House of Commons

Committee of Public Accounts

Improving the efficiency of central government office property

Eleventh Report of Session 2012–13

Report, together with formal minutes, oral and written evidence

Ordered by the House of Commons to be printed 16 July 2012

HC 288
Published on 31 August 2012
by authority of the House of Commons
London: The Stationery Office Limited
£10.00

Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit" (Standing Order No 148).

Current membership

Rt Hon Margaret Hodge (*Labour, Barking*) (Chair)
Mr Richard Bacon (*Conservative, South Norfolk*)
Mr Stephen Barclay (*Conservative, North East Cambridgeshire*)
Jackie Doyle-Price (*Conservative, Thurrock*)
Matthew Hancock (*Conservative, West Suffolk*)
Chris Heaton-Harris (*Conservative, Daventry*)
Meg Hillier (*Labour, Hackney South and Shoreditch*)
Mr Stewart Jackson (*Conservative, Peterborough*)
Fiona Mactaggart (*Labour, Slough*)
Mr Austin Mitchell (*Labour, Great Grimsby*)
Chloe Smith *(Conservative, Norwich North)*
Nick Smith (*Labour, Blaenau Gwent*)
Ian Swales (*Liberal Democrats, Redcar*)
James Wharton (*Conservative, Stockton South*)

The following Members were also Members of the committee during the parliament:
Dr Stella Creasy (*Labour/Cooperative, Walthamstow)*
Justine Greening (*Conservative, Putney*)
Joseph Johnson *(Conservative, Orpington*)
Eric Joyce (*Labour, Falkirk*)
Rt Hon Mrs Anne McGuire (*Labour, Stirling*)

Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume.
Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Adrian Jenner (Clerk), Sonia Draper (Senior Committee Assistant), Ian Blair and James McQuade (Committee Assistants) and Alex Paterson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee's email address is pubaccom@parliament.uk

Contents

Summary

Central government office estate comprises over 5 million m^2 of space and costs around £1.8 billion a year to run. Rationalisation of the estate therefore offers the public sector the chance to secure significant efficiency savings. From 2004 to 2010, central government departments have made savings of around £100 million each year on the cost of offices, largely by moving from traditional cellular offices to open-plan spaces and by improving use of space through approaches such as hot-desking. However, despite the improvements in recent years, government's use of space is still relatively inefficient compared to the private sector. Delivering further savings is likely to get progressively more challenging, but if government can be more ambitious in its approach, then we estimate that they could achieve over £800 million a year in further savings by 2020.

The Government Property Unit was established in 2010 to accelerate efficiency savings from the estate, but it has not provided the leadership necessary to deliver an effective cross-government approach. It did not win the support of departments, and in particular the Treasury, for its initial plan to centralise control of the office estate. Since then, despite much talk, it has yet to establish a vision for the estate that all departments can agree upon. Until property is seen by departments as a cost rather than an asset, the vast potential savings will not be realised.

The Unit has instead fallen back on the role of coordinating departments' efforts to exit buildings as leases expire. This reliance on the pattern of lease breaks risks missing the opportunity to more fundamentally change the way government uses its offices, and also risks leaving departments without the modern and flexible space that future ways of working may require. Instead of creating a framework for the better use of property across Government, the Unit has focussed on a small number of high profile mergers.

Departments operate in financial silos which do not encourage them to work together and share space in a way that would benefit the Exchequer as a whole. The current approach to departmental budgeting means that the costs and risks of space-sharing can fall prohibitively to a single department unless cost sharing arrangements can be agreed. Relatively few such deals have happened. The Unit needs to make it in the interests of departments to work together and, to do so, it needs the support of the Treasury, which so far has been far too passive in waiting for others to propose a solution.

In this report we also highlight three further areas where the Unit needs to show far greater leadership to realise the potential for further savings. First, the bulk of public sector estate belongs to local government and the Unit needs to ensure that central and local government work more collaboratively. Second, the Unit needs to centralise property ownership and start to negotiate terms with major landlords on a more standardised basis, rather than relying on departments to negotiate separately building by building. Finally, consolidating the estate will inevitably lead to the mothballing of buildings. We acknowledge the current market conditions are making it difficult to re-let surplus space, but it is clearly a waste for buildings to stand empty, so the government needs to accelerate its plans for sales. There is no point in the Government simply holding property in the

hope of a future rise in property prices.

On the basis of a Report by the Comptroller and Auditor General,[1] we took evidence from the Cabinet Office and the Department for Business, Innovation and Skills on improving the efficiency of the central government office estate.

1 C&AG's Report, *Improving the efficiency of central government office property*, Session 2010-12, HC1826

Conclusions and recommendations

1. **We welcome the progress made in recent years to reduce the cost of the government office estate. However, the Government Property Unit will need greater clout to mandate actions across Whitehall, if it is to build on this success and make the government's use of office space as efficient as it could be.** The Government Property Unit's (the Unit's) early plans to centralise control of office property failed to gain support of departments and the Treasury. Since then, the Unit's approach to savings has relied on departments exiting buildings as lease arrangements naturally expire. The most effective intervention has been the national moratorium on new or extended leases, illustrating why the management of government property is a classic case where 'tight' central control would be more effective for the taxpayer than the 'loose' approach of leaving it to departments to act individually. The following recommendations are intended to help government realise the full potential for further savings.

2. **Departments continue to operate in silos without sufficient financial incentives to share space and accelerate savings.** Departments are accountable for their own property costs and remain so as buildings fall vacant. Sharing space and disposing of excess property offer the potential for savings to the taxpayer, though the burden of financing such moves can fall disproportionately and prohibitively on a single department unless cost sharing deals between departments are agreed. Progress in accelerating savings in this way remains slow. The Treasury should incentivise departments to deliver savings in the interests of the Exchequer as a whole. New arrangements must be put in place as part of the next Spending Review. Until property is seen by departments as a cost rather than an asset, the vast potential savings will not be realised.

3. **Government is relying on an opportunistic approach to reducing the office estate, limiting the potential for rapid savings.** Having failed in its plan to tackle departmental incentives through centralising office property or to create a framework for better use of property across Government, the Unit has focussed on a small number of high profile mergers. Other than this the Unit has fallen back on the more readily achievable savings from exiting leaseholds as opportunities arise. There are greater challenges ahead, as departments attempt to further consolidate space and adopt the new ways of working offered by new technologies. However, the Unit has yet to establish a clear strategy for what the future office estate will look like and government has no clear savings ambition beyond 2012-13. The Government Property Unit should agree a strategy for the office estate including targets for savings across government beyond 2012-13 that reflect what can be achieved with best practice in the use of space.

4. **Centralised control of property assets, with the department paying the resource costs of what they use, is the best way to get efficiency out of government property and should therefore be established.**

5. **The potential for further savings on office property will not be realised unless local government and the wider public sector are also involved.** The Unit has made

good progress in brokering sharing arrangements between central government organisations in regional centres such as Bristol. Alongside this, the Department for Communities and Local Government (CLG) is piloting local property sharing arrangements. The Unit should build on its initial engagement with local authorities and incorporate lessons from the CLG pilots to maximise opportunities for other public sector bodies, such as local authorities and the NHS, to share space with central government.

6. **Government is not taking advantage of its buying power to negotiate with major landlords, which could be a missed opportunity to achieve better terms and make savings.** Around 40% of the central government office estate is leasehold property. Departments have negotiated these contracts individually rather than seeking standard terms or joining together to exploit group buying-power. The Government Property Unit should centralise property ownership and set out how it will maximise government's buying-power to get better value for money, including standardising lease terms with major landlords.

7. **Government has made slow progress making vacant office space available for productive use.** In the current economic environment, government's demand for office space is likely to fall faster than properties can be disposed of. As a result, potentially empty space on the estate will increase. Unused property can be 'mothballed' but this is unproductive and risks urban blight. We welcome the Government's January announcement that it would make 300 vacant properties available to small businesses, but progress has been lamentably slow. Six months on only 24 pilots have been identified. We accept that the current market conditions are making it difficult to re-let surplus space, but there is no point in the Government simply holding property in the hope of a future rise in property prices. Excuses about security implications and additional running costs of providing facilities to such occupants are unconvincing. The Government Property Unit should accelerate plans to fill vacant space and in particular deliver on its commitment to make more properties available to small businesses.

1 Current arrangements for managing the government estate

1. Central government departments currently spend around £1.8 billion per year on their office estate, which is made up of some 2,500 buildings. Each department is accountable for its own property costs. Between 2004 and 2010, departments made steady progress reducing the size and cost of their estates, saving around £100 million a year. This was achieved largely through moving from traditional cellular offices to more efficient open-plan spaces.[2]

2. While past savings have been delivered by departments working alone, accelerating savings in future will need departments to work together to share space more effectively. However we heard how the existing system of departmental accountability for property costs creates incentives that work against this. Particular problems include:

a) The costs of office moves not being fairly shared—Costs such as up-front investment in readying a building for disposal, or the 'double running costs' of occupying both the building it is moving to, and the vacated building, fall disproportionately and prohibitively on the moving department.[3] Meanwhile the host department gains the benefit of additional income from its new tenant risk free.[4]

b) The low costs of freehold properties being a disincentive to move—Departments owning freehold buildings will not have budgetary resources to meet rental costs should they move to a leasehold property. There is no incentive for them to move, even if a more beneficial use could be found for the freehold building. [5]

3. The Government Property Unit (the Unit) was established in 2010, within the Department for Business, Innovation and Skills, to strengthen central support to departments in delivering savings on property costs. The Unit's initial strategy was to tackle the problems of departmental incentives through an ambitious plan to transfer accountability for office property from individual departments to a central property vehicle.[6] Under this system, the intention was for departments to pay flat occupancy fees to the centre for the space they used, removing the issue of different budgetary implications for departments occupying freehold or leasehold offices. The central vehicle would also have freed moving departments from the prohibitive up-front and double running costs incurred in major moves. The Unit bid for central funds from the Treasury to provide working capital to cover the up-front costs of some of the more ambitious property projects that it believed could save the taxpayer money.[7]

2 C&AG's Report, paras 1.1-1.2, 1.6-1.7

3 Qq 28, 85

4 C&AG's Report, para 1.19

5 Q 31

6 Q 14

7 Q 27

4. However, the Unit failed to implement its centralisation strategy, and plans were abandoned in 2011. Witnesses told us this was because the plans met resistance from property professionals in departments, most likely due, in the Unit's view, to sensitivities about departmental autonomy and responsibility.[8] The Unit also failed to convince the Treasury, which was concerned about the financial risks posed by a single department being responsible for such a large property pool. The Treasury also rejected the Unit's initial bid for working capital to enable major property moves. The Department for Business, Innovation and Skills, which was responsible for the Unit at the time, told us that on reflection, it believes that it failed to present a robust business case for the funding.[9] This was disappointing because until property is seen by departments as a cost rather than an asset, the vast potential savings will not be realised.

5. We were surprised to hear that the Treasury was not more proactive in trying to help the Unit tackle the problem of financial incentives in order to support delivery of savings at a time of spending pressure. We were told that the Treasury's view remains that departments will find a way to share these costs within existing budgets, should the savings case be compelling. Cost sharing can be agreed through negotiation and, if required, more formal budget transfers between departments.[10]

6. We are not convinced by the Treasury's optimism, particularly as progress accelerating savings through moves remains slow.[11] More promisingly, the Cabinet Office told us that the Treasury has recently authorised it to use the anticipated proceeds from granting a lease on Admiralty Arch as a central fund to support the financing of complex property moves.[12]

7. After failing in its initial plan to centralise management of government offices, the Unit was moved into the Cabinet Office in 2011.[13] It has since fallen back on focussing on a small number of high profile mergers and on a more reactive and opportunistic approach to securing savings, based on leasehold expiry. A national moratorium, established in May 2010, gave the Unit central control over department's abilities to enter new or extended leases.[14] The Unit's monitoring of lease expiry dates, and enforcement of the moratorium, have compelled departments to reduce the size of their office estates.[15] This led to an increase in departmental savings from around £100 million a year to around £150 million in 2011-12.[16]

8. The Unit has yet to produce a clear vision for the office estate that all departments can agree upon, and the Cabinet Office concedes that relying on lease expiries does not amount

8 Q 14

9 Qq 19, 27

10 Qq 25-26, Ev 18

11 Q 120, C&AG's Report, paras 1.13, 2.12

12 Qq 80-82

13 C&AG's Report, para 2.5

14 Qq 12-14

15 Q 20

16 Qq 42, 78-79

to a strategy.[17] The Cabinet Office had a target of a further £100 million of lease exit savings in its 2012-13 business plan, though this looks decidedly unambitious compared to current performance.[18] The NAO model showed that £100 million could be delivered if government exits only half of the offices whose leases are due to expire this year.[19] Since the hearing, the Unit has told us that savings of £170 million could be achieved.[20]

17 Q 22

18 Q 78

19 C&AG's Report, Figure 8

20 Q 78; Ev 20

2 Realising the potential for further savings

9. There remains clear potential to accelerate property savings in future, through further changes to how the civil service uses its office space. Firstly, central government continues to use its office space less efficiently than the private sector.[21] Additionally, the Cabinet Office told us it expects demand for office space to fall as front-line public services move increasingly to online delivery models.[22] As demand for office space falls, the NAO has estimated that savings of up to £830 million a year could be found by 2020 if use of space improves and the excess space released can be disposed of. [23]

10. Pockets of promising good practice already exist. The Cabinet Office told us about a pilot space sharing project underway in Bristol, where the Unit is leading work to consolidate staff from 20 organisations into a small number of shared offices. The Unit expects this approach to save £16 million in Bristol, and is exploring similar approaches in Manchester and Newcastle.[24] Other examples of new approaches include how the Ombudsman Service has mandated that staff work 50% of their time from home, while the Department for International Development's use of teleconferencing shows the potential for reducing the numbers of civil servants who need to be located in expensive London properties.[25] All these new ways of working need the right kind of space to support them. The Unit must centralise property ownership because without a central vision and strategy to lead departments, an opportunistic approach to saving money through leasehold expiry risks loss of the kinds of buildings that could best support these changes.[26]

11. The Cabinet Office told us that the Unit is committed to joining up with local government to plan area-based models of office consolidation such as the Bristol pilot. Local government's knowledge should help the Unit and departments manage the local economic impacts of planning decisions involving office property.[27] There is potential for involvement to go further, however, when local authorities and other public sector organisations are also looking to reduce office costs, as demonstrated by the Department for Communities and Local Government's Capital Asset Pathfinders programme.[28] While the Cabinet Office told us that there are a lack of incentives for central and local government to share space, the scope for savings seems clear and both central and local government can work together to secure them for the taxpayer.[29]

12. Across central government, leasehold properties account for nearly 40% of office space.[30] Departments currently negotiate these contracts individually rather than using

21 Q 96

22 Q 52

23 C&AG's Report, paras 1.12-1.13

24 Qq 30, 50

25 Qq 97, 111

26 C&AG's Report, para 9

27 Qq 130-131

28 Q 131

29 Q 50

30 C&AG's Report, Figure 3

standard terms. [31] We see opportunities to standardise approaches to contracting, in line with those we have seen in other areas such as procurement. The Unit assured us that it is planning to explore standardising commercial leases and ways to improve negotiations on rent reviews and on payments due to landlords to cover disrepair when a lease expires. [32]

13. Although there is scope for major savings through cross-organisation sharing and consolidation, there is also a risk that as government increasingly reduces its need for space, the amount that is vacant will grow. The NAO reported 220,000 m^2 of vacant space at the start of 2012, predicting this could rise to 560,000 m^2 by 2020.[33] In the current property market disposing of vacant space is proving difficult, and as a result, government office space is being mothballed.[34] Paying for empty space is wasteful, and brings with it the risk of urban blight.[35] There is no point in the Government simply holding property in the hope of a future rise in property prices.

14. In January 2012, the Government made a commitment to make surplus office space available for use by small businesses. We are, however, disappointed to learn that six months on from the commitment to make 300 buildings available, the Unit has only identified 24 locations for pilot projects.[36] Departments are reporting concerns around the running costs of providing this space and the security implications of sharing it, but we are not convinced these barriers are insurmountable. The Unit must improve its leadership of this important initiative, and make sure departments work together to address any cost and security barriers to making it happen. [37]

31 Qq 132-135

32 Q 136

33 C&AG's Report, para 1.14

34 Qq 36, 117-122

35 Q 128

36 Q 56; Ev 20

37 Qq 58-59

Formal Minutes

Monday 16 July 2012

Members present:

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon
Stephen Barclay
Jackie Doyle-Price
Matthew Hancock
Chris Heaton-Harris
Mr Stewart Jackson
Fiona Mactaggart
Meg Hillier
Nick Smith

Draft Report *Improving the efficiency of central government office property*, proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 14 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Eleventh Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report

[Adjourned till Wednesday 5 September at 3.00 pm

Witnesses

List of printed written evidence

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2012–13

First Report	The Government Procurement Card	HC 1915
Second Report	Mobile Technology in Policing	HC 1863
Third Report	Efficiency and reform in government corporate functions through shared service centres	HC 463
Fourth Report	The completion and sale of High Speed 1	HC 464

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 13 June 2012

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon
Stephen Barclay
Jackie Doyle-Price
Matthew Hancock
Chris Heaton-Harris
Meg Hillier
Mr Stewart Jackson
Fiona Mactaggart
Austin Mitchell
Nick Smith
Ian Swales

Amyas Morse, Comptroller and Auditor General, National Audit Office, **Gabrielle Cohen**, Assistant Auditor General, NAO, **Keith Davis**, Director, NAO, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Improving the efficiency of central government office property (HC 1826)

Examination of Witnesses

Witnesses: **Ian Watmore**, Accounting Officer, Cabinet Office, **Stephen Lovegrove**, Chief Executive Officer, Shareholder Executive, Department for Business, Innovation and Skills, and **Neil Warsop**, Deputy Director, Government Property Unit, gave evidence.

Q1 Chair: Welcome, especially to you Ian. I think this is probably your last hearing with us.
Ian Watmore: Unless you compel me to come back.

Q2 Chair: We will have a vote in the middle, which will take us away, so apologies for that. Welcome to the members of the Lebanese Court of Audit who are with us today.
We recognise from the report that over the last 10 years there has been a lot of work in this area. Savings have been secured by getting out of property, or by using existing property more effectively. In the context of recognising that success, may we talk a little bit about where we see issues in future? I was going to start with Stephen Lovegrove, and then come to Ian, if that is alright with you. Until a year ago, Stephen had responsibility for the Government Property Unit. That is where we get to the rather more depressing reading in the Report. The unit appears to lack authority. It appears to have taken for ever to get off the ground. It appears to have awful problems, with people not even being able to sit in the same place because they cannot use the IT systems, which seems so ruddy basic it is depressing. It appears to have a very bad relationship with the Treasury, which we will come on to. We will want to ask some questions about that. What was the point of it if you could not actually use it? If you set it up in a way that allowed us to achieve better rationalisation of the use of property, what went wrong? My understanding from the briefing we had before is that there are 60 people working there, so it is not an insubstantial unit.
Stephen Lovegrove: If I may, I will take you back to how it was set up and then move on from there. The OEP report on property by Lord Carter effectively suggested that a Government Property Unit be set up—

Q3 Mr Bacon: Can you translate OEP?
Stephen Lovegrove: Operational Efficiency Programme. There were five strands to it. One of them was property. It suggested that a Property Unit be set up, and that it be placed in Shareholder Executive, it being a stable centre of commercial expertise. At that point, there was an expectation that there would be a number of transactions that we could assist it in making, because most of the time, Shareholder Executive is about looking after companies and doing transactions. The recruitment of the key property professionals went a little bit slower than we would have liked, because there were a limited number of people who were prepared to come and work for Government. Property professionals are quite a highly paid group of individuals. We managed to get our lead people in by the beginning of 2010.

Q4 Chair: That took you how long?
Stephen Lovegrove: We started the exercise of trying to recruit in autumn 2009, and it took two or three months to get somebody to join in the form of John McCready. He took forward the recruitment of a number of other people. The vast bulk of the 60 people you are talking about—around 38—were people from the legacy OGC unit, which had been in the Cabinet Office/Treasury, looking after property. You are absolutely right to say that there was a lack of integration between that group and the group in BIS. That was not because of the people involved, but because there were incompatible IT systems. That was very frustrating for everybody. It was ultimately only

solved by taking the unit back into the Cabinet Office, where the lack of integration was no longer a problem. There was an issue.

Q5 Mr Bacon: What are we talking about here? The phrase "lack of IT systems" is bandied about. Did you not both use Microsoft Word? What is it that we are talking about that did not integrate?
Stephen Lovegrove: There is a special, very complicated database called ePIMS, which stands for electronic property information mapping system. It had been bespoke designed and set up—I am not an expert on this—on a different mainframe, effectively, in the Cabinet Office, which it was not possible to transfer to the BIS systems. The people in question had to bring over Cabinet Office laptops in order to access that very important group of bits of information. It was not a question of Word or anything like that.

Q6 Mr Bacon: It was a database.
Stephen Lovegrove: It was a big, complicated, bespoke Government property database.

Q7 Chair: Ian is a great IT expert. What would you have done?
Ian Watmore: I don't know. The ePIMS database is complicated. It is one of those classic legacy systems. It has been around for ages. It was part of the old OGC-Treasury grouping, and BIS has a different interface.

Q8 Mr Bacon: I can understand why you have a bespoke database for property. There are lots of things you would want to know—the number of square feet, the status and quality of property, the yield where it is rented out, and all that sort of thing—that you would not want if you were running the Shareholder Executive, where you have lists of nominees and all the things you have about shares. They are quite different—I can understand that—but so what? So what if the Cabinet Office people brought their laptops over?
I was working in Africa last week, and the High Commission showed me its FCO system. They can log on to it, and the DFID people share it. They can go into any FCO mission anywhere in the world and communicate with them quite happily and share all their stuff. In this world, computer companies are advertising "everything, everywhere." Why was this an issue?
Stephen Lovegrove: I think that the issue was not that they could not access it, because they brought it all over on the laptops. They did continue to use it; there was no question about that.

Q9 Mr Bacon: Was it just you wanting to get rid of them?
Stephen Lovegrove: I wanted to get rid of what?
Mr Bacon: You wanted to get rid of this annoying Property Unit and shove it somewhere else, and the Cabinet Office looked like a convenient dustbin because it had so many units already.
Stephen Lovegrove: No, far from it. The arrangement was always that we would incubate it and review whether it was the right place to be after a year. In the course of the year, we discovered a bunch of things that made it clear that the Shareholder Executive was the wrong place for it to be. We discovered that the number of transactions that we were capable of doing, where the Shareholder Executive's existing expertise would have been sensibly deployed, was much lower than we thought.

Q10 Chair: Just because of the market?
Stephen Lovegrove: Partly because of the market, and partly because the only things you can effectively sell are the freeholds. The view was taken that there were not that many freeholds. Most of the property that Government occupy is leasehold or are potentially PFIs. The freeholds that we do have are often important legacy buildings, such as the Foreign Office and the Treasury.

Q11 Mr Bacon: The Treasury is a PFI building—Exchequer Partnership (No 1) and (No 2) Holdings Ltd. So is the Home Office and the MOD.
Chair: They are selling the Admiralty.
Stephen Lovegrove: Yes. There were comparatively few freeholds that we could sell, so the focus turned very much towards trying to get out of the leaseholds as quickly as we possibly could. As a result, the vast majority of the people concentrated on rigorously and ruthlessly policing the national property controls. That did make a big difference in the first year.

Q12 Chair: One of the criticisms in the Report was that you did not develop a business plan that was sufficiently robust to release Treasury money, which could have started doing intelligent things. That seems quite a serious criticism.
Stephen Lovegrove: The business plan was principally about the national property controls. That was what most of it was about.

Q13 Chair: What does that mean?
Stephen Lovegrove: The national property controls are effectively the Cabinet Office enforced moratorium on people extending leases and taking on new leases.

Q14 Chair: Which you did. That is the one bit of success. What bit of the business plan did you not do?
Stephen Lovegrove: Where the business plan was not a success was where it began to develop the concept of property vehicles, which we decided after a relatively short time was not something that we needed to pursue. It was the structural component, as opposed to the behavioural component, of the exercise.
We did fail to persuade property professionals in Departments to engage in the idea of a property vehicle, a degree of centralisation in property. There were a number of reasons for that. Maybe we did not put the case forcefully enough. It was during the time of the spending review, so there was a great deal of sensitivity about autonomy and the nature of accounting officers' responsibilities, and other discussions about departmental budgets.

We also discovered that the data were not particularly consistent from Department to Department, notwithstanding the e-PIMS system. As a result of that, we found it difficult to mount a sufficiently robust set of cases for the Treasury to want to take that forward, which I think we accepted entirely. As a result, we switched tack. We continued to concentrate on national property controls and moved much more towards the place-based approach, which is effectively the approach that is being pursued now by the property team in the Cabinet Office.

Q15 Ian Swales: I think you said a few sentences ago that the Departments are not—I cannot remember the exact words—handing their property responsibilities over to the unit. That is probably the least surprising thing I have heard so far. Unless some managerial force was applied, why would we expect any Department's people to hand over their work to someone else? Unless there was some incentive to do that, human behaviour means they will cling on to it. Have you any comment on that process? Was it expected to work, and what might we learn from it?
Stephen Lovegrove: I think quite a bit comes down to the data, because this is a bit of an iterative process. If the data were not sufficiently robust and underpinned, it was going to be difficult to mount the case to the Treasury that this is the kind of approach that should be taken. That is certainly what happened.

Q16 Ian Swales: My question was about behaviour. You are saying that this is all about information and that you had a willing group of people, and if only the data bit had worked, it would all have happened. Is that really what you are saying?
Stephen Lovegrove: No, I think the report makes it clear that there is a degree of Treasury-sponsored mandation to make these kinds of property vehicles work. I don't think we got to the stage where we could persuade the Treasury that that was an appropriate course for them to take. The reason for that was that we could not mount the case because of the nature of the apples and pears that we had coming in from the Departments.

Q17 Matthew Hancock: You are blaming the lack of chickens on the fact of there being no eggs. You can only bring together the ability to deliver more efficient property between Departments if you have the right to data. The answer to that is to make sure that everybody has the same, or at least comparable, data, rather than not doing the project because they do not have comparable data. Why wasn't data harmonisation or standardisation part of the business plan in the first place?
Stephen Lovegrove: Data harmonisation was part of the plan.

Q18 Matthew Hancock: But you are saying that the project didn't happen because there were no harmonised data. That just doesn't make sense.
Stephen Lovegrove: This is all happening, effectively, between May 2010 and December 2010, and it would be fair to say that most Departments, and certainly most finance directors of Departments, where the responsibility for this stuff lay, had very different priorities.
Matthew Hancock: Hold on. They may have had different priorities, but this is all about saving money. That is what the whole period was about, more than anything else. That answer, the fact that they weren't concentrating, doesn't wash, either. Well, this is about saving money.

Q19 Meg Hillier: May I pick up on the incentives and mandation? There is no incentive for Government Departments to give anything away. As others have said, that is obvious. Perhaps we are straying into areas on which you cannot comment, but you said that the Treasury was not willing to do it because of the data. Actually, if the Departments were slow getting the data together, they can game you. Were you being gamed? Or was it that, in that short time, the Treasury was not willing to take that firm action and say, "If you don't comply, we'll go in and take it over"? It would have been wise to do that.
Stephen Lovegrove: I was not conscious that we were being gamed. I think I was conscious that there was a degree of natural defensiveness.
Ian Watmore: When I spoke to the Treasury afterwards—this is a post hoc view from the Treasury—they said that they were not convinced for two reasons. The first reason was that they thought most of the savings in this spending review would come from the lease-releasing mechanism rather than through big transactions. That was their first thing, and that is where they thought the money was to be found.
The second thing was that the Treasury were genuinely nervous of a great big property vehicle in the sky being created, into which they would pump some money, lots of other people would then offload all their spare properties and they would end up holding the baby when the bath water had gone. For those two reasons they said no to the property vehicle, but they said yes to the national property control, because they said that that was the most effective way of squeezing money out of the system in this spending review. They said to me, "If there is a case to be made for a property vehicle, make it for the next public spending review."

Q20 Matthew Hancock: We have heard, Mr Watmore, from you and colleagues at the Cabinet Office many times about your tight-loose approach. It seems to me, especially because of the physical collocation and opportunities for collocation of public services—not only back office but front office—that property is a classic case for tight control, and also that the public sector will never approach property properly until it sees it as a cost rather than an asset. Both of those move in the direction of wanting more central control and mandation, but it appears that central control and mandation are the things that are lacking from the original business plan.
Ian Watmore: This is probably the point where we pick up the story. I think what Stephen has done is to describe what happened up until the spending review, but it became clear after the spending review that the way to make real cost savings here was to get a really

tight grip on the leases, and to force Departments to come together into a smaller footprint, particularly starting in central London. Central London is not the massive numbers in this—most of the property is out in the regions—but if you cannot get the central London estate to start to come together, you are not showing any leadership.

For example, we in the Cabinet Office said that we would lead on that and move into the same building as the Treasury. There was no possibility of the Treasury releasing their building, because it is PFI-ed and under a very long-term contract, so we said that we would move in there. We have now done so, and we occupy the two floors at the top of the building. Meanwhile, we will release the property estate that we had up at the north end of Whitehall. The first part of that is Admiralty Arch, of which we own the freehold, and we are now releasing it to the wider marketplace. People are being encouraged to put bids for hotels and all sorts of other things into that space. We took the property that is 22/26 Whitehall and made that available for DFID. DFID are now coming into that building, and in turn releasing their very expensive lease in Palace Street. This game of musical chairs is moving things around.

Q21 Chair: That sounds quite good, but you are always good at telling us a story where you take action within Cabinet Office, which is under your control. The problem with this particular unit is that apart from encouraging all the property professionals in the various Departments to co-operate with you, which you have clearly managed to do in this one instance with DFID, you do not have the clout. This is the tight-loose argument; you do not have the clout, and I am not sure that the Treasury want to give you the clout.

Ian Watmore: Stephen wants to come back in, but on that point we have very tight controls on lease extensions. No lease can be extended without the express permission—

Q22 Chair: That is not a strategy.

Ian Watmore: No, but it gives you the lever to cause problems. When DFID's Palace Street lease is coming to an end, they know they are not going to get that extended, so they have to find an alternative solution. They are also, in that particular case, under budgetary pressure for themselves. It is not the only example; we have several like that. DCMS have agreed to come out of Cockspur Street, which was an expensive building and one that they are now far too small for. They will be moving into the HMRC building at the other end of the Treasury building, if you like, and thus releasing Cockspur Street.

We got tantalisingly close to getting the Department for Transport out of their headquarters into Marsham Street, where the Home Office were. That was not because of any unwillingness between the two Departments, but we had a private sector third party that we thought was going to take the transport lease off our hands. At the last minute, they changed their minds and went somewhere else, so we ended up not doing that. Those are the kind of things that we have been trying to do.

Q23 Stephen Barclay: Of course it is sensible to have controls at the centre on leases and to challenge whether those leases should be renewed, but that is a very reactive strategy. That is not about the business unit at the centre looking proactively and working with a business case, based on the estate. As regards the time when you were running this, what is unclear to me, Mr Lovegrove, is this: why does the Report say at paragraph 2.18 on page 35: "HM Treasury resisted the idea of releasing additional funding from reserves, in the absence of a worked up business case"?

Stephen Lovegrove: The money at that point was actually not about the business case for the property vehicle. That was money—working capital, effectively—that we were basically seeking to access to allow some of these chains of moves to occur, because one of the problems that we always had was that if Department A wanted to go into Department B, it was still on the hook. That was very clear. To be able to take a whole-of-Government approach, we needed to be able to move the money around sufficiently intelligently to allow people to do that. We did not find it possible to persuade the Treasury to release a pot of money for that. That is completely understandable on the Treasury's part, because we were not capable of putting forward a business case that they felt was going to be accessing the lowest-hanging fruit. They felt that the lowest-hanging fruit, as Ian has said, was from the lease moratorium.

Q24 Stephen Barclay: What I am asking you to explain is why that was the case. Why were you not able to? It appears that there are issues with the data, but the NAO reported in 2007 that there were problems with the data. It was not as if no one noticed. You have had three years at least to make improvements in this. What I am trying to establish from you is—notwithstanding differences in systems and that people could bring their laptops across and you could access the data—why you were unable to put a business case together that demonstrates that it makes sense to move Department A into Department B, notwithstanding that Department A would incur some additional costs, and that that is why you needed to access Treasury routes. Why could you not make that case?

Stephen Lovegrove: The Treasury was unconvinced that these kinds of moves needed a pot of money in the first place. They felt that it could be possible for bilateral negotiations between Departments effectively to distribute the benefits.

Q25 Chair: Mr Gallaher, can you help us on this?

Marius Gallaher: In certain cases there are situations where a Department that is giving up space and has extra space through its own efficiency is reducing its overheads and costs, that is surplus money to that Department.

Q26 Chair: There is a double costing. That is the whole point.

Marius Gallaher: A Department coming in—I think it happened in the case of the Cabinet Office coming in to the Treasury—finds the additional costs tough to take. A provisional transfer can take place, if the two Departments put their heads together, at no additional cost to the Exchequer. From the Treasury's point of view, we think that a lot of these deals can be done bilaterally, without a pot of money being at the centre to facilitate it.

Chair: The Committee will write to the Treasury and we will want some answers to some of these questions for incorporation in our report, but it seems to me that it is a high-handed handcuffing of the ability of the Property Unit to get on and do the job it was set.

Q27 ***Amyas Morse:*** May I add two points? One, did we take a transactional mindset to this when we did not really need to? In other words, if you had actually known where the property was and had simply brokered deals when people came together, you did not actually need to have it in a single corporation to do the deals, I would have thought. I just wondered where that construct of the Shareholder Executive view of life as deal-makers came from. Secondly, if the only way you ever rationalise the estate is by waiting until you have neat jigsaw fits, you will always move very slowly, I'm afraid. So the question was, on the choice of moving slowly—admittedly with creditable achievements, but relatively slowly, because you leave the financial disincentives in place—whether that choice was actually evaluated and whether people looked at it and said, "No, we'd rather go the slow road than the fast road; it makes more sense financially". Were numbers put together that allowed that judgment to be made?

Stephen Lovegrove: Taking the two questions in order, we started off in the Shareholder Executive thinking about property vehicles—constructs that would allow us to do some of the things that we felt we needed to do. There are good international precedents for the success of those. There is one in Sweden called Vasakronan, an extremely successful Government-initiated property unit that has accessed private capital and consolidated control and expertise. It has consolidated control of the Government estate and it does exactly what Mr Hancock has suggested, which is that the property is looked on as a cost, so Departments are then charged occupancy rates. It has been extremely successful.

In the long term, the principles lying behind that kind of exercise are still valid. There is no question but that that is how the private sector works in most of these kinds of things. Aspects of that are going to continue even now.

The Report suggests that the Property Unit enters into joint ventures with the private sector, some of the features of which will be replicated—maximising purchasing power and making sure best practices are available to all. All those things are still perfectly valid, and it may be that one day a property vehicle may come back. However, at the time we felt that the complexity of being able to do that in a British context was too great to mean that we wanted to tie up that amount of resource doing it. We wanted to continue to do the things that we knew—right now, on the ground—were going to make a big difference, and they were basically the rigid enforcement of the property controls.

However, the idea of the property vehicle morphed a little bit, I guess, into the concept of, "Perhaps we can accelerate some of these moves; perhaps we can make the jigsaw move that much more quickly", and that was the moment at which we started to put together an outline business case for the Treasury by saying, "If we had a pot of money, we could possibly get this stuff moving a bit quicker, because natural departmental incentives do not allow this kind of thing to happen very quickly."

That was, I am afraid, where we failed to mount an effective and robust business case. It was around that time that we effectively decided that the main thrust of this was about operational efficiencies rather than transactional efficiencies and moved it to the Cabinet Office.

Q28 Matthew Hancock: May I push back on this a little bit? I commend you for the work that you have done in central Government and in the Whitehall estate, which you continue to do. However, as you say, it is a small proportion of the estate. It is also a specific proportion of the estate. It is far more constrained by heritage consequentials than most other places. In a sense, it is the most difficult estate, so you started with the most tricky bit, because there are all sorts of prestige reasons for not moving.

Across the wider public sector, and especially areas run by local government, there is an increasing interest in property vehicles and in partnerships between different delivery bodies, whether it is the police or local authorities and what have you. Where it is being achieved, it is mostly achieved through getting the incentives right so that you do not have to personally try to make each one of those moves happen.

From what I have heard from you, no wonder it is complicated trying to make sure that transport goes into the Home Office. It does not take a senior civil servant to make every move happen. What you need to do is get the framework right so that these things can happen. It does not necessarily require a full legal vehicle—a sort of PFI equivalent; it needs the incentives of where the money goes to be got into the right place and then people will just get on with it.

I commend to you two reports by the Westminster Sustainable Business Forum, "Leaner and Greener", which I happen to chair. It concerns best practice and how this is happening in local government. But the most frustrating thing for local government delivery was that central Government was not getting its act together, because its incentives were all wrong. It was not that the rules made it not allowed or that a vehicle was not put in place. The vehicle could be put in place further afield at a decentralised level, as long as the incentives are right at the centre. Why did the business plan at the start go down the track of a vehicle of a legal process, instead of looking at how you can get the incentives right to ensure that when somebody is managing a very tight budget, as most parts of the public sector are at the moment, in their incentive to manage that budget, they are incentivised to reduce property costs rather than to hang on to their assets? I am sorry, because that turned into a little speech and

I did not intend it to. I would also like to hear from Mr Warsop about it.

Ian Watmore: Maybe Neil could talk a bit about the Bristol project that we are lining up as well, because it is a good example of something that we are trying to do, and it supports where you are going. Where the incentive hits the blockage is that the Department does not have the ability to give up the building it has on its books today in order to move into the other one, so it ends up double-counting. That is the bit where the Treasury were, in the end, against having a central pot of money. Money was very tight, they were struggling to fund the CSR as it was, and they did not want to create a separate fund for this.

Q29 Matthew Hancock: It is a bit like paying redundancy. It might cost in the short term, but it saves—

Ian Watmore: They said that they would facilitate any and all bilaterals needed between the Departments in order to make that happen. That is the current status, but we have to correct that for the next round.

Chair: I think this Committee has to write to the Treasury formally. If I had read the Report before last night, we would have asked for a Treasury witness, but as I only read it then, we did not.

Q30 Ian Swales: I want to come in on the area that Matt was waxing lyrical about. On the question of how it appears to a departmental manager who has a budget, in terms of their financial incentives to move, the Report mentions that on page 25, at figure 9. The budget rules do not help.

I have one question—again, I suppose it relates more to the Treasury. Think of the complexities of, "Well, I am in a leasehold building", or "I am in a freehold building." If I am in a freehold building, do I have real occupation costs or notional ones? What are the residual costs if I move? What are the moving costs? In the new area—the Report mentions this, too—I could even have higher lease costs if I am in a shared building and another Department is charging me. There are all those things. I imagine, as a busy departmental manager with other things to do, that I can put that in the "too difficult" tray for weeks, months, or even years. I wonder how much we can do to put the incentives in place—real or notional—that make sure Departments act swiftly and decisively in this area.

Ian Watmore: May I ask Neil to come in with the Bristol example?

Neil Warsop: *Managing Public Money*, the guidance that we are all referring to, asks accounting officers to take into account the Exchequer benefit across the public sector, as well as looking after value for money in their own budgets, so there is an incentive already in the guidance. There are a couple of examples that will help to illustrate some of the problems set out in figure 9.

First, the move of the Cabinet Office into the former Treasury building at 1 Horse Guards Road was agreed and within departmental budgets, so it was done without additional funding. Furthermore, there is the Bristol example, referred to by Mr Watmore, where we have brokered an agreement across 20 organisations and 12 Departments. The move is likely to happen later this year at a cost of £1.5 million, with savings over the spending review of around £16 million. There are real-life examples in the system that we have at the moment of us being able to broker deals across Government.

Q31 Ian Swales: It is one thing to say that something is being managed within budgets, but that does not necessarily mean that I am seeing the saving. It means, "I can accommodate whatever the costs are." Take the example of a Department moving from a freehold building to a leasehold building. What happens to my budget if I am the spending manager and I am in a freehold building, and you are getting me to move to a leasehold building?

Neil Warsop: I think Mr Watmore referred earlier to what the Treasury said after the event. If they are in a freehold building, the Department will not have budgetary cover for rental costs if they are moved to a leasehold. That is one area where there is the resistance to the property vehicle, because you would have to create budgetary cover to pay a charge.

Q32 Ian Swales: Just to be absolutely clear, if I am a Department in a freehold building, I will see increased costs if I move to a leasehold building, even though that might be in the overall interest.

Neil Warsop: You would not have the budget to pay for those costs, because you were not paying for them previously.

Ian Watmore: I think that is a yes.

Q33 Matthew Hancock: There are two ways of solving that. One is to cover costs, which sounds like what you bid for, and the other is to have an implied rent on freehold within Government.

Ian Watmore: Which we don't have but, yes, we could.

Stephen Lovegrove: Freehold owners don't pay—

Q34 Ian Swales: Do you agree that the Cabinet Office and Treasury should work together here to get the incentives aligned for Departments to do the right thing? Is there a piece of work to be done?

Ian Watmore: I do, for two reasons, really. One is because the infamous low-hanging fruit will have been plucked and, secondly, because there will be examples where the sort of expenditure that has to be put up is quite substantial at the front end in order to get the real benefits. If you take some of the buildings that we own around the place, you have to invest in them—the infamous asbestos or whatever is in the papers—in order to make them functional for multiple Departments. On both those fronts, I think that we have to come to a different arrangement with the Treasury.

Q35 Matthew Hancock: Even if there is not money, you can still do it.

Ian Watmore: I think so. I think we have to take that forward.

Q36 Ian Swales: May I ask one more specific question? Then I shall let someone else come in. As

Matt said, 90% of civil servants work outside London, so there are buildings all over the place. Again, it is a straightforward question: if I am a departmental manager in, say, two large buildings, and I move to one large building, do I still bear the costs of the empty building for ever? Is there no means by which I can get rid of that cost, even if the building is not re-let immediately?
Ian Watmore: No. I think that is fair. In the end, somewhere in HMG land, we have to get someone else to take that cost off our hands, but in this current market it is just really hard.

Q37 Ian Swales: Is that another possibility? Instead of me saying that I am paying £2 million for these two buildings, I then only have £1 million in my budget, and we recognise that, although the public sector is still paying for this other building, it is in a different category.
Ian Watmore: That is essentially the pot of money that we wanted and were refused.

Q38 Ian Swales: But it is not extra money; it is just how you—
Ian Watmore: No, but it enables some other part of Government to bear the cost of that building until such time as it can be disposed of.

Q39 Ian Swales: The taxpayer is paying the same amount.
Ian Watmore: Exactly.

Q40 Ian Swales: In all the questioning in the last few minutes, it strikes me that one reason why the pace feels slow is that we have not actually got an incentive lined up for swift and decisive action.
Ian Watmore: I think we have agreed a lot—

Q41 Chair: You agree—just let me ask this question and then I want to bring Meg in—but Treasury does not. The reason that your business plan did not get through, the reason that you are stalling now and the reason that this whole thing has stalled over time—we have had a central unit for a long, long time—is that the Treasury view is different from the Cabinet Office view.
Ian Watmore: I think that we should be clear that I do not think that the initiative has stalled. In fact, it is accelerating. In the 12 months that we have just had—

Q42 Chair: You have done a bit around leases, but there is much more sensible long-term stuff to do.
Ian Watmore: We are saving money at a 50% higher rate than we were.

Q43 Chair: But that is the easy stuff.
Ian Watmore: That piece of it has not stalled. Therefore, what I am saying is that we should be using that period of time now, while we are making those savings, to be agreeing the framework with all those incentives.

Q44 Matthew Hancock: Before we move off this, several times you have said that the problem is that there was not money made available from the Treasury, but is not just that, is it, although that could enable you to do more?
Stephen Lovegrove: *indicated assent.*
Matthew Hancock: I see you are nodding.
Ian Watmore: I do not think that I said it was because the Treasury did not make money available. I think Mr Swales's question was whether there was someone else to offload the building on to.
Matthew Hancock: There is a market out there. I know it is tough, but there is still a market.
Ian Swales: I am talking initially about the accountancy; then, obviously, we move on to disposal.

Q45 Matthew Hancock: May I make one more tiny point? When you are working on this in the future, should you not also ensure that whatever agreement you come to includes not only central Government Departments but, as you did in the commendable Bristol example, any public sector bodies, such as the NHS, local government and the BBC? I understand that Bush House is empty.
Ian Watmore: I do not know about that.

Q46 Meg Hillier: Chair, I wanted to talk a little more about the Whitehall estate, which is a very rarefied part of the estate, but what about what is going on around the country? For example, in places like Liverpool, Morpeth, I think, and Newcastle, there are many Departments with large premises, and sometimes they are working in the same campus or complex. Has there been much thought to incentivising reducing the footprint there?
On the question of much smaller venues, in the past, we have had little HMRC offices with two people working in them; DWP has small jobcentres in small towns; and there may be small passport issuing offices with half a person working there—all in separate premises, obviously on different leases and so on. There has been no central Government thought to bring those together, and no incentive for Departments to go through the hassle of trying to have co-location, especially for those small offices, which are probably a small part of the savings. Can you answer on both the large and the smaller office size, and give us a flavour of the different budgets, compared with the central London estate? What proportion is central London, and what proportion is outside that?
Ian Watmore: There are two things: first, even within the central Government boundary, most of the property is outside London, because it is jobcentres, prisons, tax offices, courts and so on.

Q47 Meg Hillier: So, about 80% of them?
Ian Watmore: 75%.

Q48 ***Amyas Morse:*** How is that affected by the MOD, which has a massive amount of land? That affects the numbers.
Chair: MOD is not part of that.
Neil Warsop: It is part of that.

Q49 Meg Hillier: Some of it is, but regimental stuff is not, is it?
Ian Watmore: We will check the exact figure, but I still think the lion's share of the property estate for

central Government lies outside London. The second part is joining it up with local government, free schools and that sort of thing.

Q50 Chair: What about the cost, Ian? The property may be outside London, but what about the relative cost?
Neil Warsop: 41% of the cost is within London.
Ian Watmore: So it is inevitably about two to one, isn't it?
Meg Hillier: Sell off the Treasury.
Ian Watmore: To answer the question, Bristol, which we have talked about, is a good example. In Liverpool, to give you one parochial example, the Government procurement service that we have reviewed was in the Liver building. We broke that lease and moved down the road into the same office that the Home Office was in. It has been cheaper for us to do that. Manchester and Newcastle are the other two big cities that have serious Government property to look at in the next round. You probably know that Newcastle has a massive site, which I think is PFI—the old Longbenton site. In Manchester, thought is going into a redevelopment by the railway station at Piccadilly, but I think, in the end, we are coalescing around one of the office tower blocks near Piccadilly. There is a lot going on in the regional cities to try to get the central Government footprint down.
Where we get into central and local is interesting, because there is no obvious incentive. You tend to do the occasional deal. One of the areas that are quite fruitful is some of the free schools, which are new entities looking for property. They have been able to take up surplus Government property. I think there is an example of that in the Bristol footprint.
The other area is not in the wider public sector, but in the SME sector. We are trying to make property available to SMEs around the country that might not otherwise have a place.

Q51 Meg Hillier: Presumably, they are smaller premises.
Ian Watmore: Yes. Your point about the networks is more intractable. Each Government Department of that type has its own office network. To get them to coalesce into one place has proved beyond lots of people. The jobcentre network is completely branded as such. It sits there and does the jobcentre—

Q52 Chair: I think if they were here, they would tell you that they rationalised it in a structured way.
Ian Watmore: Yes, but they have not invited the Revenue, the Home Office and everyone else to come into the jobcentre and work from there to make it a multifunctional Government Department, because they think it is important to have a differentiated service.
I think that the more we make those services digital, the less we need the physical office at all, let alone coalescing. Personally, I think the direction of travel should be to make those front-line services digital where possible. Where you need a walk-in centre, make it the post office and then do away with those other offices over time.

Q53 Meg Hillier: Is that like an official policy, Ian?
Ian Watmore: I think it is directionally where Martha Lane Fox's report laid out for the digital service. And over time—

Q54 Chair: I am conscious that we will go for a vote in the House in a minute. I want to come in, and then Steve wants to come in. There are two issues that I wanted to cover on the incentives side. Surely in the current regime there is also an incentive for Departments to hang on to their own property, because if they can sell them off, they can use that income in their budget negotiations?
Ian Watmore: There is a bit of that, where it is freehold territory. But the vast majority of the incentive on Government Departments is to get out when they can, because they are all under huge budgetary pressure and the last thing they want to be spending money on is property, frankly.

Q55 Chair: Okay. The other thing I just wanted to say is the Prime Minister made this statement that he was going to release a lot of the empty properties. He said in January that 300—am I right in saying that? I think that I read in the press something about that.
Neil Warsop: Yes. He was talking about the vacant properties.

Q56 Chair: He spoke about 300 vacant properties. How far along the road with that are we? That was six months ago that he spoke about this. How far along the road have you got on your 300 properties?
Neil Warsop: That 300 relates to buildings that had some vacant space in them. On 31 May, we announced that we were beginning the pilot, with a list of 20 buildings and property holdings.

Q57 Chair: That is very disappointing.
Neil Warsop: Well, the public sector actually has got quite a good record at holding vacant space at quite a low level compared to the private sector.

Q58 Chair: What I would just say to you is that there was a policy commitment in January; this is to do with things that this Committee has to deal with all the time. There was a policy commitment in January about 300 vacant properties, which sounded like a really good idea. Here we are, six months on, and you are piloting 20.
Ian Watmore: I do not remember the detail of the policy commitment; I will go back and check. But the point is that we have to make this work. There is a lot of on-the-ground difficulties with this policy. You have just got to overcome them. For example, if there is a Home Office building, do we just let "A.N. SME" come into the building with no security? When they want to use electricity in that building, do we charge them for it or do we provide it for free? Do we provide their technology? There are the practical difficulties.

Q59 Chair: I tell you what you do, Ian—you tell the Home Office to get on and let their empty stuff, and let them sort out all the stuff about security, electricity, blah blah blah.

Ian Watmore: There are a load of other obstacles to this policy, which we are battering down by doing it in 20 places first. And then when we've done 20, we'll do 40—

Q60 Ian Swales: How many of the 300 buildings are actually empty?
Meg Hillier: All of them, I think.
Neil Warsop: The figure of 300 relates to buildings or property holdings with vacant space within them, which is different from empty buildings.

Q61 Mr Bacon: I heard you say "some" vacant space.
Neil Warsop: It is about the vacant space within the buildings.

Q62 Ian Swales: Exactly. The comments about letting people into the Home Office suggest that that is just empty space, but certainly when I heard the figure of 300, I thought, "Oh, that's 300 buildings". So how many is it? How many distinct buildings are empty out of that 300?
Neil Warsop: Following a lot of work to go through some of the practical difficulties, including agreeing with the landlords whether people could come into the buildings, it is the 20 buildings announced.

Q63 Ian Swales: Only 20 of the 300 are distinct empty buildings?
Neil Warsop: Well, they won't all be distinct empty buildings. There are not many distinct empty buildings.

Q64 Stephen Barclay: These are Government buildings?
Neil Warsop: These are sort of Government offices.

Q65 Stephen Barclay: Does that include the nine regional fire control centres?
Neil Warsop: No.

Q66 Stephen Barclay: As I understand it, they are costing over a million pounds a month to stand empty at present. What engagement has the business unit had on bringing forward solutions to the fire control regional centres?
Neil Warsop: I do not have the details of the numbers, but we have been working with colleagues in the Department for Communities and Local Government to look at the options there.

Q67 Stephen Barclay: May I just understand the urgency around that? As I understand it, taking the eastern region one as an example, that is currently out to tender for commercial lease, even though everyone on the ground believes that the size of the building and the charge being put forward is wholly unrealistic and there is not a hope in hell of it actually being let commercially. How long will you wait with buildings like that before you then look at alternative options?
Neil Warsop: I am afraid I do not have an answer on that building case—
Ian Watmore: We will go back to DCLG on that.

Q68 Stephen Barclay: Perhaps we could have a note, because—
Ian Watmore: Those sorts of things are handled by the Department that has got the responsibility.

Q69 Meg Hillier: I have one quick question. We have a lot of empty magistrates courts. Some of them are difficult buildings to use for other things. Is the Government property unit responsible for those, or is that all within the Ministry of Justice?
Ian Watmore: From memory, magistrates courts came into the MoJ's fold, yes.

Q70 Chair: One in Greenwich has been empty since 2004.
Meg Hillier: The one in Hackney has been empty for longer than that.
Ian Watmore: Again, these are the things that we can look at—
Meg Hillier: There is no incentive for the MoJ to do anything.

Q71 Matthew Hancock: On this programme, when the 300 were announced was a time frame put in place?
Ian Watmore: I will have to go back to check the details. We have enough space for the demand from SMEs that we have, so we will work this through. As it works, the momentum will build.

Q72 Ian Swales: May I ask the next question, before Stephen comes back? Can you give a process-type answer to what happens if a Department has an empty building? How does the Government Property Unit relate to that? Is there an automatic transfer with responsibility going across, or does it remain with the Department?
Ian Watmore: No, that is the point. We will assume for the purposes of this discussion that it is a leasehold building, where there is an external landlord. Until that lease is broken, the responsibility for that lease lies with the Department. It cannot transfer to the central Government property thing, because it does not have any money to pay for the ongoing lease. That is the issue.

Q73 Ian Swales: Money is one thing, but what about the property management aspect—the process of managing that property out of the estate? Surely that should go to specialists as soon as possible.
Ian Watmore: What the GPU then tries to do—this is where Neil and his colleagues kick into gear—is find the equivalent of my Procurement Service group to move out of a building that we can release the lease on, and into the one that we cannot release the lease on. That is the facilitation role of the Property Unit.

Q74 Ian Swales: Is there a tight process where Departments are told that if they have distinct spaces or buildings, they are expected to hand over management responsibility to the unit, like the fire control centre?
Ian Watmore: They are expected to go into the Property Unit to try to broker getting that thing off their books.

Q75 Stephen Barclay: That challenge role is part of the objectives of the business unit.
Neil Warsop: We would know about the lease event, so when exits are coming up, we would also be talking to Departments when they have vacant spaces as a consequence of someone moving out, because there can be sub-lets.

Q76 Stephen Barclay: But the lease on the fire control centre is a 25-year lease. The lease is not coming up, and there is just very little urgency.
Ian Watmore: I think we have to come back to you on that, because I think that is in the hands of the Departments—*[Interruption.]*
Chair: Shall we go to vote and come back?
Sitting suspended for a Division in the House.
On resuming—
Chair: Let us carry on.

Q77 Stephen Barclay: May we look forward to the savings that you are expected to make? By March 2013, what further savings do you plan to deliver?
Neil Warsop: It depends where we are talking. In London, for example, by the end of the spending review we expect to reduce costs by some £200 million across the estate. We are currently auditing figures that will update the figures in the National Audit Office Report, which took savings to December 2011, so we will have a full financial year for 2011–12. It is hard to disaggregate it to the one year. The honest answer is that it will be some £200 million by the end of the spending review.

Q78 Stephen Barclay: I was just minded to ask because the Cabinet Office business plan had a target of £100 million in savings by March 2013. I am trying to get an understanding of where the stretch targets may be and of what your target is and what we can benchmark in 12 or 24 months' time. I want to know what is acceptable, what might be good and how you anticipate reaching those targets.
Neil Warsop: I will have to give you a note on the stretch target.
Ian Watmore: The figures are roughly running at about £140 million a year for this current year, which are additional cumulative savings, and that is about £50 million a year up on before the election. It was running at about £100 million a year. It is now running at about £150 million a year.

Q79 Stephen Barclay: What percentage of that is being achieved through better control of leases? Is it 100%?
Ian Watmore: Almost all of it.

Q80 Stephen Barclay: So what we have touched on is the need for the business unit to get the incentives right. By what date do we expect those incentives to be in place?
Ian Watmore: Before the next spending review, which is likely to be in 2013. In the meantime, we are looking at—this is not final—whether we can use any proceeds or advance payments on the Admiralty Arch property. That could be the pot of money that enables us to start doing some of the things that we were talking about earlier.

Q81 Chair: Has the Treasury agreed that?
Ian Watmore: I think they have. It is within the Cabinet Office budget. It would be a Cabinet Office release of cash, and we have agreed that we can use it.

Q82 Chair: Have you agreed that Mr Gallaher?
Marius Gallaher: I am not sure, but we can check and write to you.

Q83 Mr Bacon: You don't know whether you have agreed to sell Admiralty Arch.
Chair: To allow them the proceeds.
Mr Bacon: Oh, I see.
Ian Watmore: To be clear, we are not going to sell Admiralty Arch. In fact, all the advice is that when you own a valuable freehold such as that, don't sell it. You remain the long-term freeholder, but you get an up-front injection of cash that looks like a sale, but actually is not, so you retain the lease.

Q84 Chair: This sounds to me like old, old Labour: "Never sell your freehold."
Ian Watmore: That is kind of the philosophy that is out there, but if we can get that money into the coffers, we have permission to use that money in advance of the spending review.

Q85 Stephen Barclay: What concerns me is what you described as the low-hanging fruit—the reactive grip on leases. It is positive and it is welcomed and we have acknowledged that, but it is reactive. I am interested in the value added by the business unit and the 60 people there. What you are saying, if I understand correctly, is that we are not going to go beyond the low-hanging fruit until post-2013, because the incentives are not going to be in place until 2013.
Ian Watmore: I have always thought of this as being in three parts. The first part is just the straightforward, bilateral, two Departments—DCMS and HMRC—type thing. We facilitate that, but in the end it is between the two Departments. The second is the kind of Bristol thing, where 10, 20 or 30 different people converge into one place. That is where the property unit is very active. The third part is when you have to seriously invest in something, such as the old War Office buildings or whatever, where in order to be able to use the space at all you have to put some investment in.

Q86 Stephen Barclay: We should be planning some of that already. We should be doing joint ventures for some of that. It will often not require up-front public money and the developer can put that money in as part of the shared deal.
Ian Watmore: That is the bit that we are at first base on.

Q87 Stephen Barclay: It just surprises me that in all the time that this unit was with Mr Lovegrove, more work was not done on that.

May I come on to savings? Do all Departments, Mr Warsop, report savings on property with the same methodology?
Neil Warsop: Yes, national property controls are all on the same methodology.

Q88 Stephen Barclay: So it is all the same. So why, in the Treasury minute of May 2011, in response to our hearing on Ofcom, did the Treasury say, on property: "There are a number of valid methodologies for assessing savings. These include present-value estimates of the net returns of a long-term investment such as a merger", which was the issue in terms of Ofcom's property. Has that approach been scrapped now?
Neil Warsop: Departments report NPC savings consistently, but there are other numbers out there as well. In fact, the state of the estate report looks at savings from the whole of Government accounts on reduction in cost to the estate, so there are different bases, and the NAO Report sets out a lot of different numbers as well. So, it is a complex area.
Chair: Can you speak up a little? The acoustics are really horrible in this room.

Q89 Stephen Barclay: I'm sorry, but I do not understand the answer. Either all the savings are reported in the same way or the Treasury minute of 2011 that says that it is valid to have different methodologies for property savings is correct.
Neil Warsop: I do not know the detail of the Ofcom note that you are talking about, but all the NPC numbers are on the same bases.

Q90 Stephen Barclay: Okay. Perhaps the Treasury could clarify why there are different methodologies for property savings across Whitehall.
Marius Gallaher: I am sure that there were, but I think that in the Report and the analysis that Neil Warsop is talking about the methodology is the same across the board. We will certainly look at what appears to be a discrepancy between what was said in the Treasury minute and what we are saying here, and let you have a note.

Q91 Stephen Barclay: From what you have said it was what Ofcom was doing, so it is what a non-departmental public body that has offices overlooking the Thames—perhaps some of the swankiest offices in London—was reporting in order to show the savings from its merger of five organisations. So, it was a real-life example, which the Committee highlighted as double counting of savings. What I am interested in is what progress has been made since that Report.
Marius Gallaher: I would not be in a position to give you an answer on that now, because I am not familiar with it. But certainly we will have a look at it and come back to you.

Q92 Stephen Barclay: May I have a note? It's just that if we are talking about savings, it is helpful if we are all talking about savings in the same way.
Marius Gallaher: Yes.

Q93 Stephen Barclay: Ahead of the hearing, I was trying to look at the business unit, to get a sense of how many people there were and what they did. Noting that the Cabinet Office is responsible for open government, I clicked on to look at the organogram. First, it is out of date for the Department—it is from 2010—and secondly, if you click on the link it does not go through to the organogram for the Department but to the Cabinet Office home page, so you cannot actually find the organogram even though it is from October 2010.
Then, if you go through to other staff data, the link does not work because it requires software that neither MPs nor the House of Commons Library allow—it is the RDF format; the Library does not work with links that are for the RDF format—and the only link that I could find from the Cabinet Office to try to get an understanding of the staffing took me through to a spreadsheet, which is obviously hugely impractical because what it does not show is the view of staff across the Department. Indeed, there are separate spreadsheets for senior staff and junior staff.
Why is there such a mystery over the organogram of the Department and over how we see what the business unit is doing?
Ian Watmore: I do not know why you would have had that trouble. As far as I am concerned the Cabinet Office has, like all other Whitehall Departments, a regularly updated organogram, which the transparency group maintains. If there is a problem with the website, we will look at it afterwards. The bottom line of the unit, however, is that it is about 60 people, and that is what it is funded to have. About half of them are central people and the rest are out in the regions.

Q94 Stephen Barclay: Given that you are the Department for open government, it is not just your own one that does not work. I looked for yesterday's hearing for the Department of Health, because I wanted to see its organogram. The organogram was first class—the June one that followed the Prime Minister's letter of May 2010—it is just that it has not been updated in two years. The information that has been provided by way of updates is in a different format, and so obviously does not match with the original.
I raise that today because it is pertinent to the business unit, and trying to understand its value added function, and the civil service White Paper, which is due out in a matter of days. It would be welcome if all Departments could produce a June organogram for their Departments and agencies in line with what the Prime Minister requested.
Ian Watmore: My understanding is that they are updated at the end of the financial year, so there should be an up-to-date one, but if there isn't, we will produce one.

Q95 Stephen Barclay: Could we have a note, Mr Watmore, on whether all Departments will be providing an up-to-date organogram, particularly given the importance of the civil service White Paper?
Ian Watmore: Yes.

Q96 Fiona Mactaggart: I am interested in space and standards, and the average utilisation of office space throughout Government. It is clear from figure 6 that the amount of space has gone down, but not by as much as in the private sector.

Mr Warsop, you said that the public sector has a better record than the private sector on empty space, and I would suggest that that is probably because in the private sector a lot of empty space is held for the purposes of development. One thing we have heard here is that we are not in a position to do that strategically. It seems to me that there is an issue about the square-footage we expect civil servants to occupy. I want to try to understand that issue from you, Mr Watmore. I am still interested in holding empty spaces.

Ian Watmore: This is part of the reform agenda, so it is a good question. In the private sector, our figures show that the cost per square metre is higher than the cost per square metre that we are holding, but an equal and opposite effect has occurred. They have more people per square metre than we do. The two happen to average out at roughly the same. That is not to say that we should stick with where we are. In the past, the Government have had a "one desk, one person" policy, whereas in the private sector, that has mostly shifted to seven or eight desks per 10 people. We are moving in that direction around Whitehall, and we have further to go. That is clear.

I think the figure for what the private sector occupies is about 11 square metres per person, which is your typical 10 square metres for actual desk space with an average of 10% for the wider building overhead. I think we are at 13 or 14, so we must get down to 11. When we do, we will be more efficient that the private sector, because we have a lower cost per square metre.

Q97 Fiona Mactaggart: The Canadian Government make it 9.3 square metres per person.

Ian Watmore: It kind of depends on your policies on remote working, and working from home. Last week, I was at an organisation—the ombudsman service, which is not a Government organisation, but is quasi-government—in Warrington, and it mandates that people work 50% of their time from home, and 50% in the office, so obviously it has a lower square metreage per person when it is averaged out, but other places could not operate like that, so a weighted average must be taken of all the different policies. The average is between seven and eight desks for 10 people, which is where you want to get to.

Q98 Fiona Mactaggart: How are you getting there if you are reducing the amount of space per person with a reduction in the surplus space?

Ian Watmore: The property situation started with some surplus, but staff numbers have been falling quite fast, and we are moving towards more efficient utilisation of space, so there is a kind of double effect, which means that demand for property has been falling faster than the head count. There is also a bit of a lag between getting people into that more efficient work space and being able to release the buildings.

For example, back to the Cabinet Office, we have moved into the Treasury building, but on an eight to 10-person desk ratio, which before was 10 to 10, so we have greater utilisation of space. It is only when we free up 22 Whitehall for DFID's use that we will get the financial effect of that. There is a bit of a lag, but we have done it as we have moved into the new building.

Around the rest of Whitehall they are doing similar things. People are coming out of buildings that were not in their core building and coming into their main headquarters. BIS, for example, has moved virtually everybody into 1 Victoria Street whereas it used to have eight buildings around Whitehall. In so doing it has moved to a hot-desking environment.

The other thing that matters here—we have touched on it—is more flexible technology. What you really want people to be able to do is work when they are not at their desk. That might be in a more open space in an office, which is for collaborative working, or it might be at home or, as the Olympics is coming, it might be to take pressure off the city when the city is going to be under a lot of pressure. We are trying to implement the new technology strategy alongside the new property approach. That is what will roll out over the next couple of years.

Q99 Fiona Mactaggart: Are you confident that you have the kind of tools you need to make sure that Departments are doing both those things?

Ian Watmore: I think so. What is interesting is that we went to see Vodafone down in Newbury, where their headquarters are, and they make a big thing now about being for businesses. They are not just a mobile data provider: they want to help them re-engineer their workspaces. They are quite brutal in their approach. I remember when I went there the chief executive told me that they have a clear desk policy which is enforced by incinerating anything that is left on desks overnight. He said you don't do that too often. They have quite a tough policy.

Meg Hillier: Try that in Whitehall.

Ian Watmore: I can think of several documents it might be quite useful to have incinerated.

They came to see what we have been doing with the Treasury and said, "You are most of the way there to good practice in terms of having flexibility built in." They would like to see slightly more space available for staff away from their desk so that it is less battery-hen like. I think that is the kind of advice we are getting from the experts. So that is what we are trying to pursue.

Q100 Austin Mitchell: I do not see why, since the intention is to save money, you don't fulfil the kind of intention that Government proclaim from time to time, such as in the Hardman report in the 1970s just after I was elected. It was proposed to move 30,000 public servants out of London. Then there was Gordon Brown's commitment in his last stages to move people.

Ian Watmore: The Lyons report and all that.

Q101 Austin Mitchell: Why can't you achieve this purpose and move them all out from expensive office facilities in London to much cheaper office accommodation in civilised parts of the country? If

you brought them to Grimsby, they could probably get office rents for about thruppence a square foot and then have the MP calling round with a welcome wagon every morning to give them coffee.
Ian Watmore: I support what you said in a lot of cases, particularly regarding the operational jobs that do not need to be done in central London. I moved a group of staff to Warrington in the same Lyons era.

Q102 Austin Mitchell: The last big move was the Health Department.
Ian Watmore: They moved up to Quarry Hill in Leeds, didn't they? Following the Michael Lyons report of 2003 or thereabouts, we moved staff to Warrington. It was very effective. We got better quality staff at lower rates and better buildings.

Q103 Chair: The interesting thing is that the proportion of staff out is the same today as it was at the time of the Lyons review.
Ian Watmore: What tends to happen is that when you move anything remotely approaching policy functions into those areas, the people spend all their time back on trains or in hotels.

Q104 Austin Mitchell: Oh no. That is not true.
Ian Watmore: No, when it is policy. There has been a culture in Whitehall that if you are not visible in the building with the Minister, the Permanent Secretary or whoever, then it does not count. We have got to break that cycle to get policy officials out of Whitehall.

Q105 Fiona Mactaggart: Did you break it?
Mr Bacon: Stop inventing new policy.
Ian Watmore: Mr Bacon and I probably would agree immediately there that the best way to spend less is to do less. We have to be clear that if we are to move jobs out of London we should move operational jobs. Secondly, if we are going to move policy jobs, we have to invest in the technologies that make it work, like real video conferencing—so-called telepresence and so on. Thirdly, it requires leadership from the Ministers and from people like me to say, "We are prepared to operate in that environment, so we will have the meeting in the telepresence suite to enable the person in Sheffield to attend properly, rather than requiring them to come on a train and stay overnight." So it is a combination of those three things.

Q106 Austin Mitchell: Surely it would be better to grasp the nettle boldly, as the BBC has, with MediaCity in Salford. Why do Departments approach this sitting in silos, all separate and making separate decisions? In New Zealand, before the Labour party went mad and started privatising everything, they used to have, in every centre, a Government office. In the States, in smaller towns, there is always a federal office and a state office, where all the functions of either the federal or the state Government are concentrated.
In Grimsby, we have had Government functions in Heritage House, which was specially built for that kind of purpose, and in what is called Imperial House—the regional office from Yorkshire is moving into Imperial House. Now, every Department is taking its own separate decisions about its own leases. For example, the Crown Prosecution Service and the valuation agency have moved out of Heritage House, and they have moved to separate offices owned and run by their own Departments. HMRC has moved out of Heritage House, and some of it has moved into Imperial House. This is crazy. Here are white-collar jobs being taken out of Grimsby. Heritage House is now stood empty. A central Government office could be concentrated in that building.
Ian Watmore: I think we should ask one of Neil's colleagues to go to Grimsby, because what you have just described is the opposite of what we are trying to do, broadly. Taking the Bristol example, we are doing exactly the opposite, which is to find a building in which we can co-locate all the Departments, and then move them all in there and free everything up. I do not know why that policy is happening in Grimsby.

Q107 Chair: You are undertaking to look at it?
Ian Watmore: Yes, absolutely. That is the sort of practical, on-the-ground stuff that we want to get right.

Q108 Austin Mitchell: I have one final question. How do the PFIs inhibit or help the process? Does that make Departments stay in those offices willy-nilly, whatever plans you have for moving people out?
Ian Watmore: They don't help, because you have two constraints. First is the long term nature of the contract, and secondly, usually those PFIs have had a big capital spend up front, which is reflected across the life of the deal in an operating charge, so it appears expensive to operate in one of those buildings.

Q109 Chair: The Report says that 75% of the office space is PFI[1].
Ian Watmore: But that is largely because DWP outsourced to Trillium, I think, and some other deal was done with the Revenue.

Q110 Mr Bacon: Do you mean Mapeley Estates?
Ian Watmore: It could well be.
Mr Bacon: The one that moved to Bermuda because it was more tax-efficient.
Ian Watmore: The Bermuda triangle company. I remember it well. The ones in Whitehall that I know well are the Treasury building and Marsham Street, where the Home Office is. I am sure that there are others. To go in there costs you two x per person than it would in a normal building, because you have the capital refinancing costs. I don't think they help in that sense.

Q111 Meg Hillier: Chipping in on this, we touched on this earlier, but it is about being strategic. Bristol is a good example. I have visited in Stranraer a passport office co-located with local government offices. If you could have the right technology there, there would be no problem about outsourcing the policy jobs, if you could get Ministers, who may be the last unreconstructed part of Whitehall, over that hurdle. You could go and teleconference in the local

[1] NAO report in figure 3 states 40%

town, even somewhere as remote as—forgive me, Mr Russell Brown—Stranraer. Is that something that is being planned in all these office moves?
Ian Watmore: It is part of the technology, which is one of the reasons why we want to bring it together with the things that we talked about. The best example that I have seen of what you are talking about is DFID. It is not possible for DFID to functions as a Department except by advances in video conferencing, so it has become the norm. They have a huge number of their staff up in Falkirk, from memory. They have a big base in Falkirk. They have a lot of staff there, and the rest are around the world. They regularly attend common meetings around the video conference table. So it is possible, if the culture of the Department gets that way. It is definitely part of the future.

Q112 Chair: There are a few issues that we have not covered. On the bonfire of the quangos, do you have a figure for savings in accommodation?
Ian Watmore: These are things that are not covered in the property report. Do you mean the property part of the quangos?
Chair: Yes.
Ian Watmore: Gosh, I don't know. I remember a broad figure was published for the quango reduction. We went through that with Sue Gray and others a few months ago, but I don't know the property element of that. We could dig that out for you.

Q113 Chair: Will you pick that up?
Ian Watmore: Yes.

Q114 Chair: The second thing I want to ask is on this issue of going back to Departments that are hogging their own property functions, rather than using the expertise at the centre. Do you know how much we spend across Government on property consultants?
Ian Watmore: I do not, but I know that that will be part of the broader consultancy figure, which has fallen by 70%.

Q115 Chair: Are you able to put that figure out?
Ian Watmore: I don't know, but we will have a go.

Q116 Chair: My guess would be that there quite a lot is being spent across Government. The third thing I want to ask is about the mothballing of properties. According to the Report, we could end up by 2020 with more than 500,000 square metres of empty property. We are mothballing because it is cheap. I can understand why you take that decision, but nevertheless it is deeply inefficient in the longer term. How much of that do you expect to have mothballed?
Neil Warsop: You would not mothball a property if you could get rid of it on the market, so it is dependent on the conditions.

Q117 Chair: Let me ask the question another way: how much is mothballed at the moment? How much square metreage is mothballed at the moment?
Neil Warsop: I don't have that figure. I can tell you how much vacant space there is. Some 3% of the public sector estate—

Q118 Chair: It depends how you define the public sector estate.
Neil Warsop: The office estate.
Ian Watmore: It would be less than 3%. The mothballing thing is a last resort.

Q119 Chair: Somewhere I've seen a figure of £180 million, which is just the cost of mothballing.
Neil Warsop: That is the suggested element of the target within the NAO Report that could be delivered by getting rid of further accelerated exits out of buildings or mothballing some proportion of that.
Ian Watmore: So it is not the cost of mothballing.

Q120 Chair: There is a cost. Have you got a feel for that? Have you done any work?
Ian Watmore: If I could look at it another way, out of all the exits that have been achieved in London since the election—about 52 exits—some 15 of those have been early or accelerated exits, where we have handed the property back to the private sector. It is not mothballing, as the property has actually gone back. You would only mothball as a last resort if it is the most sensible thing to do, but it is an inefficient way to hold property.

Q121 Chair: So 15 have not, but what about the other 35?
Neil Warsop: The other 35 were just exits.
Ian Watmore: They were lease breaks. We have de facto mothballed Admiralty Arch while we wait for the decision on how we are going to take it forward.

Q122 Chair: In the same way as Steve googles, I google and find absolutely awful examples. There is one in Stoke Mandeville, Buckinghamshire, complete with an acre of land, that has not been used for 10 years but is leased until 2037.
Ian Watmore: There is a legacy problem of properties in Government that are really hard to shift. At some point in the past, people signed long leases on them.
Stephen Barclay: I fully recognise that issue, which is the point I wanted to comment on.

Q123 *Amyas Morse:* I have a strategic point. If it emerged that there was a decision to change the scale of central Government quite radically, that would drive you towards a much more active policy, because you would have a lot more scale. I say that because we might find ourselves having that discussion at some time. Who knows what might be announced? If that were so, presumably we would have to think about all this rather differently, wouldn't we? Is that fair?
Ian Watmore: I think that is right. The classic case in companies, when they significantly downsize or divest, is that one of the most difficult things to shift is the property estate, because they are nearly always

taking that action in a down-market. One of the big costs of restructuring companies is that—I have forgotten the accounting term for it, but it is another word beginning with "a," although it doesn't matter—effectively, you have to write off the cost of the property for the rest of the lease, and if you can get anything back from it, that is a bonus. That is a big hit on the balance sheet. The Government could not afford to take that action this time, so we have to go on, on that basis.

Q124 Chair: Finally, I wanted to come back to the 300, because I found the press cutting. It gives a quote from the Prime Minister: "The Government hopes to offer more than 300 premises at low rates for one year so new companies can establish themselves and small firms can benefit from cheap deals." So it is more than 300. That was in January. I hear that you have pilot of 20, but have you got a plan? I do not believe the Prime Minster would have been allowed to make a public statement without some background as to numbers and knowledge of premises.
Ian Watmore: I would not want to comment on that.
Mr Bacon: The Prime Minister should never say anything without very careful research. Do you remember that cash machine thing? It was very carefully analysed beforehand.

Q125 Chair: He said more than 300. I am just saying that 20 is a pilot. Have you a plan for the more than 300?
Ian Watmore: What we said at the time was that there were about 300 buildings with vacant space around the country, and that is what Lord Young and others have kind of seized on as the end state if we can get this working. We are getting 20 properties up and running with 20,000-plus square metres . That is more than we have demand for. We will make that work, and while we are making that work—

Q126 Chair: So you haven't got a plan for the others?
Meg Hillier: Chair, if there is vacant property around Shoreditch, there is a need for 800 shared desk spaces. People pay £350 a month for a serviced office on a monthly basis.
Ian Watmore: We will make it work. These 20 examples are all over the country; they are substantial. There is a lot of square metreage there and when that is working we will put in the next 20.

Q127 Chair: I understand that. So you have not got a plan?
Ian Watmore: Yes, we have a plan. The plan is to take the 20 buildings and iron out all of the practical difficulties—of which, as you will know, there are many—to get the demand side to match the supply. We need to have a system by which the right SMEs come in. As that 20 work, we will ramp up to the other buildings where we have vacant space and there is demand. If at the end we reach the figure of 300 and there is still demand, we will probably have another 100 properties by then.
Chair: That is slightly different from the commitment.

Q128 Ian Swales: How does that square with your strategy for potentially mothballing buildings? At paragraph 1.15, the Report mentions the mothballing of central London properties worth millions and says that you don't have a strategy for what to do with such buildings, and that the effect of blight has not been considered. I happen to live next door to the two empty Prison Service buildings on John Islip street. They have been empty for the two years I have lived there—I don't know who owns them now.
Ian Watmore: I think we should go back. The point we made earlier was that mothballing is a strategy of last resort when there is no other use for the building.

Q129 Ian Swales: We are talking about central London.
Ian Watmore: I use the Admiralty arch example. We're mothballing it while we sort out what to do with it, because it is a big complicated exercise to turn that into a hotel that has security.

Q130 Fiona Mactaggart: On that general point, while you implied that local government might be a bit involved in Bristol, it seems to me that when it comes to piloting this kind of thing, local government is key because it understands the local economic impact of buildings' changing use and being empty and so on, and also because local government, to be honest, is a bit fleeter of foot than central Government when it comes to managing a property portfolio. I hadn't really heard a sense that local government is engaged in this process.
Ian Watmore: That is probably my fault because it is engaged in the towns such as Bristol, Manchester and Newcastle that we have talked about. In fact, we couldn't do it without local authority support and involvement because there is nearly always some sort of local planning issue, or whatever, that you have to get over. You go back in time to some of the horrifically difficult plots of land that have been turned into some fantastic places, such as in Darlington, where they took a really run-down part of the estate near the railway station and turned it into a fantastic further education college, and around that they created a whole mini-business environment. So it has to be with local government.

Q131 Fiona Mactaggart: I am glad that you are getting local authorities involved in your big schemes, but what are you doing to make local authorities want to work with central Government on these issues? You mentioned free schools, and it is perfectly relevant for local authorities to be a bit informed about that because people who are looking for free schools often go to the local authority first to say, "Have you got spare space?" If they are in Slough, of course, no one has spare space.
Neil Warsop: We work with the Department for Communities and Local Government and there are some capital asset pathfinders, as we call them, where we are working with specific local authorities. We have one in Preston and another is Hampshire. Obviously, we have relationships with lots of local authorities in a similar fashion, but those are two specific pilots.

Ian Watmore: On the ground, regional staff in the GPU are working with every Government Department and the local people to try to get a joined-up view of how to deal with it in each town. Each town is different depending on its starting point.

Q132 Stephen Barclay: Who is the largest landlord that Departments currently have property with?
Neil Warsop: There are lots of single landlords, in terms of the Government estate, so it is not just a handful of landlords. There is a long list of landlords that the Government have relationships with.

Q133 Stephen Barclay: I expect it runs to pages, but that was not my question. My question was: who is at the top of that list?
Neil Warsop: Some of the big firms such as Land Securities and British Land. I cannot tell you the biggest one.

Q134 Stephen Barclay: As the person here for the property unit, do you know who the biggest landlord is?
Neil Warsop: We have the data and we could provide you with information on who the biggest landlord is in terms of tenancy agreements.

Q135 Stephen Barclay: But you do not actually know.
Neil Warsop: It is not just one landlord.

Q136 Stephen Barclay: Do you have a standard approach across all Departments to deal with your top three biggest landlords?
Neil Warsop: The NAO Report talked about a recommendation on improving expertise across Government and, on the back of that, we are doing some work with estates professionals across Government to look at ways to improve rent reviews and dilapidations, and to standardise the commercial leases and that sort of thing to bring those sorts of—
Ian Watmore: I think Mr Barclay has hit on a good point here, because we have talked about this with other types of supplier—IT, telecoms and so on. We should apply the same approach to these.

Q137 Stephen Barclay: Thank you, Mr Watmore. What I am really driving at is speed and pace. Paragraph 2.29 addresses it: “the Unit has not yet established standard approaches to property management”. I accept that across the board, but what I am interested in is whether we can get to a point within the next three, six or 12 months—what your estimate is—of taking a segment of that with the top three, five, or 10 and putting in a standardised approach.
To try to put a standardised approach across the whole property portfolio for all Departments will be complex and time-consuming. Could you give us a commitment—perhaps in a note, if it is easier—to state: point a, the number of the largest landlords; point b, what percentage of the property portfolio that represents; who will have a standard approach by a specific date; and who the accountable person is for the delivery of that? That will mean that we have got something tangible. It is not the full landscape, but a segment of it.
Ian Watmore: We will do that.

Q138 Chair: This is your final appearance—unless we call you back!—and I just wanted to say that you are the sort of person with whom we have had some good exchanges. We think you have played an incredibly valuable part as a senior member of the civil service, and we are very, very sorry to lose you. I thought you might want this final opportunity to tell the Committee what you think it would take to make the ERG rather stronger and more effective than it has been so far.
Ian Watmore: Thank you for your kind words. I am trying to work out how many PACs I have done in my time, but it has gone beyond a countable number; it is in the uncountably infinite stage. I have enjoyed the exchanges on this Committee, particularly since the election, because I think we have been on the same side of trying collectively—regardless of political differences or MP-versus-civil-servant differences—to save money in the places where we can save money, like property, in order to be able to spend money where we do want to spend it: on front-line public services and growth incentives for the economy. I have enjoyed the exchanges we have had on a range of topics.
I will say publicly what I said to the Chair privately when I rang her to say I was going: I think you have something in the autumn with the PASC to look at the ways Committees work with Government Departments. Both you and Bernard asked whether I would come back, and I will happily do that if there is any way I can help.
Going forward on the broader corporate front, I think what we have done in the virtually two years of this Parliament is two things. One is that we have created a lot of savings—the cumulative figure is going to be something like £9 billion—in ways that there would not normally have been savings. I am not talking about the big policy savings; I am talking about the spend on consultancy, marketing, property leases, IT contracts and so on. Nine billion is a big number. That has been achieved by central control and diktat, and that must not go away, because if it is taken away, things will reverse very quickly. However, you cannot manage something as big as the Government like that—by control and diktat—for ever. You have to change behaviours in order to be able to get people to do the thing in the right way.
I think the reform paper that is coming out—I am told it is due for publication next week—will be the start of that. I am talking about how you change the behaviours on the ground so that the controls are there but not needed because people comply with them naturally. That is the big part.

Q139 Chair: What you have not quite answered is what you would have wanted. If you were staying, what would you have wanted?
Ian Watmore: The other thing we have been doing in these two years is refreshing the team of leaders in these areas. I do not think that anybody is still in post who was there at the beginning. David Pitchford, our friendly Australian project manager extraordinaire, is probably the only one. Everybody else is different, so we have a new team. They are quite a diverse set of characters; they come from a diverse set of backgrounds. Many are from the private sector, but not all. The next stage is to make that a really functioning team, so that each of these things is not operating on its own, but they are operating together.
For example, today, we have talked about property, but we have also touched on the supply management relationships, which Mr Barclay raised. We have talked about IT; we have talked about security; we have talked about financial management. These things all come together. If you deal with them in a piecemeal fashion, you sub-optimise, so the second thing that I would urge from the ERG focus is to get that team of leaders working together. The behaviours that are changing in Whitehall and the joining up that is happening in the Cabinet Office would be my two messages for the successor function.

Q140 Mr Bacon: You raise a very interesting subject—what you call the behaviours agenda in Whitehall. We have this Cabinet Office behavioural insight unit, which is turning its spotlight on the folk out there and how we behave. The conclusion I have come to, because I have been wrestling for a long time with the question of how we get things to change and improve, is that the spotlight needs to be turned internally on the behaviours of civil servants and of Ministers. Let's say you ask this question: given that the same mistakes have been made again and again and again, for 30, 40 or 50 years, why is it that people behave the way they do? If you google the question "Why do people behave the way they do?", the first thing that comes up is a primatologist called Frans de Waal. He is studying chimpanzees and bonobos, not civil servants or Ministers—
Ian Watmore: Should we recruit him?
Mr Bacon: I think we should! It does seem to me that the behaviours are the most important thing, are they not? A lot of these behaviours are hard-wired into us, and that is why people behave the way they do. Are you saying, when you use the phrase "the behavioural agenda in Whitehall"—this is what I have come to the conclusion is necessary—that the behavioural insights that Gus O'Donnell has talked about in the past and that are being applied out there need to be focused internally and now are being? Is that what you are saying?
Ian Watmore: I had not actually thought of it quite that way, but now you mention it, I think that is a really good idea. Francis has said this often: you change cultures only by changing behaviours. If there is one theme that he sees as most important in the reform agenda, it is to get that behavioural change. Part of that comes from big stick-type behaviour, but mostly it should come from incentives and nudges.

Q141 Fiona Mactaggart: Or burning the stuff on the desk.
Ian Watmore: Or incinerating those awkward papers.
Mr Bacon: There should be a lot of fans of that.
Ian Watmore: There is an example. Vodafone would say that that was a behavioural change that was a bit brutal the first time it did it, but it has not been needed more than twice because people just got used to that way of working. I think that taking that to David Halpern and co., who run the nudge unit in the behavioural insights team, and asking them what they could do to facilitate the implementation of the civil service reform is a really good idea.

Q142 Mr Bacon: It seems to me that it is the central gap in everything that we have been talking about for decades.
Ian Watmore: It is a really good idea and I think that we will take it up.

Q143 Mr Bacon: I am glad that you say that because that is the conclusion of my book. Unfortunately, I am on a red RAG rating with my publishers over the time scale; I will come to you for a dust jacket review.
Did you see the article yesterday in *The Guardian* entitled, "Government's transparency drive stalls amid reports of Ministry opposition" in which you were mentioned?
Ian Watmore: I did. I got two Google alerts yesterday. One was that, and the other was about a traffic person in Hampshire called Ian Watmore who was apparently on the BBC website yesterday.

Q144 Mr Bacon: Is this article true?
Ian Watmore: I don't know, because I have not been involved with that over the last two or three weeks.

Q145 Mr Bacon: You have been one of the fans of greater openness. Indeed in the exchange that we had on universal credit, which is mentioned in this article, you kindly arranged, as soon as I asked for it, for the opening gate to be published and to be made available in the House of Commons Library. A journalist told me that he then FOI-ed for all of them, and the one that you had made public was also refused as well as all the others. I understand that there are some people in Whitehall, including Sir Bob Kerslake—we discussed this with him when he was last before us—who are opposed, including some Ministers. My guess is that most Ministers, until they became Ministers, had probably given no thought to RAG ratings at all, so are they opposed because it has been suggested to them by their permanent secretaries that it would be a good idea for them to be opposed?
Ian Watmore: I honestly do not know because Bob is handling that himself with part of the reform agenda and I have not been involved with that directly. My general thesis is like yours. When you can, being open and transparent drives good behaviour, and I think that both parties in the coalition, as well as the Labour Government previously, have broadly supported the same thrust that transparency and openness makes for better Government.

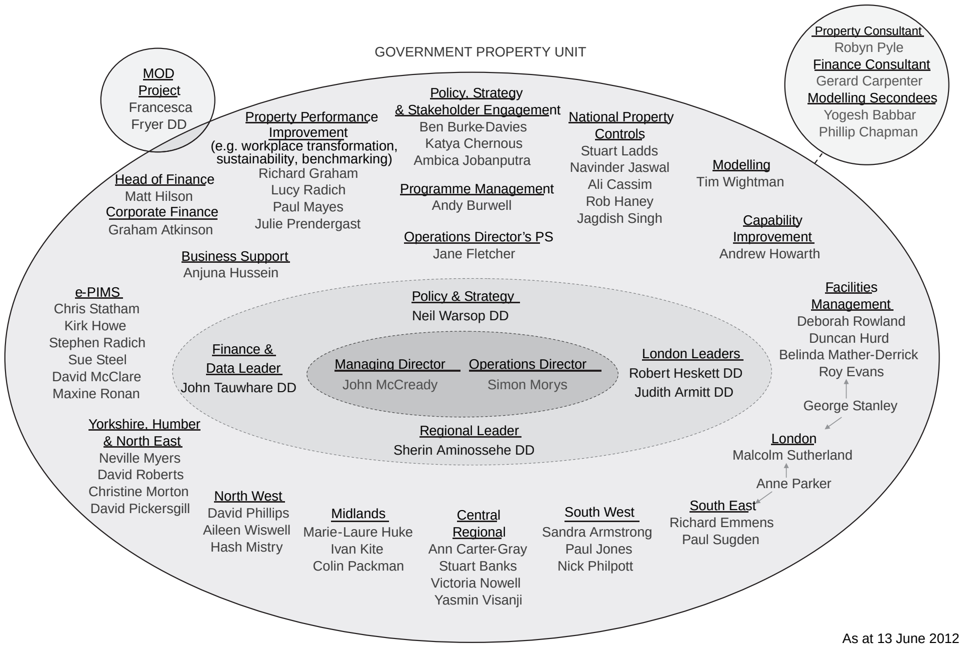
Q146 Chair: We will make sure that we publish what we can.

Ian Watmore: I do know that there is a counter-argument to all these issues, which is that if everything gets published, nothing substantial gets written down. Those are different arguments, but I think that the Government are committed to broadening the transparency agenda. I do not know whether it is going to happen in this specific area, but it is something that Bob is handling himself.

Chair: Good luck.

Ian Watmore: Thank you very much indeed.

Written evidence from the Cabinet Office



Written evidence from the Permanent Secretary, HM Treasury

IMPROVING THE EFFICIENCY OF THE CENTRAL GOVERNMENT OFFICE ESTATE

Thank you for your letter of 15 June, informing me of issues discussed at your hearing on 13 June, which made reference to the Treasury. You asked for further information on three issues:

(i) why the Treasury did not support the Cabinet Office's Government Property Unit to produce a robust business case aimed at finding ways of accelerating property savings;

(ii) the instances, since May 2010, of budgetary transfers between departments to share the costs and benefits of a property move fairly, and the completed moves that have resulted from this; and

(iii) whether the Treasury agrees that the financial incentives can be improved and if so how? And whether the Treasury will use the Spending Review as an opportunity to create a regime that encourages the consolidation of the civil estate?

The Government Property Unit: Accelerating Property Savings

Prior to the 2010 Spending Review, the Treasury worked closely with the Government Property Unit (GPU) on options for property rationalisation. However, when the proposal for a centralised property vehicle was discussed with the Treasury. departments' final spending settlements had already been determined. Unfortunately, by this time, no worked up business case had been developed which could clearly demonstrate that a centralised funding mechanism would provide better value for money. As GPU have already stated, the Unit did not have sufficient data from departments and organisations to underpin a robust business case. At the same time, departments were understandably concerned about the loss of accountability and control over their estates, and the risks of property being managed in a more centralised way. Departments were largely focused on developing strategies to live with much tighter budgets which emerged from the 2010 Spending Review. In the absence of a rigorous and thorough business case and given departments' concerns, the Government decided that it would be best for departments in the immediate future to focus on the scope to exit leaseholds, consolidate estates where possible and thereby make substantial savings where possible that way.

Departmental Property Moves: Sharing the Costs and Benefits

The Treasury recognises that financial barriers to moves arise in a number of circumstances, which may require a budgetary transfer. For example, a department:

(a) exits a holding early, leaving it vacant for a significant period of time and liable for the remaining lease liabilities, then moves into the building of another different department resulting in significant double liability;

(b) exits its leasehold, with no further liabilities, then moves into the building of different department, where the costs are higher than what it was originally paying; and

(c) is responsible for a building that requires significant refurbishment in order to enable other departments to co-locate in that building. For example, in Bristol, Temple Quay House will see 20 different agencies co-locate (from 12 different departments), with the number of workstations set to increase from 955 to 1,275 after refurbishment.

When these circumstances arise, there are many ways of overcoming the barriers without a budgetary transfer. The most common way is for the departments concerned to come to an agreement bilaterally over where the additional costs should fall. There are numerous examples where this has taken place.

The Department for International Development (DFID) agreed to move out from 1 Palace Street, London, into a Cabinet Office freehold at 22–26 Whitehall, London, but remained exposed to the long-term lease on 1 Palace Street which runs until 2020. DFID have investigated the possibility of reducing this liability via a sublet or early hand-back and has carried out a careful consideration of the business case in relation to the respective options. The surrender of the lease is the preferred route and is the subject of on-going negotiations with the landlord; however the risk relating to not agreeing the surrender remains with them. The Cabinet Office agreed the transfer of ownership of 22–26 Whitehall to DFID with effect from 1 September 2012. This was not a simple process but was achieved with a budget neutral position across Government and the departments concerned.

In general, the additional costs—if any—associated with the moves have been met by the moving department, potentially from reallocating within budgets or through discussion with Treasury spending teams. Alternatively the cost burden could be mitigated by the terms of the moves negotiated between departments rather than in the form of budgetary transfers. For this reason, the Treasury only deals with budgetary transfers on a case-bycase basis should the circumstances require it. Since May 2010 there have not been any property moves which have required in budgetary transfers between departments, although the Treasury would not oppose but support such transfers between departments provided they are cost neutral to the Exchequer as a whole and secure good value for money outcomes for the taxpayer.

Consolidation of the Civil Estate

The Government Property Unit is actively engaging with the Treasury to examine a range of options to facilitate property rationalisation, including how consolidation could be achieved within departmental budgets at no extra cost to the Exchequer. The Treasury will consider all options and any lessons learnt during the current Spending Review period in order to inform our thinking in the context of the next Spending Review. The Treasury will also pay particular attention to the findings and value for money recommendations of the Committee.

I hope these answers are helpful to you and to other members of the PAC in finalising your report. like you, I am keen to have in place an effective, efficient and fit for purpose civil estate**.**

29 June 2012

Further written evidence from the Cabinet Office

1. *Commenting on the fact that 75% the Civil Estate is outside London Mr Amyas Morse asked how that was affected by the MOD (Q48)*

The mandated civil estate is the core space occupied by central government departments, agencies and non-departmental public bodies, of which 25% is located within London. As at the end of 2011, it amounted to around 9,600,000 square metres of office space. The cost of running this part of the estate during the financial year 2010–11 was approximately £3 billion per annum. Within the mandated civil estate, the Ministry of Defence has a total of 87,771 square metres in London, and 329,619 square metres outside London.

2. *The Prime Minister announced that 300 properties would be released for business incubators, why are only 20 properties being piloted (Q56 from Margaret Hodge MP—Chair)?*

In January 2012 the Prime Minister announced that: "There are currently over 300 buildings in the central government estate with space in England and the Government, working in co-operation with landlords, will offer as much as this space as possible to small businesses, giving them space to grow at a low cost."

It was never intended to release 300 properties as business incubators in one go. It makes sense to test demand from start-ups and from those that manage incubators in various parts of the country, and to iron out the many practical difficulties that can arise, before attempting a major roll-out. Since the announcement, there have been a number of practical challenges to work through, such as various security issues, obtaining landlords' permission, and ensuring that every effort had been made to dispose of the properties.

The 20 properties in the pilot—over 20,000 square metres of space—comprise a first wave of incubators. The scheme will be rolled out and refined as the lessons learned become clear.

As at the end of June 2012, the number of properties offered has now grown to 24, the extra four providing 1,700 square metres of new space. They constitute a much-needed addition to the pool of incubator space for start-ups.

3. *What is the status of the nine regional fire control centres? What engagement has the Government Property Unit had in bringing forward solutions (Q65 and Q67 from Stephen Barclay MP)?*

The Government's strategy is to market actively the regional fire control centres to the private sector. GPU has supported the Department for Communities and Local Government, which is responsible for the properties, in trying to find alternative uses for them. For example, we helped broker discussion with the Maritime Coastguard Agency on utilisation of the fire control centre site at Fareham for their South Coast Operations Centre, as announced recently by the Minister for Shipping.

This is not an easy or straightforward task; the facilities were designed for a highly-specialised operational purpose and significant work would be necessary to convert them to alternative uses. The strategy will be reviewed in future if marketing does not identify new commercial occupiers.

4. *When a department has vacant space, what is the process that is carried out to deal with that space (Q72 from Ian Swales MP)?*

When a space is likely to become vacant, it is usually identified some time in advance. Departments declare both actual and future vacant space on e-PIMS (the electronic Property Information Management System). GPU works on a local basis throughout the country with all government departments and their agencies to provide a brokering service in finding suitable space for departments or agencies which require it, especially, but not exclusively, when leases are coming to an end. The aim is to drive value for money for the taxpayer and it involves very detailed future space planning in many areas.

Our top priority remains to reduce property costs by exiting leases, sub-letting to external tenants, or selling holdings where we can. This policy has had some success: for example, 1.4 million square metres is currently let to the private sector, generating £57 million a year in rent.

Inevitably, there is some vacant space that cannot be easily exited. Where surplus property is awaiting disposal or lease end but cannot yet be sold or sub-let commercially, the aim is to offer up suitable premises for other uses, such as housing, business start-ups or free schools.

Not all vacant space is suitable for these initiatives. Some of it is very small or in poor condition, some have security considerations, some have a short unexpired lease term, others restrictive landlord covenants. In these cases, the most cost effective thing to do may be to mothball the buildings to minimise the cost of such premises to the taxpayer.

5. *How much are we going to save in FY12/13 (Q78 from Stephen Barclay MP)?*

Our main mechanism for rationalising the estate and delivering efficiency savings has been through National Property Controls (NPCs). As stated in the NAO report, a gross cash saving of £132 million was achieved in the 20 months between May 2010 and December 2011, as measured against the 2009–10 baseline. We forecast that in FYE 2012/13 we will achieve, in cash terms, an additional incremental gross cash saving of around £170 million.

6. *Has HM Treasury agreed that the proceeds of sale from Admiralty Arch can be used by the Unit to implement its work (Q81 from Margaret Hodge MP—Chair)?*

In July 2011, the Chief Secretary to the Treasury informed the Minister for the Cabinet Office that HM Treasury is willing to allow the Cabinet Office to keep the full proceeds arising from the sale of Admiralty Arch, subject to certain conditions. These conditions include: that all proceeds from any sale be used solely to fund the property agenda; that individual proposals to spend receipts will require a business case, agreed by Treasury; and that proceeds be spent within this spending review and any surplus proceeds be returned to Treasury.

7. *Why are there different methodologies used to report savings? Will this be standardised in the future (Q90 and Q91 from Stephen Barclay MP)?*

There are several different valid methodologies to report savings. They relate principally to the purpose for which the calculation is being made.

Mr Barclay referred to a May 2011 Treasury minute relating to Ofcom. In its response to recommendation 3, the Government stated "there are a number of valid methodologies for assessing savings. These include present value estimates of the net returns of a long-term investment such as a merger". The NAO report on "Improving the efficiency of central government office property" refers to two other types of savings: run rate savings and gross cash savings.

The savings methodologies that have been used for different purposes are:

1. *Net-present value (NPV)* These are typically used to evaluate investment appraisal options, enabling government to determine the most likely "value for money" option on a like for like financial basis. In the context of property, in assessing whether to exit a building, departments will carry out analysis in line with Treasury's Green Book principles to make an investment decision.
2. *Run-rate savings* As per the NAO report, run-rate savings are calculated to determine the savings made from leasehold exits. This savings figure is based on the total annual running costs spent on those leaseholds, as recorded on the Unit's e-PIMS database.
3. *Gross cashable saving* We calculate a gross cash figure (derived from the run rate savings) in order to provide property savings consistent with the methodology used for central reporting of savings as part of the Government's efficiency agenda. The Cabinet Office corporate maintains a very strong degree of control on the way it calculates the rate of in-year savings.

The important issue is that savings are not double-counted or counted indefinitely. For example, if a department exits a lease costing £10 million on 1 April 2010 when the lease is due to end in 2020, the run-rate savings of £10 million each year will continue to be made for the next 10 years, including in that year. To avoid double counting, the Unit looks at additional incremental gross cash savings.

8. *Can the Cabinet Office confirm its commitment to ensuring up to date organograms for all departments are published (Q95 from Stephen Barclay MP)?*

The Government's commitment to publish organograms was met by all 24 main departments on 15 October 2010. Departments are required to update these every six months, with snapshot dates of March 31 and September 30 (publication dates by end May and end November) each year, and are free to also update in between times to reflect significant structural changes.

To date snapshots of departmental structures have been published as at: 30 June 2010, 31 March 2011 and 30 September 2011. The Cabinet Office is currently running the fourth organogram update exercise and has developed a tool to allow viewers to move between previous iterations of their chosen organisations organogram using a slider tool. Due to this additional technical functionality the deadline for the 31 March 2012 snapshot was extended and Departments were required to publish by 15 June 2012. There are currently over 60 updated organograms from the latest round already live on data.gov.uk.

9. *The Unit is rationalising the estate and has made progress in enabling departments to share buildings. However, in Grimsby, government departments that once shared buildings (Imperial House and Heritage House) are now moving out and into leaseholds (Q106 from Austin Mitchell MP)*

The two buildings are both operated by HMRC. Heritage House was held under a PFI contract managed by Mapeley Ltd, and the building was occupied by HMRC, Valuations Office Agency (VOA) and the Crown Prosecution Service (CPS). As part of their estate rationalisation plans, HMRC moved to Imperial House, VOA moved to Imperial House and CPS moved to Hull. As a result, Heritage House was vacated by 1 April 2012 and has been handed back to Mapely.

Imperial House is also under a PFI contract managed by Mapeley, and is currently occupied by HMRC and VOA. The PFI contract runs until 31 March 2021. HMRC has included Grimsby in a list of retained locations where the department will have a presence for the foreseeable future and at least until 2015.

There are currently a total of 16 government buildings listed in the North East Lincolnshire area and discussions with the relevant departments and organisations regarding optimising the use of available space will commence shortly. As this happens, if Mr Mitchell would like to discuss the Unit's agenda in relation to his constituency area of Great Grimsby, then we would be happy to do so.

10. *How much is spent on property consultants across government (Q114 and Q115 from Margaret Hodge MP—Chair)*

The Government Procurement Service (GPS) collects data on procurement from eight suppliers within the Estates Professional Services framework agreement across the whole public sector. However, as property is not a mandated category, departments can choose to use their own procurement route, so GPS' figures do not represent complete expenditure on property consultants.

GPS figures indicate that in 2011–12 the public sector spent approximately £13.9 million procuring services related to property. The spend on property consultants alone is not separately recorded within this amount.

11. *How much is mothballed on the office estate (Q117 and Q122 from Margaret Hodge MP—Chair)?*

The Government has a clear strategy and process for dealing with vacant office space, as explained above in section 4. Mothballing is only used as a last resort and in the following circumstances:

(i) when the department is in the process of finding a commercial use for of the vacant office space (such as a sale, sub-let or early surrender). In the areas the Unit has detailed rationalisation plans[1] there are 11 holdings which are mothballed (comprising 44,800 square metres net internal area) for this reason; and

(ii) when the department is unable to find any commercial use for the vacant space and a strategic decision is made to minimise the running costs by mothballing. In the areas the Unit is operating there are approximately a total of 12 holdings which are mothballed for this purpose (comprising 16,000 square metres net internal area).

12. *Who is the biggest landlord and what is the size of this property portfolio? Has the Government Property Unit adopted a standardised approach to negotiations with this landlord? Who is accountable for this (Q134 and Q137 from Stephen Barclay MP)?*

There are over 2,000 landlords providing leases to government. The size and costs of the properties vary significantly, with approximately half of the landlords leasing property of 500 square metres or less.

In terms of space, the landlord with the largest government property portfolio is Tishman Speyer Properties Ltd, with whom Government has two holdings, comprising 44,100 square metres, both of which are in London (0.06% of all holdings and 1.3% of all leasehold space). Both these properties are dealt with by the same Government Estates team.

After this, the next biggest landlords are Michelin Tyre Plc, leasing a holding outside London, of 42,407 square metres and Lunar House Ltd leasing two holdings of 41,864 square metres.

In terms of holdings, the landlord with the largest government property portfolio is Arqiva, a telecommunications company providing infrastructure and broadcast transmission facilities. All of the 30 holdings are very small (0.9% of all holdings, 0.0017% of all leasehold space).

After this, the next biggest landlords are Gatwick Airport Ltd, leasing 21 holdings outside London, covering a space of 3,607 square metres and North Yorkshire County Council, leasing 19 holdings outside London, covering a space of 2,766 square metres.

Due to the disparate nature of leaseholds, the most effective way to maximise government's collective power is to ensure departments adopt a standardised approach when dealing with landlords. We have been working on guidance relating to: the standardisation of commercial terms to be applied when acquiring new leases and renewing existing leases; rent review coordination; reaching favourable dilapidations settlements; and how to build stronger relationships with landlords to ensure an understanding of government's commercial and sustainability objectives. Our objective is to share best practice and take full advantage of government's collective purchasing power; ensuring departments obtain value for money in any commercial property negotiations. Robert Heskett Deputy Director of the Government Property Unit is responsible for this work.

July 2012

Printed in the United Kingdom by The Stationery Office Limited
08/2012 022057 19585

[1] The areas in which the Unit has agreed rationalisation strategies for are: London, Bristol, Manchester, Liverpool, North West corridor, Birmingham, Nottingham/Derby, Leeds/Bradford, Tyne and Wear, South Yorkshire, and the South East.

ISBN 978-0-215-04763-2

9 780215 047632

PEFC

PEFC/16-33-622