If it stands still, let's measure it!

An introduction to the performance measurement benchmarking of property performance within English Local Government

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Introduction

When I start a presentation on property asset management to mixed audiences, I often ask the question "What is a building?" Non-property people will look at me as though I have lost the plot, but within Local Government in the United Kingdom the question is extremely valid. With the exception of social housing, the purpose of local authorities is not to provide buildings but rather to provide services. The building is just part of this delivery chain and it can fundamentally enhance or have a negative influence on the services provided from it. So when we are measuring performance of local government property, we not only need to measure physical condition, space, cost, and the like, but we also need to measure the impact the building itself has on the service being delivered from it.

The local government sector within England often has a reputation for making things complicated, and this appears to be the case when it comes to performance measurement and management of property. I've worked within this arena for over fifteen years and lost a lot of hair along the way. So what successes have we seen over this time, what lessons have we learnt, and where are we now?

The rise and fall of benchmarking

Before the year 2000, benchmarking of building performance within English Local Government was quite rare. A few of the most enterprising authorities were comparing some information at a local level, but there was nothing happening on a national scale.

That all changed when the Labour Government of the time made it a requirement for all English local authorities (approximately 400 organisations at that time) to develop property Asset Management Plans which had to be submitted to central government for vetting. The plans included a range of prescribed information and incorporated a number of key performance measures. This resulted in an explosion of activity relating to the collection of property performance data.

Many authorities invested for the first time in asset management software, commissioned condition surveys of their property estate, and started to look at the way costs associated with buildings could be collected in a more coherent manner. But that wasn't the whole picture. The government's vetting approach only required figures to be inserted against each indicator but did not consider the robustness of the data. As such there was a lot of room for manoeuvre in the way different authorities approached the collation of data. Quite a few authorities entered figures from best guesses, whilst others have openly admitted that they made up the figures based on what they thought would be the answers that were expected. All in all, the variety of approaches and lack of effective vetting in the early days made national comparison fairly meaningless.

In 2004 the government dropped its requirement to submit Asset Management Plans and this marked a crossroads for property benchmarking. Some saw it as an opportunity to divert their time to other activities and there was a substantial reduction in the number of authorities devoting time to benchmarking. On the other hand a number of the professional property societies (realising the benefits of good comparison data) got together to develop an improved core set of property indicators many of which are still in use today.

This indicator set is now known by the catchy title of NaPPMI (The National Property Performance Management Initiative) which at its peak had about 150 authority members. The coordination and analysis of data returns over the years has been handled by my own organisation CIPFA. I will cover the NaPPMI indicators in little more detail later on, but for now we will continue with the history lesson.

After 2004, the interest in benchmarking slowly waned although a healthy number of authorities continued to collect and report on most, if not all of the NaPPMI indicators. At this time the government's 'Best Value' initiative was still in full flow although individual 'service' reviews were mostly being replaced by an annual assessment of the whole organisation. Whilst in the early days this didn't include any asset management evaluation, by 2009 approaches to estate management were an essential element of the overall corporate assessment. Significantly this included a requirement to provide evidence of "managing the performance and value for money of assets by challenging, managing, benchmarking and monitoring against targets for improvement."

Correspondingly, we witnessed a re-emergence of interest in benchmarking for a short period of time up until the Parliamentary Election of 2010 when a new Coalition Government took control, and local government policies took a totally new direction. The new government made a pledge to remove the inspection burden on local authorities whilst at the same time making authorities more accountable to local communities.

This has meant on the one hand that demonstration of performance is not required under any formal inspection process, but on the other hand it could be critical if challenged at a local level. Add to this the significant ongoing reduction in local authority budgets, and there is a real debate to be had about whether the collection of detailed performance information is cost affordable for the benefits that are delivered.

My own view is that property performance information is essential for the effective and efficient management of any service/business, but I can appreciate that this can be hard to justify in the current financial climate. More recently, the focus has moved to performance measurement of the property team itself in order to demonstrate effectiveness and value under increasing financial scrutiny. To support this and in response to a number of requests we have set up a Value for Money benchmarking scheme that looks at staffing levels and property service performance in a number of property management areas.

I think that's enough history and context for now as I want to look more at some of the performance measures we are using in respect of the property assets themselves, and the professional property services used to provide them. I've split these into the two benchmarking assessments referred to above, namely:-

1. NaPPMI and
2. Value for Money of Property Services

1. NaPPMI (National Property Performance Management Initiative)

The NAPPMI indicators were developed with support from all the relevant local government professional societies and clearly play a valuable technical role, covering areas such as condition and maintenance requirements, energy/water use, space utilisation and suitability. A full list of the NaPPMI indicators together with definitions can be obtained at http://www.cipfaproperty.net/subscribersarea/default_view.asp?library=3&category=18&content_ref=2374

From our own research, it appears that most local authorities in England collect some of the indicators although very few collect all due to a number of factors including lack of information, lack of systems, cost, time/effort of collection and personal choice. I don't intend to look at all of the indicators in detail in this article but have picked out a few of the more important ones for consideration.

Building Condition

In the UK most public sector authorities categorise the condition of a building for its current use under 1 of 4 headings

A: Good – Performing as intended and operating efficiently

B: Satisfactory – Performing as intended but showing minor deterioration

C: Poor – Showing major defects and/or not operating as intended

D: Bad – Life expired and/or serious risk of imminent failure

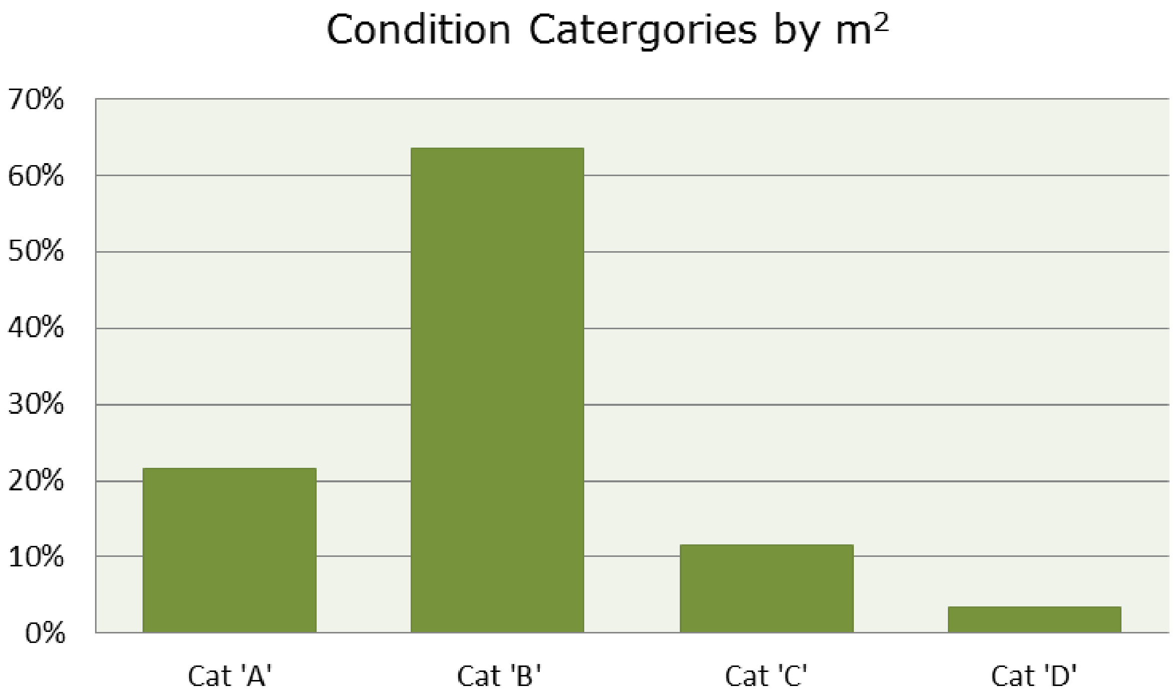
Ideally all buildings would fall under the ‘A’ or ‘Good’ Category, but in practice this is unrealistic with the resources available for the vast majority of organisations.

Condition is usually assessed through on-site surveys undertaken by suitably qualified surveyors. The majority of English authorities do this by covering 20% of their building stock on an annual rolling basis, so over 5 years they will get a complete picture of the estate. At the same time they will pick up maintenance priorities creating another indicator which we will explore shortly. There are bound to be some human interpretational differences in survey results but generally they are fairly consistent.

There are a number of advantages of this simple but effective approach as follows:-

- It allows clear non-technical communication to politicians and decision makers/budget holders on the condition of the estate and the impact of expenditure (or lack of) on the estate.
- It tracks this change over time.
- Condition information is stored in a way that is easily accessible to all, and avoids reliance on knowledge of individuals..
- It helps in setting out prioritisation of maintenance to ensure expenditure of limited resources is most effectively utilised.
- It allows for setting out a clear policy in asset management standards (i.e. if we can’t afford to have all ‘A’ grade buildings let’s at least aim for a ‘B’ condition standard; or, let’s have publically accessible spaces as ‘A’ condition and back office as ‘B’).
- It can be used as part of option appraisals exercises to decide on the retention, disposal or development of specific buildings.

The graph below shows the current average condition grades for buildings (by total area m^2) for English authorities who take part in our benchmarking exercise.



It has been interesting to watch how these percentages have changed over the last ten years, which we believe reflects authorities taking a more strategic approach to asset management. The greatest change has been the reduction in the proportion of Category ‘C’ and ‘D’ buildings as a result of poorer condition assets being disposed of, or invested in to bring them up to a better standard. Correspondingly Category ‘B’ has increased by ten points in the same timescale where buildings have been allowed to deteriorate from Category ‘A’ or have been invested in to bring them up from the ‘C’ or ‘D’ standard.

For benchmarking purposes, the condition indicator is probably most useful for tracking trends internally although major discrepancy from the average national profile percentages are likely to ring alarm bells within an organisation.

Required maintenance costs

Required maintenance is defined as “The cost to bring the property from its present state up to the state reasonably required by the authority to deliver the service and/or to meet statutory or contract obligations and maintain it at the standard”.

It is generally separated out under 3 priority bandings as follows: -

1. Urgent works that will prevent immediate closure of premises and/or address an immediate high risk to the health and safety of the occupants and/or remedy a serious breach of legislation.
2. Essential work required within two years that will prevent serious deterioration of the fabric or services and/or address a medium risk to the

health and safety of the occupants and/or remedy a minor breach of legislation.
3. Desirable work required within 3 to 5 year that will prevent deterioration of the fabric or services and/or address a low risk to the health and safety of the occupants and/or a minor breach of legislation.

When condition surveys are carried out, a surveyor will itemise out the necessary repairs required under each of the 1-3 priority categories. Again there are significant benefits in doing this:-

- It will enable asset managers to prioritise their maintenance across the estate accordingly (although there is often not enough budget to finance the full requirements).
- It allows asset managers to argue for realistic maintenance budgets based on need rather than historic allocation.
- It will also enable life cycle planning of maintenance to be produced which feeds into providing a clearer picture of how much a property actually costs to run and maintain.
- It shows the effect of any policy in setting and maintaining to clear asset management standards.
- It can also be used as part of option appraisals exercises to decide on the retention, disposal or development of specific buildings.

Again this indicator is most useful for tracking trends internally, particularly in monitoring year on year overall maintenance need.

Spend as % of required maintenance need

This more recent indicator combines two former measurements of maintenance need and maintenance spend per m^2. Authorities have used both this and the previous indicators in the shadow of recent tighter financial constraints in an attempt to protect reducing maintenance budgets. The argument goes something like this: If the total maintenance need ascertained from surveys is £100 million over the next five years, then in theory maintenance spend should be about £20million per annum or 20% if averaged out over those 5 years.

In practice however, maintenance spend will be slightly more than this to allow for reactive (emergency) repairs that aren't picked up from surveys, and this could potentially add 20-30%. Indicator 1E however reveals a high degree of variance in maintenance spend against maintenance need with most authorities spending well under the 20% figure as described above. In fact only one authority recorded a spend above 20%, their actual spend being recorded as 32.77%. The table below shows some of the minimum and maximum extremes along with averages for the 2011/12 period.

Indicator 1E – Spend as % of required maintenance need, return for 2011/2012	
Maximum	32.77%
Minimum	3.83%
Simple Average	11.75%
Median	9.90%

Disappointingly we are seeing a drop in returns for the condition and maintenance related indicators at a time when they are needed most. The main reason for this appears to be the cut of budgets for carrying out condition surveys with many authorities putting these off to divert money to front line services. This results in condition/maintenance information becoming progressively out of date and thus authorities are reluctant to complete returns if they are not totally confident with the data.

There are a number of fundamental problems with the diminishing focus on condition and maintenance as follows:

- It reduces the confidence in property data and the assurance that money is targeted where it is most effective in times of shrinking budgets.
- When budgets are allocated corporately, it lessens the ability to provide evidence based arguments for retaining adequate property maintenance spend.
- There is a limited ability to track year on year performance and the effect that maintenance spend/estate policy has on overall maintenance need.
- Option appraisals on future use of significant assets are often being conducted without a clear understanding of the full picture.

Environmental Performance Measures

We've had some issues over the years with these indicators that cover energy use, water consumption and emissions. For example in the early days there was little understanding of how CO_2 emissions were calculated which resulted in some incredible figures being returned, sometimes thousands of times greater than what would be realistically expected. This took a couple of years to overcome and since then we have seen a steady although slight reduction in CO_2 figures, reflecting a closer policy focus in most councils on reducing greenhouse gas emissions .

Another indicator that has caused some debate is that of energy consumption. At face value it should be simple to understand, but there is more to the interpretation of this indicator than meets the eye. In theory the aim should be to reduce energy consumption per m^2 but this has not been the case in many councils which has caused some consternation with politicians and budget holders. The reason for this in many cases has been the policy drive to use public buildings for more activities and for longer hours commonly known as ‘sweating the assets.’ Consequently for example whilst using schools out of hours for community use, or civic buildings at weekends/evenings for functions will contribute to increased consumption, they will bring significant benefits in other ways such as income generation and facilitating rationalisation of other assets.

The energy consumption indicator reinforces the truth that property performance measures cannot be looked at in isolation (even though they invariably are). I often liken them to going to visit a doctor with a specific set of symptoms. The doctor may be able to diagnose a possible illness based on those symptoms alone, but often this can’t be 100% guaranteed without further tests and more detailed exploratory work. It’s the same with property indicators; they give an indication of what could potentially be wrong but no more than that. More detailed analysis is often required to understand the complete picture and to prevent decisions being made quickly that will be regretted later at length.

> *“We must all suffer from one of two pains: the pain of discipline and the pain of regret. The difference is discipline weighs ounces while regret weighs tons.”*
>
> *Jim Rohn*

Measuring Suitability

The assessment of suitability of local authority properties has been developing over a number of years, and whilst most authorities have now used some form of assessment, there are significant differences as to how effectively this is undertaken, embedded and utilised. There is no requirement to use a prescribed model, and local authorities have devised models of varying degrees of complexity, to meet their own needs.

Whilst the assessment of suitability is a recognised tool in effective asset management, it pushes many property professionals out of their comfort zone of technical building performance into a more awkward world of service delivery, customer care and human perception. I personally consider the importance of suitability to be on a par with condition and maintenance need when measuring a property’s performance It’s fine having a building that is in perfect condition, but if it’s not suitable for the service being delivered from it then something will need to be done.

Unfortunately as there is no one consistent model in use to measure suitability, performance measures in the past have been process based i.e. ‘Do you carry out suitability assessments of your properties?’ A more useful measure would be ‘How suitable is your property for service delivery?’ This however seems to be changing with a proposal for a new indicator (similar to one already in place in Scotland) that asks for the percentage of the estate that has been graded as ‘good’ or ‘satisfactory’ in terms of suitability for service delivery.

One of my colleagues wrote a useful guide on the measurement of suitability in local authority buildings on behalf of the Federation of Property Societies which can be downloaded at http://www.fedps.org.uk/reports/

Office Space Indicators

Many authorities have reviewed their office estate in recent years, usually with an emphasis on better utilisation and lowering cost, often accompanied by the introduction of new ways of working. This continues to be a high-profile area and measurement is carried out in a number of ways. The two that get most headlines are:

- The average Net Internal Area m^2 per Full Time Employee (FTE)
- The average Net internal Area m^2 per workstation

Many authorities have set ambitious targets for these areas together with an additional measure (the ratio of desks to full time employees working out of an office) that is not currently compared nationally.

Indicator 5b 1 – The average Net Internal Area m^2 per Full Time Employee (based in an office)for 2011/2012	
Simple Average	11.58m^2
Median	10.87m^2

Indicator 5b 2 – The average Net internal Area m^2 per workstation for 2011/2012	
Simple Average	11.46m^2
Median	11.26m^2

We have seen significant progress in this area. For example since 2006/07 the average 'Net Internal Area m^2 per Full Time Employee' has decreased by over 15%. Targets for the future however tend to be even more stretching with some as low as 6m^2 per FTE. This could only realistically be achieved with a combination of space saving accompanied by a significant reduction in the ratio of staff to workstations. However when you compare indicators 5B1 and 5B2 it is clear that many organisations are still operating at the one desk to one person level.

This has been compounded within the last three years of budget cuts with significant numbers of staff being offered redundancy packages to reduce wage bills. Although offices are being rationalised, the space reductions can't keep pace with the unprecedented loss of staff numbers and hence the indicators are not reflecting the improved utilisation of the office estate. Hopefully when the current situation calms down this will catch up and demonstrate some of the effective ways that offices are being shaped to support service delivery requirements of the 21st Century.

Office costs

There have been various attempts to measure how much building space costs without much success. The latest iteration is the measurement of the ‘Annual property cost per workstation’

I personally think this area has been one of the failures with so many variables interpreted in differing ways making what should be an essential indicator almost worthless. Accounting approaches compound the problems particularly where costs are allocated to services and not specific buildings. For completeness the areas of cost included within the current indicator are: -

- Repair and Maintenance
- Energy
- Water and Sewerage
- Grounds maintenance
- Rents
- Rates
- Cleaning and domestic costs
- Premises insurance
- Security
- Caretaking/Janitoring

I do believe this information should still be collected for comparison of costs over time internally, but for wider comparison it is little more than useless without detailed approaches and independent vetting which makes it cost prohibitive for most. I believe this is reflected by the fact that only ten authorities returned data against this indicator in 2011/12. There is talk that central government will require authorities to produce similar cost information and make it publically available within the next year. I have personally lobbied quite strongly against this as I believe it will create major problems and a lot of time/cost will be spent developing a set of incomparable data and misinformation.

2. Value for Money of Property Services

This exercise varies from NaPPMI in two significant ways:

- The first is that it looks mainly at the staffing and costs for procured services that support the property function within an authority and not the buildings themselves. This enables us to analyse the costs of each property function against the relevant outputs.
- The second is that we visited each participating authority and went through their data entry line by line. This enabled us to avoid differences in interpretation of data requirements and to ensure consistency of approach wherever possible.

We are now in our second year of the benchmarking exercise, and are currently carrying out site visits with an aim to complete the exercise by October 2012. To provide a better understanding of what this exercise is seeking to achieve, the following paragraphs summarise our approach to the exercise, together with some of the headline findings to date:

Information is inputted on two worksheets:-

- Worksheet 1 – Collects staff salaries, on-costs and time allocation under separate work areas.
- Worksheet 2 - Collects general information on the estate, budgets and back up notes.

Property related work is separated into a number of functions we believe covers the vast majority of activities that typical authorities will undertake as follows(I apologise if some of the terminology is UK specific):

a. Strategic Asset Management and management of data, terrier etc.
b. Acquisition and Disposals
c. Property Valuations
d. Design and Construction (Major Projects) including Project Management
e. Condition Surveys
f. Management of maintenance including compliance
g. Energy Management
h. Management of Investment Property
i. Management of Non-Investment Property

Staff time is set against each of these headings and pay rates allocated to build up a full picture of how much property support actually costs and how this is distributed across the relevant activities. Once some qualitative information was added, the final report consisted of a 70 page document with numerous graphs and tables. Our second year's document is likely to significantly bigger with a number of additional data areas collected.

So what are a few of the key headline findings from year 1?

- 44.38% of staff working in property are over the age of 50 raising questions about continuity for the future.
- Approaches and the resources engaged in strategic asset management vary considerably. The average number of full time equivalent staff per organisation for this area is just under 9 per organisation. However some (even large) authorities have less that one full time person carrying out these duties. How can they realistically provide a forward looking comprehensive asset management approach with such limited resources?

- None of the councils in the exercise outsource their strategic asset management in totality, and only 1 in 8 used external firms for any aspect of this work.
- Design and Construction including Project Management is the area in which there is most outsourcing.
- Less than a quarter of councils undertook full condition surveys for 20% or more of their estate in 2012/13 (as they should to accord with suggested good practice). One third carried out no condition surveys at all within the period.
- There is little consistency in the amount allocated to annual maintenance spend. Some organisations may have as little as a tenth of the resources allocated to this area when set against comparable authorities with similar portfolios.
- Very few authorities actively challenge how much income they are receiving from investment property and even less set this against the cost of management of such a portfolio. One authority spent a third of its investment income figure on managing the portfolio.
- The average number of training days per staff member is just over 2 days per annum.

I have deliberately kept the above at a fairly high level as the report itself goes into too much detail for the scope of this paper. However it will be interesting to see how results change for this year and whether any trends start to emerge which may be worth revisiting in a future article.

<u>Conclusions</u>

In such a short article it is impossible to do a subject like this justice, but I am always happy to provide more information for those who are interested. It is an area where in hindsight a lot of resources have been wasted by not focussing on the right areas and in many cases by consciously avoiding them to evade awkward questions. We have seen performance measurement activity rise, fall, rise again and we are now are at a bit of a crossroads where the need for accurate and comprehensive data is even more essential, but the resources and will to collect and use it to its full potential are lacking.

So what of the future?

Performance measurement and benchmarking was once described to me like this.

> *There are three types of organisation*
>
> *The first embraces performance measurement using accurate data to shape their estate, use money wisely and make it happen.*
>
> *The second tinkers with performance information, providing and publishing where required by legislation, and making decisions*

based on high level data often making it happen a bit by luck and a bit by judgement.

The third organisation just sits there and says “What happened?”

Unfortunately I do see this as the future and worry about the organisations in the third category. How can they really manage their property effectively if they don’t know the full costs, performance and effects that policy has. If they don’t measure suitability, how can they ensure that services are being effectively delivered and the building is contributing positively to those services? Performance data doesn’t necessarily provide all the answers but at least it will raise some significant and challenging questions that are worth investigating and, back to the doctor scenario, may lead us to a fully informed diagnosis and comprehensive treatment plan.

I will conclude with another quotation that sums this up perfectly. It comes from Sherlock Holmes in ‘A Scandal in Bohemia’

“I have no data yet. It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts”.

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