition that managing assets effectively is key driver of service transformation
- buildings are at the centre of the public's perception of local government
- the value of local government assets and expenditure on construction and running the estate is very significant.

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1 *The Future of local government: Developing a 10 year vision*, Office of the Deputy Prime Minister, 2004

2 The *local:vision* debate was launched by Communities and Local Government's predecessor department, the Office of the Deputy Prime Minister (ODPM). ODPM became Communities and Local Government on 5 May 2006 – the Department is referred to in this document as Communities and Local Government.

The demand for asset management and construction services

5 The profile of property and related issues is high in many parts of local government, not least because of the scale and scope of property holding within local authorities. The property portfolio includes over 21,000 schools, 3,800 libraries, 1,800 leisure facilities, 700 museums and galleries and 2,200 community centres.[3]

6 Policy drivers influencing the need for buildings and active asset management and, therefore, influencing demand within the sector include:

- the Government's commitment to create sustainable communities i.e. places where people want to live and work now and in the future[4] – sustainable communities require buildings/infrastructure to function properly
- the Lyons challenge of securing £30bn of asset disposals by 2010[5]
- the Efficiency Review – communities and Local Government guidance on delivering efficiency has a section focused on construction
- the Comprehensive Performance Assessment (CPA) – the Key Lines of Enquiry for Use of Resources specifically include a focus on how the council manages its asset base[6]
- the Kelly Programme[7] – construction was identified as a key sector in which the Government has significant purchasing power
- the partnering agenda and joining-up service delivery needs around users, including arrangements such as one-stop-shops and multi-agency service centres
- changing patterns of service delivery such as increasing use of electronic services
- new employment models including working from home, flexible working and job-sharing, which all have an impact upon the shape of local government's property portfolio

7 The physical state of schools, roads, social housing and other public facilities such as town halls is often a key driver of the public's perception of local government, as well as the quality of the public realm. Their performance greatly influences the attitudes and performance of users, be they council staff or the general public.

8 Buildings are also expensive to construct, run and maintain. Similarly, a well-designed, constructed and managed building can lead to significant improvements in staff productivity.[8] Therefore decisions on building, repairing and maintaining buildings are inextricably linked to good business management.

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3 *Hot Property: Getting the Best from Local Authority Assets*, Audit Commission, 2000.

4 *Sustainable Communities: Building for the Future*, Office of the Deputy Prime Minister, 2003.

5 *Towards better management of public assets: A report to the Chancellor of the Exchequer*, Lyons M., 2004.

6 *Key Lines of Enquiry for Use of Resources*, Audit Commission, 2005.

7 *Increasing Competition and Improving Long-term capacity in the Government Market-Place*, OGC, 2003.

8 *Property for business: An essential guide for senior executives*, Confederation of British Industry, 2005.

9 In recognising the investment backlog in public services, and particularly on physical assets, recent Spending Reviews have focused on redressing the situation through increased funding for schools and other services. Since April 2004, new freedoms have been given to local authorities within the Local Government Act 2003 under a new capital finance system. The prudential borrowing regime introduced by the Act allows authorities to borrow within affordability constraints rather than absolute amounts. The effects of this new system are still emerging as authorities tackle new projects. The Private Finance Initiative (PFI) is also a strong feature of the financial context for expenditure on local government construction, accounting for £4.6bn of PFI credits since 1997/98.

10 As noted in Sir Michael Lyons report,[9] good management of built assets improves service delivery by ensuring that the asset base is aligned with organisational needs and objectives. It can also release resources, generate revenue and improve value for money in service delivery. In collaboration with the then ODPM, the Royal Institution of Chartered Surveyors (RICS) has also published guidance on effective asset management, which makes clear the links between effective property management and improved service delivery.[10]

11 Various studies have stressed that the public sector does not sufficiently view its built assets as a strategic resource with significant financial and non-financial impacts on performance. In 1988, the Audit Commission published a report on local authority property management, arguing for greater attention to the strategic and policy implications of property ownership and use.[11] In 2000, the Audit Commission reported that too many authorities devoted insufficient attention to the use and cost of their assets, resulting in money being wasted and, at times, delivering substandard services to users.[12] In 2004, Sir Michael Lyons[13] reiterated that asset management had not yet had the strategic profile it needed.

12 However, innovative councils have found ways to deliver better services at lower costs through a variety of ways, including streamlining their procurement processes, working in partnership, pooling buying power, establishing partnerships and framework agreements with the private sector, building internal capacity and capability, using assets to catalyse community regeneration, reconfiguring and modernising operational portfolios, raising capital through asset sales (for example, non-operational properties) and co-locating services in shared multi-service centres.

The supply of asset management and construction services

13 The definitions of the asset management and construction services market vary. The diversity and breadth of the market is illustrated by the following typology of services:

- contractors responsible for building works

9 *Towards better management of public assets: A report to the Chancellor of the Exchequer*, Lyons M., 2004.

10 *Asset Management in Local Authorities*, Royal Institute of Chartered Surveyors, 2005.

11 *Local Authority Property: A Management Overview*, Audit Commission, 1988.

12 *Hot Property: Getting the Best from Local Authority Assets*, Audit Commission, 2000.

13 *Towards better management of public assets: A report to the Chancellor of the Exchequer*, Lyons M., 2004.

- professional construction service providers, responsible for designing, costing and project managing
- facilities management companies, providing management of all the support functions needs to operate a building
- niche facilities service providers, such as specialists in cleaning, security and grounds maintenance
- professional property services and estate management companies, for example providing agency, landlord and tenant, valuation, rating and planning services
- PFI suppliers, providing design, build, finance and operation or design, build, and operational functions in conjunction with separate finance providers, for the development of property assets and subsequent provision of operational services
- total property outsourcing or strategic property partnership suppliers, providing a comprehensive service taking responsibility for all the above functions on behalf of a client organisation, including possibly owning the assets

14 It is widely accepted that it is a significant market, as most of the above services have been opened up to the private sector to varying degrees. There are various figures quoted for the value of the local authority estate, ranging from £140bn (£78bn excluding social housing)[14] through to £383bn.[15] However measured, the local authority estate is the second largest expenditure after staff costs for most local authorities.

15 Similarly, UK annual public sector construction output has grown by over a third between 1999 and 2003 from just under £24 billion per year to around £33.5 billion and capital investment is set to continue expanding over the next three years in key sectors such as schools, hospitals, roads and social housing.[16] Communities and Local Government data suggest that in local government, capital expenditure has risen by 67% between 1997-98 and 2003-04, to more than £15bn in total.[17]

16 However, the asset management and construction services sector is highly fragmented in terms of both supply and demand. The size distribution of the industry is consequently highly skewed towards small size firms and contracts. This size structure poses special problems for adding value and contributing to sustainable development.

17 On one hand, the preponderance of small companies precludes the exploitation of economies of scale, productivity and hence cost reductions, with all the implications for competitiveness and low levels of investment in IT and research and development (R&D). However, small firms can and do compete with each other for specialised tasks, and they can offer tailor-made job specifications for customers. Customer-firm relationships can be closer than if large 'anonymous' firms are involved. Quality assurance may also be higher where there are strong links between customer and firm.[18]

14 *Hot Property: Getting the Best from Local Authority Assets*, Audit Commission, 2000.

15 *Towards better management of public assets: A report to the Chancellor of the Exchequer*, Lyons M., 2004.

16 *Improving public services through better construction*, National Audit Office, 2005.

17 *Local Government Finance Statistics in England No. 15*, Office of the Deputy Prime Minister, 2004.

18 *The social and economic value of construction*, Pearce, D., 2003.

18 There is widespread consensus, amongst both clients and suppliers, that the fragmented nature of the industry is not conducive to efficiency. Egan noted in 1998 that fragmentation in the construction industry hindered performance improvement and long-tem investment in training and technology.[19] In 2002, the Strategic Forum challenged the industry to develop integrated teams and supply chains.[20]

19 A 2005 NAO report,[21] challenged the public sector to create more certainty in the market, with longer term funding and programme planning, adopt collaborative working approaches and to make decisions based on sustainable whole life value.

19 *Rethinking construction: The report of the Construction Task Force*, Egan J., 1998.

20 *Accelerating change: A report by the Strategic Forum for Construction' Rethinking Construction*, Egan J., 2002.

21 *Improving public services through better construction*, National Audit Office, 2005.

The current market: challenges and perceptions

Introduction

20 Discussions with suppliers, commissioners and policymakers held as part of this study suggested that the key challenges facing the asset management and construction services market include:

- Limited interest and investment by the private sector in local government markets
- Complex, costly and often lengthy procurement processes
- Insufficient strategic commissioning capacity within local government
- Fragmented buying behaviour
- Limited market intelligence within the sector

21 This section examines in more detail these constraints to market development, based on the perceptions and views expressed by the participants.

Limited interest and investment by the private sector

22 Although the supply side often provide 'generic' services to both public and private sector clients, there appears to be some evidence of segmentation in this sector, resulting in a smaller group of suppliers being regular respondents to the needs of local government. Private sector participants at the roundtable meeting suggested a number of reasons for the limited private sector interest in the local government market. Although it is often felt that the procurement rules and processes are lengthy and complex, these may be less important than attitudinal and behavioural factors.

23 The necessary understanding of the requirements and likely timescales for public procurements are an important consideration for new entrants; however only certain companies are willing to make the investment of time and resources needed to understand and to respond to the particular demands of the local government market. Roundtable participants on both the supply and demand sides pointed out that suppliers who don't make this investment are immediately identified and rejected by commissioning authorities.

24 The financial risks around pensions involved in any deal which involves a Transfer of Undertakings for Protection of Employment (TUPE), are seen as too onerous and are also a disincentive to entering the local government outsourcing market. The introduction of Admitted Body Status for the LG Pension Scheme, the appropriate use of Pension Bonds, and other methods of staff management such as secondment arrangements have worked in some other sectors to stimulate private sector interest and reduce perceptions of unsustainable risk transfer, and may also be applicable in this market sector.

Complex, costly and often lengthy procurement process

25 The length and lack of predictability of formal procurement processes still attracts widespread frustration amongst private sector suppliers. This is further confirmed by a recent larger-scale survey on public sector procurement carried out in 2004, which had strong representation of local government suppliers (70%) and construction sector providers.[22] The survey found that 65% of respondents believe public procurement requires fundamental reform, whilst 45% reported a substantial increase in bid costs, often associated with long and unpredictable timescales.

26 One of the key issues identified during the roundtable discussion was the dilemma that local authorities face in choosing the right procurement and capital funding options, and the impact of this choice on the procurement process and the flexibility resulting from different options. This centres on the contrast between vehicles such as PFI or initiatives such as Building Schools for the Future (BSF), and what was perceived as the broader potential scope of arrangements formed under looser forms of partnership working. Partnership in this latter context meant procuring – via a rigorous selection process – one or more strategic partners to address a range of projects that may not all be fully defined at the start of the arrangement. In contrast, the PFI and BSF routes were perceived to be designed to provide a tailored methodology to achieving outcomes that are capable of clear specification in advance and on a repeatable basis across different local authorities. The partnership route is seen to be more flexible in tackling the range of outcomes required, but needs to be supported by a robust business-case in order to validate individual projects. The PFI and BSF routes tend to have earmarked funding, which was perceived as a barrier to the procurement of more integrated multi-service facilities, as each stream of activity is financed from a discrete 'pot' with little flexibility.

27 In case of the BSF this perception was based upon some of the early schemes in development and, seem to contrast with the theory behind BSF (and, in particular Local Education Partnerships (LEP) which is the preferred delivery vehicle for BSF), involving a Public Private Partnership between a local authority in charge of a BSF area programme, Partnerships for Schools and a private sector partner. The use of LEPs was commended as they enabled a mixture of projects and allowed for delivery of projects through a mix of procurement routes, both PFI and conventional funding. Indeed discussions in the roundtable for this sector and in other market sectors discussed the wider role such a vehicle could play. However, the concern was that practice was not matching the theory, and this would continue with future BSF rounds.

Insufficient strategic commissioning capacity within local government

28 The wider challenge of restricted strategic commissioning capacity in this sector was a prominent theme. This is very much in line with findings of the recent survey of local government procurement practice.[28] The survey identified the main obstacles to effective procurement as:

22 *Public Sector Procurement 2004: survey by MORI*, CBI, 2004.

23 *Evaluation of the Local Government Procurement Agenda: Baseline Survey*, Institute of Local Government Studies (INLOGOV), 2005.

- Lack of staff ability
- Limited consideration of service delivery options
- Lack of investment in modern procurement systems

29 Both suppliers and commissioners agreed that despite recent improvements such as the opportunities afforded by Prudential Borrowing, there remains more to be done in providing more freedom and flexibility to local authorities in order to support more integrated strategic planning and delivery capacity at local level. Local authority commissioners tended to characterise this as the need for increased flexibility in capital funding options to handle a diverse range of requirements in developing their property portfolio, which were difficult to collate into an integrated programme. The impact of these restrictions on the supply chain is that public sector buyer power is not sufficiently flexible to encourage the development of a diverse supply chain to meet the increasing complexity of local government's requirements.

30 In addition, local authorities have limited control over the funding and management of some sectors, such as schools, hospitals and more recently housing. Yet local service users tend to view the council as the responsible authority.

Fragmentation buying behaviour

31 Another key factor in supplier perceptions of the current local government market is the fragmentation of buying behaviour on the demand side. This creates two challenges in market management and development, including:

- difficulties in harnessing efficiencies from small and 'scattered' commissions across a number of local authorities, even where these commissions have similar characteristics
- uneven deal flow, which leads to capacity problems for suppliers

32 On the positive side, responses from the suppliers showed that they did believe that deal flow in local government was sufficient to make it of interest to a broad range of suppliers. While local government viewed as a whole is seen by suppliers as a significant buyer of asset management and construction services and therefore an attractive business prospect, individual authorities tend to have a limited number of large-scale projects. This disparity is further exemplified in comparing the relatively small number of large unitary or county authorities to the much broader category including small district councils – with the corresponding drop in scale and continuity of deals. To exacerbate this, even within individual authorities the packets of work and the length of projects (often commissioned by individual service departments) result in fragmented demand. The combined result of these factors is a set of diverse and small-scale projects which can be unattractive to the major companies on the supply side, as they each carry a fixed overhead of bid and delivery costs.

33 Secondly, the fragmented nature of demand across the sector is compounded by uneven deal flow that has resulted in construction capacity shortfalls on the supply side, for example in responding to the demands associated with BSF and other big public sector construction such as with PFI Hospitals, which are particularly acute in some regions.[24] This is compounded by the mixed quality of market intelligence within the sector, commented upon in more detail below.

Limited market intelligence within the sector

34 Finally, both commissioners and providers are agreed that market intelligence on trends and opportunities in this sector is of mixed quality and not always easily accessible, particularly to SMEs and new suppliers. Overall, market intelligence is often gathered informally, via observations, contacts with other authorities, own staff and service users. The reliance on informal contacts is not necessarily a weakness, but it needs to be supplemented with evidence-based intelligence. This is something that this sector bears in common with other public sector markets.

35 Following on from the Kelly report,[25] the Kelly programme is currently collecting data from public sector bodies, which will help paint a picture of public sector demand for major construction projects over the next 3-5 years. Similarly, work has been undertaken on the supply-side to obtain both qualitative and quantitative data from suppliers of construction services in order to better understand issues facing the industry.

A way forward

36 If these perspectives on the current operation of the market can be summarised into a consolidated view, it is that the supply side wants to move to a more strategic approach, one that is in-line with the offer it is increasingly making outside local government to other parts of the public and private sector. Local government commissioning shares this ambition, but is hampered by a combination of the competing internal requirements of different service directorate 'customers' within local authorities; limited flexibility in access to different capital funding streams; and restrictions on internal procurement capacity, in a situation where a strategic approach is difficult to achieve.

37 Local authorities are aware of these limitations, and a number are attempting to consolidate their requirements into a strategic long-term plan for engagement with the supply side. However, there are inevitable tensions between local government planning horizons that are linked to the electoral cycles and shifts in political control, and the longer term perspective needed within the strategic management requirements associated with property and estates, which can cover more than a decade. Some parts of the supply market can offer flexible management arrangements with the capacity to handle changes during such longer term agreements, for example Strategic Property Partnerships. However, the confidence within local government that such arrangements are not creating barriers to changes in requirements, linked to the ebb and flow of local political control, is taking time to develop.

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24 *Increasing Competition and Improving Long-term capacity in the Government Market-Place*, OGC, 2003.

25 *Increasing Competition and Improving Long-term capacity in the Government Market-Place*, OGC, 2003.

38 Alongside political considerations, there is still legitimate criticism that some commissioners do not invest sufficient time and resource to ensure that they understand the current way the supply side operates. They do not consistently track the emerging trends in the wider market in order to intercept and exploit new concepts from the providers. These capability and capacity constraints have been identified before in the reports noted earlier.

The future market: options and opportunities

Introduction

39 The previous sections highlighted the drivers of demand and a set of constraints to the effective development and management of the market, including fragmented buying, limited strategic commissioning, inflexible capital funding, and limited market intelligence. The purpose of this section is to outline opportunities and potential responses for addressing these issues. The discussion covers:

- aggregation and integration
- strategic planning of assets
- strategic partnerships
- exploiting private sector creativity
- flexibility
- public-public models of service delivery
- community ownership and management of assets

Aggregation/integration

40 The various factors discussed in the previous section point to the potential importance of aggregating local authority requirements as a means to exert more effective buyer power, regulate deal flow, and to develop a more strategic approach to property procurement.

41 Aggregation is one of the key mechanisms that is promoted in potential efficiency gains, but whilst participants in the study broadly acknowledged this as a potentially important driver of improvements, it was equally recognised that there are, as yet, few practical examples in local government of where aggregation has been used successfully to achieve such improvements.

42 On one hand, aggregation of **demand** (coordination) requires:

- analysis of historic demand to provide management information on purchasing practices and trends;
- drawing together information on common or similar requirements – within an organisation and with other organisations
- assessing the potential for collaborating with other business units within an organisation, or with other organisations, and agreeing to present these requirements in a coordinated way to the market

43 Aggregation of **supply** (consolidation), on the other hand, means a single supplier, or a small group of suppliers, responding and contracting to deliver the service. Although aggregation of supply is a likely market response to aggregation of demand, aggregation of demand does not always lead to aggregation of supply.

44 Applying these definitions to the construction sector, BSF can be characterised as a nation-wide attempt to aggregate the demand for new school buildings. Other examples may be more narrowly-focused on developing an integrated approach to property and asset management across a single authority.

45 Taking into consideration some of the drivers underpinning the Efficiency Review, there may also be opportunities in local government to move beyond aggregation, into co-location and shared service delivery options and *integration*. This can be achieved at three levels by considering:

- a more holistic view of the needs of **all** the service functions within a single local authority
- collaboration with other local authority partners on a regional or sub-regional basis between authorities who have common requirements
- cooperation with other local public sector agencies to achieve a common set of local outcomes, for example those agreed within the rubric of Local Area Agreements

46 Developing an integrated approach to asset management and procurement within individual local authorities is a challenge for many authorities. Authorities that have achieved integration at this level have realised significant opportunities to link together projects, service requirements, and other policy initiatives to generate synergies and achieve cross-cutting outcomes which are to the benefit of the authority. Broader exploitation of these opportunities demands integrated accountability and structural relationships between property and asset management teams, front line services and strategic policy functions. This also requires the commissioning team to have both the strategic capacity to analyse the need, and the strategic vision to draw common elements into a composite programme. In this manner a new commission might start off as a requirement for a new local library, but extend 'organically' into provision of one-stop-shop facilities, the hosting of a teacher's resource centre and an area office for social services.

47 The second dimension for development of aggregation is across multiple authorities. The development of shared customer access, for example through one-stop-shops and call centres, in areas of two-tier local government has been a feature of recent practice development in local government.[26] These initiatives may in themselves trigger requirements to develop property portfolios, for example for one-stop-shops, within a partnership structure. An extension of this approach may be equally applicable for some elements of service delivery in metropolitan areas. The development of joint working initiatives across local authorities has gained profile through the work of the Strategic Partnering Taskforce (SPT) and will continue to be prompted by service initiatives emerging from the Efficiency Review. However, the

26 *New ways to Modernise*, New Local Government Network, 2005.

difficulty of reaching successful outcomes in such projects has been well documented in publications by SPT, and needs careful fostering through the early stages if robust partnerships are to develop.[27]

48 It is worth noting that asset management professionals are not always drawn into consideration of joint working initiatives in the same way as are, say, ICT professionals. It may be useful for local authorities to consider potential opportunities for early engagement of property professionals in large scale transformation projects.

49 The third area for aggregation is across a range of public sector agencies in a particular locality. The early evidence about the effectiveness of Local Area Agreements in promoting more integrated delivery of locally-agreed outcomes is encouraging, and there may be greater potential to use these as vehicles for integrated asset management and shared property usage. To achieve the kind of scale and scope likely to interest major suppliers operating in this sector, the degree of integration will need to be significant. It will also need to be tied in to the achievement of the outcome targets associated with the LAA; the development of a longer term shared view about the service requirements of a locality, the configuration of public and private sector assets needed to support these aspirations; and the supply side requirements to deliver this. Given the potential challenge in achieving this degree of collaborative engagement over a long timeframe, external incentives and good practice support and guidance are likely to be very valuable. Encouragement is likely to be needed from sponsoring government departments of the various agencies concerned. Equally, building a sample business case justification to illustrate the potential benefits of a more integrated, multi-agency approach to delivering local service through an integrated property portfolio may also help in encouraging consideration of these kinds of options at local level.

50 None of these routes to aggregation/integration should be considered as mutually exclusive to the other options, but clearly if the complexity of any one route is daunting, then a composite of two or more of them of them ramps up the demands even further. In practice, the experience of practitioners at the roundtable suggests that a step change approach is required beginning with:

- integration of the strategic management and accountability arrangements to support an integrated approach to asset management on an authority-by-authority basis; then

- the development of collaborative arrangements between local authorities, on a sub-regional or regional basis, to exploit the potential for integrated customer access, particularly in two-tier areas; and then

- the development of multi-agency commissioning and service delivery arrangements, supported by a more integrated approach to strategic asset management across a locality.

27 *Strategic Partnering Taskforce: Final report*, Office of the Deputy Prime Minister, 2004.

51 At the current stage the guidance given to commissioners must be to consider each of the potential options for aggregation/integration on the basis of the current level of development, which will vary across different local authority areas, and to move forward on this basis. As experience and capability to draw requirements together and deploy shared solutions effectively rises, this approach can be ramped up to ensure the most effective use of aggregation/integration on the demand side in relation to strategic property management.

Strategic planning of assets

52 Moving to consider future developments in this market sector, the need to drive out efficiencies through more effective property management, and the implications of the Lyons Review will continue to be important drivers of the agenda in this sector. For local authorities, this means framing and pursuing a long-term strategic vision of what is required in terms of both asset management and construction services, together with an increase in the management skills and capacity to handle long-term partnership-based models of procurement and operation. This will be essential in exploiting the emerging market propositions, such as Strategic Property Partnerships at one end of the spectrum to the equally important 'boutique' suppliers of specialist services such as property management at the other end. The future supply market will therefore need to maintain a balance between exploiting large-scale and long-term contracts that can deliver efficiency and service improvement on behalf of their commissioning authorities, alongside some retained capacity for smaller, specialist projects.

53 In order to develop and maintain this mixed market, commissioners will not only need to consider volume and deal-flow in order to enable improved supply side capacity development, but also become more adept at 'flexing' their approach to procurement to suit particular deals and market segments. A strong view amongst suppliers during the course of the study was that procurement processes used by authorities were too frequently characterised by a 'one-size-fits-all' approach that was too complex and costly to deal with 'routine' requirements, but not flexible enough to manage complex partnership deals when this was what was needed. This is reflected to some extent in recent CBI analysis of supply-side attitudes to public sector procurement.[28]

Strategic partnerships

54 There is little doubt that in the wider market some of the largest providers in the asset management and construction services sector will continue to increase the scale, and scope of their market offerings, in response to demands from other parts of the public and private sector, and possibly local government as well. Strategic Property Partnerships (or Real Estate Partnerships, as they are sometimes referred to) are the focus of much of this development. This new style of delivery was pioneered by the Department of Work and Pensions (DWP) in *Project Prime*, and has seen organisations from several sectors such as Abbey National, Inland Revenue and the BBC follow similar paths. It is characterised by the provision of an end-to-end managed property services encompassing facilities management, estate management, life-cycle replacement, and capital project management across a long-term partnership arrangement.

28 *Public Sector Procurement 2004: survey by MORI*, CBI, 2004.

55 These new propositions are unlikely to be suitable for all or even the majority of local authorities at present. However, early evidence suggests that there may be considerable benefits in such arrangements, if local authorities were able to work with suppliers to develop models of benefit and risk-sharing that exploited the potential of such new propositions.

56 Strategic Partnerships provide a real opportunity to create whole life value and co-ordinate development and, in the process, the inherent value of the buildings can be realised and the risks and challenges of asset ownership can be mitigated. By combining asset management, capital projects, facilities management and lifecycle replacement services, economies of scale are created and synergies captured. The partners work jointly, pooling resources and skills and those risks that may change or cannot be controlled are managed collectively and consequences are shared.[29]

57 A strategic partnership can take many shapes and sizes. At one end of the spectrum a ‘mini’ partnership could involve a partnership agreement focused on specific property services, such as a single or multi service outsourcing. At the ‘maxi’ end of the scale, the partnership will involve asset ownership, liability and risk transfer to the partner, along the lines of recent deals in central government.

58 To date very few authorities have entered into large-scale partnership arrangement, and those authorities that wish to do so, will need to substantially shift their approach to property commissioning. The current fragmentation in procurement noted earlier will have to be reversed, and aggregation/integration of requirements will have to increase to exploit these opportunities. Major suppliers are increasingly establishing deals elsewhere in the public sector and with private sector buyers outside local government for these large-scale partnership arrangements and they are likely to become an increasingly important option for local authorities considering new approaches to managing their property portfolio in the future.

Exploiting private sector creativity

59 If suppliers are to maximise the value that they can offer to local government in this market sector in the future, some changes to established working practice on the supply side will also be important. Current practice in construction procurement frequently involves local authorities issuing tenders in a ‘tried and tested’ format, often with deliverables that the private sector has identified and provided for other authorities. Such approaches minimise risks to both sides of the transaction, and enable suppliers to offer scale economies through replicating delivery models, with some local tailoring, across multiple authorities. But this doesn’t challenge suppliers to extend the proposition or to innovate. This approach can result in a static market that is not fully exploiting the creative capacity of the private sector. Part of the way to avoid this is for authorities to be more innovative in framing their requirements, including aggregation approaches discussed earlier. However, the supply side also needs to ‘step up to the mark’ on this issue.

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29 *Asset Management Solutions for Local Government and the role of Strategic Property Partnerships*, PricewaterhouseCoopers, 2004, for Land Securities Trillium.

60 Where innovation is being brought to market by the supply side it is often through the financial structure of the deal rather than in the product or service proposition, the risk management balance, or the method of engagement between the partners. These financial options can be important and give individual companies an added advantage in the market. However, they are not always key to driving innovation in delivery. If suppliers are to attract local government to new opportunities such as those afforded by Strategic Property Partnerships, they will need to invest in flexing their offering to suit the specific requirements of the local government market.

Flexibility in the market

61 Flexibility is a concept that is widely used to describe local government requirements in this market sector, and one that will go on being relevant into the future. The meaning of the word is often not focussed on any single feature, but is a combination of the need for suppliers to respond to:

- new legislation or national policy initiatives
- changes local political direction
- changes in levels of demand
- financial constraints
- integration of changes to property requirements with 'new ways of working' involving changes to work processes, use of technology or staffing patterns

62 The future market will need to become more adept at responding to and managing the risks associated with these requirements for flexibility. In such a situation, commissioners could refine future requirements and financing in a more organic way over a longer period, and suppliers could tailor individual deliverables more appropriately within a risk transfer regime that supported a more organic model of changes in property requirements. This would result in a partnership driven agenda that can tackle the need for flexibility on a shared basis. Existing examples of partnership working attributed to particular attendees at the Roundtable were seen to be a strong response to customer requirements. If more deals are to move towards strategic partnerships there will be even more pressure on both parties to develop mechanisms within the contracting process that allow for the requirement to change, without putting at risk the mutual benefit to be earned by each party from extended collaboration.

63 Secondly, there is likely to remain a significant bifurcation in patterns of demand across this market sector, requiring flexibility in the type of suppliers that are needed to respond to it. On the one hand, a trend towards a broad scope of services provided over a longer duration, where large suppliers can draw upon their capacity and flexibility to react to the changing needs of commissioning authorities. On the other hand, there will be a continuing need to handle smaller scale, one-off, 'niche' requirements that will require suppliers with these characteristics to respond to them. This bifurcation is partly the result of current structural arrangements in local government, with smaller councils continuing to require services from smaller suppliers.

64 The obvious solution to this is to create a vibrant and diverse market of suppliers capable of responding effectively and innovatively to both larger and smaller scale opportunities. However, such diversity is limited in the market at present. Attempts to develop it continue to be challenged by entry barriers such as the long and complex sales cycle inherent within public sector procurement and the level of risk transfer sought by local authorities, as well as what both suppliers and commissioners at the roundtable identified as the continuing rigidity of the capital funding regime. It is these barriers that will need to be tackled if greater diversity is to be secured in the future.

Public-public models of service delivery

65 There is also likely to be significant future development potential for those local authorities providing 'excellent' services in specific property disciplines such as property management and FM, to provide services to other authorities or other public sector bodies, either on a traded or shared services basis. This might enable the exploitation of economies of scale in supply across larger areas, as well as the capacity of larger numbers of authorities to 'draw down' public sector property management expertise on a more flexible basis; benefits that have been evidenced in the development of other shared 'back office' professional services, for example internal audit.[30]

Community ownership and management of assets

66 The debate on *local:vision* has explored the opportunities for community-led organisations to take over either or both of the management and ownership of local public assets as a way of empowering local communities and improving services.[31]

67 In some cases this will be motivated by the dissatisfaction of local people with under-utilisation of public property or spaces, or the under-performance in the delivery of the associated service(s). However, this project has also identified examples of such models of community delivery (or co-production of services) as a legitimate commissioning option in their own right and not be considered only as a response to service failure. Such developments can be used to focus on:

- Neighbourhood renewal, boosting community-led regeneration
- Civic renewal and strengthening social and physical capital
- Encouraging social enterprise
- Improving service delivery through greater community engagement and increased accountability of suppliers

30 *New ways to Modernise*, New Local Government Network, 2005.

31 *Citizen Engagement and Public Services: Why Neighbourhoods Matter*, Office of the Deputy Prime Minister, 2005; *Communities Taking Control: final report of the cross-sector work group on community ownership and management of assets*, ODPM & Home Office, 2006.

68 A number of examples were discussed at our roundtable meetings, notably in the areas of neighbourhood services, public libraries and sports & leisure. Examples included community halls and centres, parks and open spaces, local branch libraries. In June 2006 DCLG announced that it was keen to support greater tenant involvement in the management and ownership of their homes by promoting consideration of options such as community gateway, community mutual approach and community land trusts as additional ways to meet the Decent Homes target.[32]

69 Individual projects in these areas can deliver benefits to local communities, and are doing so where they are being put into practice on the ground. The bigger challenge is to develop such options as part of of a coherent and integrated, organisation-wide asset management strategy.

32 *From Decent Homes to Sustainable Communities: a discussion paper*, Department for Communities and Local Government, 2006.

The implications of these new opportunities

Policy implications

70 The Department for Communities and Local Government opened up a debate on a number of aspects of the future of local government under the banner of *local:vision*. A key element of this is the performance framework for local government.[33] This provides an important context for considering how this market sector might need to change in the future if it is to support wider policy aspirations for the development of local government. Some of the key principles that encapsulate the new performance framework include:

- a focus on people – strengthening accountability to the public and service users through stronger community leadership by local government
- a focus on areas – improved joining-up between partners in local service delivery
- clear priorities and targets – balancing local and national aspirations, focused on shared outcomes across delivery partners

71 These broad aims are underpinned by an emphasis on improved performance information, robust performance management, new forms of external challenge including the potential for an increase in the direct involvement of service users, and tackling underperformance.

72 A number of aspects of this agenda are relevant to the challenges facing this market sector. As set out above, local authority buildings and related assets have a key impact upon, and demand for such facilities is impacted by, users' experience of public services. A key aspect of the choice agenda is greater flexibility in the methods and manner in which people engage with public service provision. The key issue here will be the development of more flexible approaches on the local authority side to the commissioning and management of assets, to enable greater responsiveness to user preferences. Whilst on the supply side, more innovative offers around mixed-use and multi-functional facilities in a variety of configurations are likely to be increasingly valuable to a demand side that will require more diverse and flexible physical access points to key local services.

73 The focus on area-centric approaches to the management and delivery of key services is also highly relevant in shaping the potential future patterns of demand, on two levels:

1. integration of service provision across agencies, and the implications of this for physical integration; and
2. a stronger emphasis than has been the case up until now in many parts of local government, on the role of neighbourhoods as a focal point for the management and delivery of public services.

33 *Securing better outcomes: developing a new performance framework*, Office of the Deputy Prime Minister & HM Treasury, 2005.

74 The first of these relates directly to earlier discussions in this paper regarding integration. *local:vision* sets out a strategy for the commissioning, management and delivery of local services that is focused on integrating services around the aspirations of localities. On a physical level, this implies an acceleration of shifts towards co-location of public services in integrated facilities. It also implies much greater diversity in the structuring of local property portfolios around the needs of particular areas, for example greater use of 'hub and spoke' models of service provision, with multi-use facilities linked to central sites through technological enablement. Given the challenges facing the current market, there are questions about whether current approaches to the commissioning of asset management solutions in local government are sufficiently flexible, where the supply side 'offer' has the capacity and innovation to respond to these requirements, and whether the current capital finance system – the potential of Prudential Borrowing notwithstanding – is sufficiently flexible.

75 The second of these issues is partly bound up with discussions earlier in the paper about aggregation. As discussed, aggregation has a number of potential benefits, for example driving up efficiencies in procurement, and more regular deal flow through the sector. But there appear to be tensions between this agenda and the emphasis on sub-local authority neighbourhoods in *local:vision*, not only in this market sector but in others as well. For example:

- how can potential new forms of local ownership and management of assets sit alongside other pressures in the sector, resulting from the Efficiency Review and other drivers, to consider the potential for aggregating demand for assets across local authorities?

- how does this emphasis on localism cut across trends in this sector towards aggregation of some services and associated assets, for example single contact centres and integrated back offices?

- is there a need to look again at the drive within some parts of local government to rationalise the local authority asset base through increased use of electronic rather than physical access channels, in the light of the emphasis on personalisation and a physical local presence at the neighbourhood level?

76 More effective community leadership also forms an important strand within *local:vision*. A more effective approach to the strategic commissioning and management of assets will undoubtedly require a robust approach to political and managerial leadership. The skills required are the ability to crystallise and broker strategic asset management requirements, to meet a multiplicity of service requirements and policy frameworks. These skills must operate both within their own authority, and, as also demanded by the new performance framework, across neighbouring authorities, other local agencies, and link with other tiers of governance to provide a truly coherent framework.

77 Equally important, given the life-cycle of local authority assets, is an ability to recognise and capitalise on the long-term rewards of effective asset management, and to manage the tensions between this longer term perspective, and often short to medium term, national and local political imperatives. Finally, leaders at both political and managerial levels will need to retain the focus on the effective delivery arrangements and the impact they can have on the continuing pressure for value for money. This report has identified that new delivery mechanisms such as Strategic Property Partnerships may be introduced, and existing delivery mechanisms such as partnership may proliferate more widely across local government. Experience in the skill sets to manage these changes must become more fully embedded across local government, if their potential advantages are to be realised in the future.

Potential next steps

78 The options for the development of the asset management and construction markets in local government will need to be considered and further developed by a dialogue between three groups of stakeholders: policymakers, practitioners and suppliers. The key issues are outlined below:

Policymakers should consider:

- How best to assist in improving the capacity of local authorities to develop strategic capability in defining long term asset management requirements, consolidating service demand into a more coherent proposition to put to the market, and other specialist commissioning skills.
- Whether the introduction of Prudential Borrowing is of itself sufficient to provide the necessary flexibility in the capital funding regime for local government, or whether more radical changes should be considered.
- The potential tensions between the future development of neighbourhood-based governance and delivery models with a focus on user empowerment, responsiveness and more devolved accountability, alongside parallel pressures to drive up efficiencies through increased regional or sub-regional approaches to the management of local authority assets across authorities.

Commissioners should consider:

- How to exploit new developments in the market by tracking the emerging trends in private sector delivery options. This may well involve enhanced strategic capacity within the client function to assess requirements on a longer term, coupled with closer working with intermediary bodies with relevant expertise in this area such as the Regional Centres of Excellence, the 4Ps or the IDeA.
- How to engage more directly with service delivery requirements both across their own authority, in potential collaboration with neighbouring authorities, or in potential cooperation with other public sector agencies delivering locally. The aggregation of these demands into requirements that are attractive to the developing market.

- How to build more flexible partnering skills and capacity, in joint working with other local authorities, the private sector and in joint projects with other public sector agencies.

- How best to engage Members to ensure they provide genuinely strategic leadership in relation to asset management, and contribute to appropriate mechanisms to renew and manage the portfolio in line with the longevity of the assets concerned.

- Involving suppliers at an earlier stage within the commissioning cycle, in order to enable a more constructive dialogue about framing procurement requirements.

- Tailoring the nature of procurement processes sufficiently to encourage a more diverse range of bidders and more effective upstream management of supply chains, for example by differentiating effectively between the scale and nature of different opportunities and the types of supplier(s) needed to respond to them.

79 Consider the positive role which the transfer of the management and ownership of assets to the community can play in local asset management strategies.

Suppliers should consider:

- A more proactive approach to developing innovation in the sector, for example to ensure that new propositions that are enjoying take up elsewhere in the public and private sectors are appropriately tailored to suit local government's requirements.

- More creative approaches to supply-chain integration to support more creative offerings, such as consortia responses and in particular the engagement of SMEs by larger players for example in responding to more complex future commissions from single authorities, groups of authorities and/or multi-agency commissions.

- A willingness to engage with local authorities in the framing of more imaginative bids, drawing on suppliers' expertise and understanding of 'what works' in other contexts blended with an understanding of the particular requirements of local government.

- How they can more effectively support aggregation of requirements from local government such that the suppliers' capacity to deliver benefits of scope and scale apply to local government procurement.

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4Ps

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Equion

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Mapeley

Mitie Managed Services

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