

**Round Table on Public Sector Asset Management
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Experience from the UK

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1.0 Overall Context

- 1.1 Within the UK public sector asset management was introduced in late 1990s as part of broader public sector reforms (one strand of New Public Management). Essentially a central government policy directive cascaded down to local government and other public agencies with local government taking the lead and central government departments and other public sector agencies following. Asset management was 'top-down' imposed as a sub-set of broader financial and accounting reforms and this policy directive has been reinforced through external inspection regimes; recommended 'best practice' guidance and the support of professional and practitioner associations who have perhaps seen it as an opportunity to raise the profile of their disciplines.
- 1.2 In the same way that broader public sector reforms can be seen as mimicking those in the private sector so property asset management in the public sector can be seen as copying from corporate real estate management in the private sector. Public sector asset management can also be viewed as a response to a wider set of policy and resource factors.

Resource Influences	Policy Influences
Maintenance backlogs	Local government review
Rising client expectations	Accounting reforms
Legislative requirements	Efficiency review
Greater accountability	Modernising public services
Changing demography	Sustainable communities
Increasing use of technology	Etc.
Public funding constraints	
Competition for resources	
Etc.	

- 1.3 The nature and focus of asset management has also been changing as described in the table below from a 'traditional' to an 'expanded' role. Where initially asset management was associated with concepts of efficiency more recently it has also been associated with organisational transformation and area regeneration.

Traditional View	
Effective – 'fit for purpose'	Efficiency
Efficient – reducing revenue costs	Lower costs
Dynamic – capital release	
Expanded View	
Service improvement	Transformation
Regeneration	Improve service delivery
Community involvement	Regeneration
Capacity building	Enhance community well-being
Organisational reputation	

2.0 Definition of property assets in the public sector

- 2.1 There are no codified regulations regarding property. Public property, such as state or municipal property, are not specific legal terms within the UK. Public and private property are treated the same through the legal system with the exception of minor specific regulations, such as under Section 123 of the Local Government Act 1972, where local councils are obliged to achieve best consideration on disposal of property assets. All legal rights regarding property have largely derived from case precedents under the UK tradition of common law. As a consequence there is no single 'property code'.
- 2.2 There is no formal legal requirement to undertake asset management in the public sector. Emphasis has been placed on the discipline through policy direction, external inspection and audit, reputation and in minor way as an influence on funding allocations. The main influence has been national policy directives from central government supported by the external audit regime for public bodies such as the National Audit Office for Central Government and the Audit Commission for local government. The Audit Commission for has for example produced three landmark reports on asset management over the last decade.
- 2.3 Some public bodies, notably local government, Fire and Rescue Services and Police Authorities are subject to annual inspection under what is termed the Comprehensive Area Assessment (previously called the Comprehensive Performance Assessment). The Key Lines of Enquiry for these inspections are published documents and one set of criteria relates to asset management. The performance scores for this influence the organisation's overall performance rating which is a major reputation consideration for senior executives and elected politicians. Hence focus on adherence to asset management practice is often given a significant push by organisation's trying to maintain or improve their performance rating.
- 2.4 The profile of asset management has also been raised through a range of other mechanisms:
- The Institute of Asset Management has developed a competency framework.
 - The Royal Institute of Chartered Surveyors, the property practitioners' professional body has developed 'best practice' guidance
 - The Institute of Public Finance has created an Asset Management Planning Network to engage practitioners across the UK, to disseminate practice; act as a mechanism to share and exchange ideas and to lobby policy makers in central government.
 - The Chief Property Officers Association has developed an initiative to develop asset management performance indicators as a set of nationally collected indicators.
 - Etc.

All these mechanism have been a response to the policy directive but at the same time have reinforced the profile and significance of asset management.

3.0 Who Owns Public Sector Assets?

3.1 The pattern of public administration in the UK (who provides what services) is complicated). Consequently who owns what assets is also complicated. The diagram below provides an outline of who owns what in terms of assets which are used to provide public services.

Asset Type		Owning Entity	Funding & Level of Public Administration	
Town Hall & Local Administrative Offices	Schools	Governing Bodies		
	Highways (minor roads)	County Councils (principally rural areas)	Trusts	
	Libraries		Local Government	
	Adult Education Centre			Unitary Councils (principally urban areas)
	Elderly Peoples Homes			Fire & Rescue Authorities
	Fire Stations			Unitary Councils (principally urban areas)
	Refuse collection depots	District Councils (principally rural areas)	Trusts	
	Industrial estates	Housing Associations		
	Shops on housing estates			
	Social Housing	Police Authorities	Central Government	
	Police Stations	Highways Agency		
Highways (major roads)	English Heritage (Guardianship)			
Historic Buildings	Primary Care Trusts			
Hospitals	Doctor(s) Practices	Private Sector		
GP Surgeries	Water Utilities			
Water supply				
Water treatment				

3.2 Assets which are pending disposal or under construction will tend to be owned by the organisation which has or is intending to use them.

3.3 The nature of asset ownership in UK public service delivery is changing and is perhaps more appropriately described as a 'mixed economy'. Whilst the accountability of public services has remained within the public sector the delivery has in some cases been outsourced to the private sector that may rent or use their own premises. The logical extent of such a trend could be some 'asset free' areas of the public sector.

3.4 Whilst 'ownership' of assets is invested in the corporate entity, such as a municipality there is sometimes a perceived ownership of assets by the occupying department of a large organisation. (e.g. The library service may see libraries as in their 'ownership' rather than in the ownership of the corporate entity and may consider that they have discretion over decisions on the asset). The notion of a corporate landlord / tenant relationship (with the corporate entity being the landlord and the occupying department the tenant) has been developed as a counter to this trend but remains poorly developed.

4 How are Public Sector Assets Managed?

- 4.1 Within central government there is not a single asset management function but rather property assets are managed through separate asset management functions within individual government departments. Within local government councils will have their own asset management functions although in smaller councils this could be very small indeed with limited skills and capacity. Incidentally in both central and local government the term property management rather than asset management would be more readily used.
- 4.2 The asset management function will typically sit within a central support services function, perhaps along side other resource functions (such as HR, IT and Finance). The more strategic aspects associated with asset management as a discipline are often to be found within the same organisational unit as the more operational aspects of managing property on a day by day basis.
- 4.3 Strategic asset management does not sit at the 'top table' and it is rare for assets and property professionals to do more than just deliver. There have been several significant reports advocating for asset management to assume a higher organisational profile but assets can still be viewed as a 'hidden' resource; static and inflexible to change and asset management as a support services. Property still tends to have an operational rather than a strategic focus.

5 Accounting

- 5.1 Property is accounted for as a fixed asset on an organisation's balance sheet once it is operational and is depreciated over its useful life. Organisations in the public sector, such as a local council, will typically follow the Chartered Institute of Public Finance and Accountancy (CIPFA - the public sector professional and practitioner accountancy body) statement of recommended practice. CIPFA has an acknowledged status in public sector accounting, good outreach to practitioners and an extensive set of training materials and events.
- 5.2 Within the accounts assets are classified into broad categories as recommended by CIPFA which are:-
- land and buildings
 - infrastructure
 - intangibles
 - community assets
 - investment property
 - vehicles, plant and equipment.

This categorisation of assets is consistent across central and local government.

- 5.3 Freehold property assets are included within an organisation's Balance Sheet under Fixed Assets. Most organisations will also produce a Fixed Asset Statement as part of their annual accounts detailing the various asset types and their movements throughout the year. This will include leasehold property with a long lease life attached to it.

- 5.4 The total value of the asset owned has to be presented in the annual accounts of the owning body (such as a local council). Different bodies may take a different approach to the frequency and nature of revaluation. Typically this could be a major revaluation at 5 yearly intervals of the whole portfolio with an update based on major refurbishment during the intervening years; or a rolling programme of asset valuations of a part of the portfolio over say a 3 or 5 year cycle. The most common approach would be a 5 yearly revaluation as asset have to be valued as a minimum on a 5 year cyclical basis as part of recommended best practice. Non-operational properties, such as those held for investment purposes would be valued annually. Assets which have had a high level of capital spend are also re-valued once the capital scheme is complete.

- 5.5 Positive revaluation is credited to the revaluation reserve. Negative revaluation is debited to the revaluation reserve if there is sufficient balance to take it, or is debited to impairment on the Income and Expenditure account when the revaluation reserve is zero.

- 5.6 Historical valuations are applied to vehicles, plant and equipment, infrastructure, community assets and investment property. Non-operational property would be valued at its current market valuation. The predominant basis of asset valuations of operational public property assets would be market value (existing use) or Depreciated Replacement Costs (DRC) with market value (alternative use) being more of an exception in terms of formal accounting procedures.

Asset Type	Principle Valuation Method
Vehicles, Plant & Equipment	Lower of net current replacement costs or net realisable value in existing use.
Non-operational property	Valued on open market value and included in balance sheet at the lower of current replacement cost or net realisable value.
Operational property	Included in balance sheet at historical cost until re-valued and then at the lower of net current replacement cost or net realisable value in existing use
Infrastructure assets	Depreciated historical cost
Community assets	Depreciated historical cost
Work in progress	Depreciated historical cost

- 5.7 The opportunity cost of individual assets or a collective portfolio is unlikely to be known or readily available. Organisations may undertake or commission market valuations to identify latent value in their portfolios as part of rationalisation plans, prior to disposal or as part of a service improvement initiative. From a property perspective it could be argued that asset valuations for capital accounting purposes requires a large degree of effort to produce figures which are not particularly useful as they do not resemble the realisable value of assets and indeed may even have a perverse effect in that key decision makers such as politicians taking a simplistic view that valuations for accounting purpose equals the realisable value.

- 5.8 Depreciation is calculated on a straight line basis over each asset's useful life and is charged to the relevant service revenue account in the year following

completion of the asset. The typical periods over which assets are depreciated are shown in the table below.

Asset Type	Depreciation Period
Land	nil
Buildings	60 years
Vehicles, plant and equipment	3-15 years
Temporary classrooms	20-25 years
Roads & other highways infrastructure	20 years
Community assets	Nil
Work in progress	Nil
Surplus & non operational property	nil

6 Value added tax

- 6.1 Value Added Tax (VAT) does not normally apply to assets purchased by the public sector as such property acquisitions are VAT exempt. Typically the VAT cost is posted to an organisation's VAT account and the net value is reimbursed through the Central Government's Revenue and Customs Department based on monthly VAT returns.
- 6.2 Whilst the sale of land and property is normally exempt from VAT in some circumstances the vendor may opt to tax the land and this changes the VAT status of the transaction to VATable. If the vendor has opted to tax this may impact on a public sector body's exemption position and they might also wish to opt to tax to protect their position on a subsequent disposal.

7 Resources for capital investment in property

- 7.1 Financial Reporting Standard 15 of the Accountancy Standards Body provides a definition of capital expenditure. A de minimus of £10,000 is used for non schools and £2,000 for schools.
- 7.2 Public bodies can acquire, construct or refurbish assets using their own capital funds or through borrowing. They can borrow money at attractive rates from the PSWB (Public Sector Works Board). The practical constraint on this is inevitably the revenue costs associated with the borrowing, the ability of the organisation to service this debt from revenue and the impact that this may have on the Council Tax which is a political consideration for local government.
- 7.3 Central government provides funds for capital projects under a range of discrete initiatives in response to their national priorities. Some of these are allocated on a 'needs' basis and others through 'competition'. In addition there a range of funding sources (such as the National Lottery) which bodies may be able to access through bidding competitions. Such sources tend to be ring-fenced for specific types of projects (e.g. heritage or cultural) and will have a range of criteria including match-funding requirements which bidding bodies will have to meet.
- 7.4 Within an organisation there will typically be a medium term budget planning process which looks ahead for 3 to 5 years and identifies a capital programme.

The inclusion of projects within the programme will be influenced by many factors but an internal mechanism will be used to prioritise capital 'bids' and select which projects will go forward into the programme according to available funding, corporate and service prioritise.

- 7.5 The PFI (Private Finance Initiative) is the government's preferred mechanism for the provision of major new public infrastructure with significant inducements in the form of 'credits' to support preliminary procurement work provided. Under this approach the private sector would design, build and operate a major facility (such as a hospital) over a fixed period (usually 25 or 30 years) in return for a unitary charge (annual payment from the public sector organisation's revenue budget). The simple assumption underlying this form of procurement is that the private sector is more efficient and such major capital projects than the public sector (even allowing for the bid costs, cost of borrowing money and the private sector profit).
- 7.6 PFI involves transfer of the legal interests in assets as a package to a third party, in perpetuity, or for an agreed period of time (20 to 30 years), with a contract with the third party to provide, manage, maintain and deliver agreed facilities (new and/or refurbished) and associated services for an agreed period of time. In return, the third party would pay to the public sector on completion of the contract an agreed capital sum equating to the agreed value of the legal interests, less the sum spent on capital works. In return for operating the facility and taking responsibility for its outgoings the public sector pay the third party an annual charge. At the end of the contract the public sector have the right to remain in occupation on terms specified at the start of the original contract and it is also possible to structure the deal so that the legal interest in the estate transfers back to the public sector at the end of the contract period.
- 7.7 Property-related PFI deals can provide the public sector with reduced operating costs, improved quality of services, capital receipts and improved accommodation whilst also giving the private sector an acceptable return on investment. This is achieved by the private sector being able to procure and manage works and services more efficiently, being better able to realise opportunities for surplus space, to better manage property liabilities and take a long term view on investment and budgeting. It also has flexibility to trade in assets and investments created out of PFI deals with the 'secondary market' in PFI investments now well developed. The private sector can achieve this because in general they have more organisational, procurement and financial flexibilities available to them than the public sector.
- 7.8 PFI is a mature delivery and operating model with many existing examples such as the Inland Revenue and DSS office accommodation; HM Treasury's Whitehall building (internal overhaul and reconfiguration through a 30 year deal); Northern Ireland government Workplace 2010 initiative to transform the working environment for the civil service and redevelopment of the DVLA complex at Swansea. PFI is being used to provide / refurbish schools and hospitals under national initiatives - BSF and LIFT which bundle 'packages' of work into larger programmes.
- 7.9 The Department of Health (DoH), through LIFT (Local Investment Finance Trust), has created an opportunity for public/private partnerships to bundle projects to drive through modernisation and renew the health and social care estate. These

are initiatives to procure and supply capital investment needs for both health care providers and other public bodies. The key focus is on enabling participants to join up service delivery for the benefit of end users and cost efficiency. Whilst it is focused on the primary care estate which is currently not considered suitable for the provision of modern healthcare it may have the scope to embrace other projects and services.

- 7.10 PFI is one specific form of a PPP (public-private partnerships). The initial specific model has evolved into a range of other models. PPPs involve setting up a joint venture (JV) involving one or more public sector agencies and a private sector partner. The public sector and partner each contribute equity, in the case of the public sector to a maximum of 50% and usually in the form of property assets. The JV undertake necessary activities (such as obtaining planning permissions, demolition, design and rebuild and subsequent sale of the investment) to achieve optimum value when disposing of a surplus asset; and the public and private sector partners share 'profit' on the basis of their equity stake. While PPPs were conceived as a spectrum of structures that include formal and long term contractual relationships such as PFI, they are now commonly regarded as the array of partnerships put in place other than PFI.
- 7.11 A characteristic of PPPs is their focus on specific outcomes and objectives and the selection of a partner with commercial expertise in a single business area. To that extent, they differ from property-based PFI deals where the public sector's partner will necessarily embrace a bundle of expertise that could include property and facilities management, property development, construction and financing.
- 7.12 In relation to property assets, a PPP may be the creation of a discreet vehicle to, for example, develop and dispose of surplus properties. British Waterways, through the Isis Waterside Regeneration PPP created a partnership to regenerate surplus canal-side properties and recycle profits back into its core business. Local authorities are now promoting the use of Local Asset Backed Vehicles (LABVs) to stimulate urban regeneration and economic activity with public sector property assets being used as 'equity' in the partnership. One recent example is Tunbridge Wells Borough Council who have partnered with John Laing plc to deliver regeneration objectives. There are several other examples including Aylesbury Vale District Council creating a property investment partnership (AVPIP) to better exploit its investment portfolio; Hull City Council creating a Single Regeneration Vehicle (SRV) to join disparate capital funding streams to renew the city's infrastructure; Sunderland investigating the use of a LABV to regenerate the city and Croydon which has created an Urban Regeneration Vehicle (URV) to develop out a mixed use development portfolio and to meet the accommodation requirements of the council. The length of partnerships varies according to the objectives of the partners and investment returns required.
- 7.13 For those buildings which are procured through the PFI then the general repairs and maintenance costs for the buildings will be included within the annual unitary payment over the life of the contract. For other buildings procured through more conventional means then the general repair and maintenance costs will normally need to be found through revenue budgets. One of the reasons often put forward for the use of PFI is that this approach to the provision of public sector assets more fully recognises the on-going maintenance needs of the assets over its life time. Under conventional procurement there has been a tendency for the full on-going maintenance costs of assets not to be fully recognised and techniques such as whole life costings are not well embedded.