



**Office of the Comptroller and Auditor General**

**Operational Land and Buildings**

**21 June 2018**



JERSEY AUDIT OFFICE

## Operational Land and Buildings

### Introduction

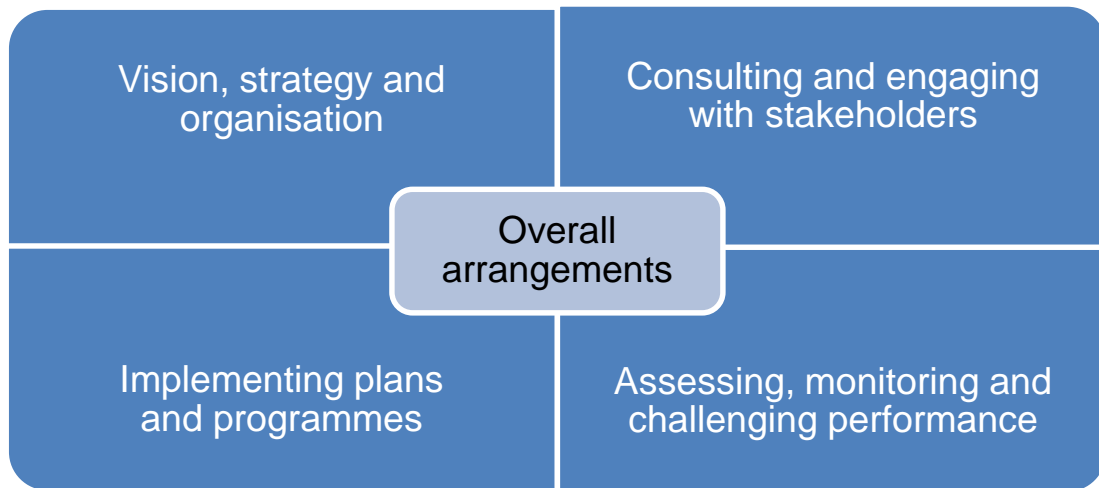
- 1.1 Efficient and effective management of operational land and buildings is a key means of securing value for money in delivery of public services. The States has a portfolio of over 500 operational properties valued at over £1 billion and an annual maintenance budget for Jersey Property Holdings (JPH) alone of almost £12 million.
- 1.2 Most operational land and buildings are managed by Jersey Property Holdings, established in 2005 and currently part of the Department for Infrastructure, with the aim of strengthening corporate strategic and operational property management.

### Objectives and scope

- 1.3 The review considers:
  - the effectiveness of arrangements for:
    - strategic management of operational land and buildings;
    - securing value for money at a strategic level;
    - securing value for money at an operational level; and
    - performance management; and
  - where areas for improvement can be identified.
- 1.4 The review extends to operational land and buildings included within the States' accounts other than those held by Andium Homes, Ports of Jersey and the States of Jersey Development Company. I plan to undertake a separate review of the operation of the States of Jersey Development Company.
- 1.5 The review does not extend to infrastructure assets or investment properties.

The review does not consider in detail the proposed Future Hospital. In November 2017 I issued a separate report, *Decision Making: Selecting a Site for the Future Hospital (March 2012 - February 2016)*.
- 1.6 My review considers the key aspects of management of land and property detailed in Exhibit 1.

**Exhibit 1: Aspects of management of land and property reviewed**



*Source: Developed from Buildings Management: tools, policy and guidance, Wales Audit Office*

These areas are considered in turn below.

## Overall arrangements

- 2.1 High performing organisations establish a corporate property function the responsibilities of which extend to:
- strategic leadership on property;
  - serving as an 'internal landlord'; and
  - providing specialist support on property matters to building occupiers.
- 2.2 A series of reviews prior to the establishment of JPH in 2005 identified significant weaknesses in the management of land and property, including:
- dispersed and inconsistent ownership and control of States' property;
  - absence of a clear, single point of accountability for property;
  - no system for accounting for the true cost of property assets and related services;
  - slow decision making and approval processes;
  - shortage of people with relevant property skills;
  - inadequate separation between the strategic policy-making function and the provider function;
  - lack of authority and control to ensure that policies are carried out;
  - property seen by users as a 'free good', with no incentive to use property efficiently or maintain it; and
  - the use of maintenance budgets for other purposes.
- 2.3 JPH was established to address the weaknesses identified. The report to the States establishing JPH identified its main objectives (see Exhibit 2).

### Exhibit 2: Objectives at the establishment of JPH

Create a new structure
Develop a property strategy
Introduce a charging mechanism for departments to incentivise best use of assets
Create a Property Board reporting to the Corporate Management Board

Source: *States of Jersey Property Holdings: Establishment (P.93/2005)*

- 2.4 As detailed later in this report, over a decade later only one of those objectives has been fully achieved. However, the inherent challenges in establishing a corporate property function with a wide remit in a highly departmental organisation cannot be underestimated. Success in delivery of objectives is dependent not just on structural change but also on collective commitment to the changed way of working.
- 2.5 As of 2018 JPH is not responsible for all operational land and property. Falling outside its remit are property and engineering maintenance services in the General Hospital, Philip Le Feuvre House (which is held by the Social Security Fund), car parks (that are held by the Car Park Trading Account) and properties held in trust.
- 2.6 In relation to the properties that fall within its remit, responsibilities are allocated between JPH, Treasury and Resources and occupying departments (see Exhibit 3).

### Exhibit 3: Property management responsibilities

	JPH	Treasury and Resources	Occupying department
Property reviews	✓		✓
Acquisitions	✓		
Disposals	✓		
Funding feasibility studies		✓	
Capital programme development		✓	
Capital projects	✓		
Major works (including structural maintenance projects, cyclical maintenance and reactive maintenance where there is a landlord obligation)	✓		✓ (General Hospital)
Minor works			✓
Supporting demands undertaking minor works	✓		

	JPH	Treasury and Resources	Occupying department
Soft facilities management (e.g. cleaning) covered by centrally arranged contracts	✓		
Ordering supplies for soft facilities management and soft facilities management not covered by corporate contracts			✓

- 2.7 JPH also has a role in evaluating whether to recommend a transfer of surplus property to the States of Jersey Development Company in light of its value and location. Its recommendations are considered by the Regeneration Steering Group chaired by the Chief Minister which makes in principle decision on transfers. The final terms of transfers are determined by the Minister for Treasury and Resources.
- 2.8 When established, JPH was located within Treasury and Resources in recognition of its responsibility in strategic asset planning and as a custodian of States assets. In 2015, JPH became part of the newly established Department of Infrastructure with a view to maximising the potential synergies related to planning, project management and maintenance across all infrastructure assets. The Corporate Services Scrutiny Panel reviewed the decision at the time and highlighted the absence of a feasibility study, business case and merger plan supporting the change.
- 2.9 The current role of JPH is set out in Exhibit 4.

#### Exhibit 4: Role of JPH

To provide fit for purpose, safe and affordable accommodation that meets the operational requirements of the States of Jersey. This is achieved through the ongoing maintenance and facilities management of the States property portfolio

To improve and enhance the property portfolio through the design, management and delivery of capital project works

To progress a phased programme of rationalisation and consolidation of the States' property portfolio, with the objective of reducing the cost to the public, enabling greater efficiency of occupation, and release of latent assets for alternative use or disposal

To seek to maximise rental income from those properties within the public estate that are let on commercial terms to third parties

To maintain and preserve the Public realm and administer land held in Public ownership for non-commercial uses, such as environmental protection, and enjoyment by the public in line with the requirements of the Island Plan

*Source: States of Jersey Annual Report 2016*

- 2.10 As discussed in the remainder of this report, in many respects JPH is not currently meeting expectations. JPH management recognises this and highlights both staff vacancies (including one vacancy at senior management level) and the particular demands of major individual projects, including the Future Hospital project.

### **Recommendation**

- R1** Review the organisation, skills and capacity of the States' strategic property function in light of the findings of this review.

## **Vision, strategy and organisation**

- 3.1 Effective use of operational land and buildings depends on clear policies and strategies for property and on appropriate arrangements for operational and strategic management of property assets. The focus of my work on vision, strategy and organisation is set out in Exhibit 5.

### **Exhibit 5: Focus of work on vision, strategy and organisation**

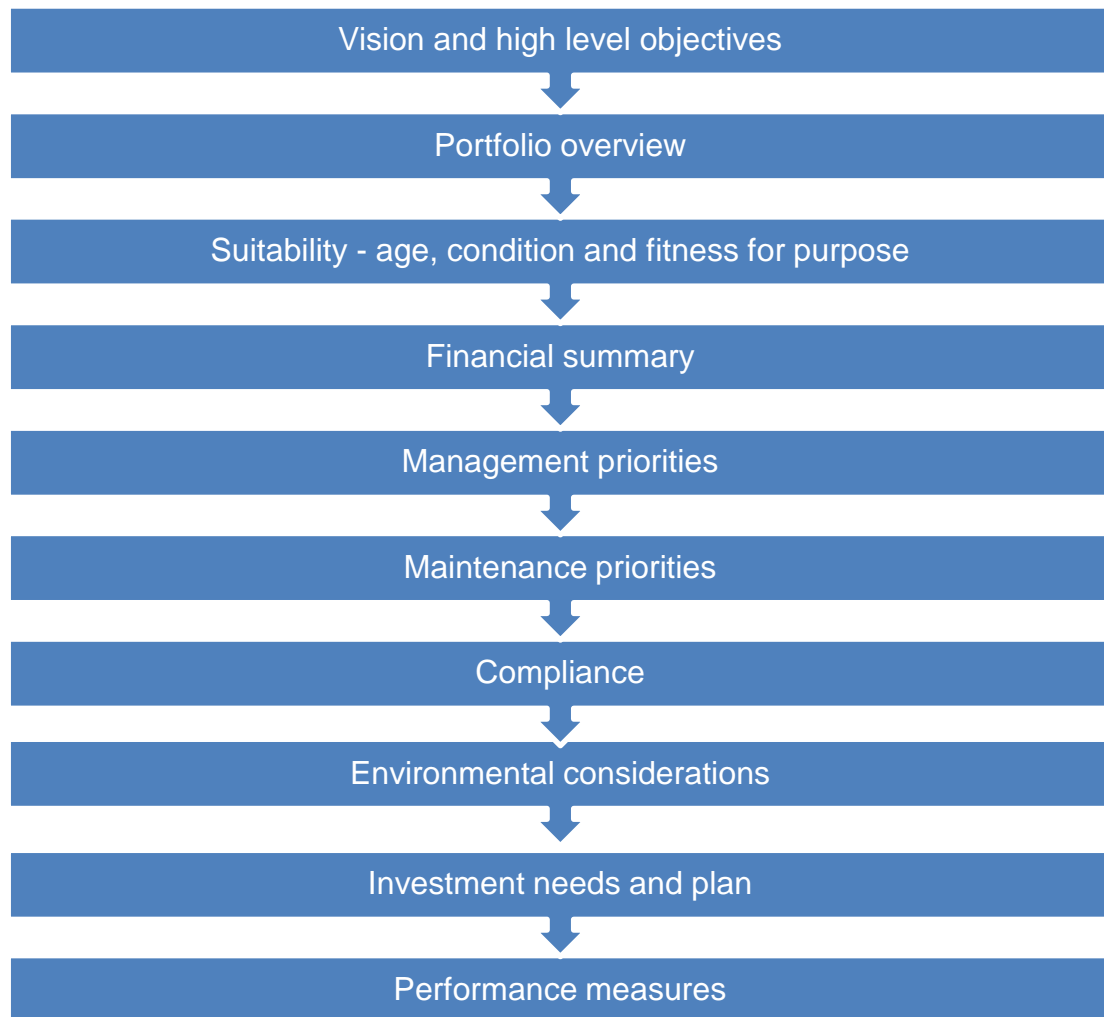


#### ***Links to other plans***

- 3.2 High performing organisations have a property strategy in place that:
- links to corporate objectives and plans;
  - defines the business need for holding properties;
  - promotes joint working;
  - links to resource plans;
  - reflects environmental issues;
  - reflects the condition of property held; and
  - is supported by individual property plans.
- 3.3 Typical features of a property strategy are shown in Exhibit 6.

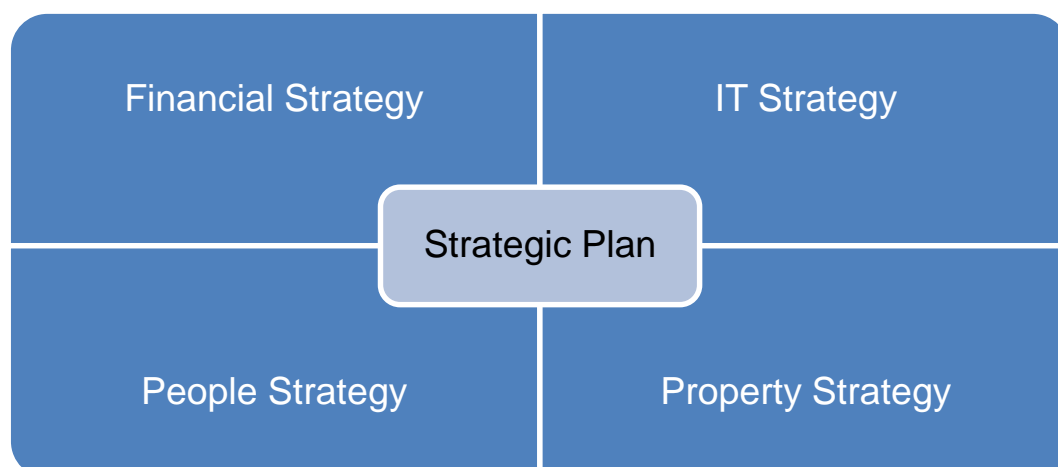


### Exhibit 6: Typical features of a property strategy



- 3.4 Such a property strategy is ideally developed in parallel with and sits alongside other key strategies and plans to promote the effective use of property within the wider context of the use of all the States' resources (see Exhibit 7).

### Exhibit 7: The property strategy within wider corporate planning



3.5 The establishment of a property strategy was one of the objectives when JPH was established in 2005. In my 2013 report, *Management of Major Property Transactions: Learning from the proposed acquisition of Lime Grove House I* highlighted the absence of such a strategy and concluded that:

*‘the absence of a property strategy, or evaluation of options against it, increased the risk of ineffective use of the property resources of the States taken as a whole.’*

3.6 Despite that conclusion, there is still no property strategy in place or under development. Although JPH has recognised the need for and has an aspiration to develop a strategy, there is no concrete plan or timetable for its development.

3.7 The absence of a property strategy means that there was no explicit mechanism for translating the property-related objectives in the States’ Strategic Plan into deliverables (see Exhibit 8).

**Exhibit 8: Asset and property references in States Strategic Plan 2015-18**

Strategic Priority	Key Area of Focus
<b>Sound and sustainable finances</b>	Plan expenditure on capital and infrastructure over the long term and consider carefully the appropriate sources of funding for major projects, including borrowing
<b>A new way of working</b>	Restructure departments and rationalise office accommodation
<b>Improving Health and Well-being</b>	Agree the Future Hospital site and, subject to agreement of the final budget, and funding, by the States Assembly, commence the build
<b>Improving Education</b>	Review current arrangements to improve financial planning, recruitment, governance and accountability, estates management
<b>Improving St Helier</b>	Enhance the value of the public-sector property portfolio

3.8 In the absence of a corporate property strategy there is evidence of:

- non-alignment of individual proposals to strategic objectives (see Case study 1); and

- failure to progress proposals that did align with strategic objectives (see Case study 2).

### **Case study 1: Development of a proposal that did not align with strategic objectives**

In 2017 two options were presented for redevelopment of Highlands College, including the provision of student accommodation based on an expanded curriculum, at an estimated cost of £54m - £58m. The proposal was based on Highland College's own vision and strategy and there is no indication of how the proposal linked to the States' strategic objectives or to those for the Education Department.

This project is now on hold.

### **Case study 2: Failure to secure progress on a proposal that did align with strategic objectives**

The main States departments operate from a number of buildings in St Helier. Proposals for rationalisation of the estate have been made since 2001. In 2009, a detailed analysis concluded that the office accommodation was disparate, inefficient and, in many cases, no longer fit for purpose. A business case for rationalisation of some of the office estate was prepared but was not adopted.

In 2013, CMB agreed a thorough review of office accommodation as part of the Public Sector Reform programme. This confirmed that the existing estate was inefficiently used with space per employee substantially above the public sector average in the United Kingdom.

- UK minimum standard = 4.6 m<sup>2</sup>
- UK average = 9.3 m<sup>2</sup>
- Jersey average = 16.0 m<sup>2</sup>

The review led to development of proposals for a single main office building that supported other elements of the Public Sector Reform programme including:

- people, culture and values;
- workforce modernisation;
- 'lean' and continuous improvement; and
- eGovernment.

The States' Strategic Plan for 2015-2018 included a 'new way of working' as a strategic priority, with specific reference to rationalising office accommodation. In late 2016 a revised strategic case for a single main office building was adopted. Up to February 2018 total professional fees incurred on the project were £314,000.

Despite:

- the alignment with the Strategic Plan;
- the financial benefits - net initial costs of £37.95m resulting in recurrent savings of £2.65m per annum; and
- the non-financial benefits, including enhanced collaboration, innovation and staff well-being

funding was not agreed and the project stalled.

### ***Direction and objectives***

3.9 High performing organisations:

- develop direction and objectives for the property function in partnership;
- communicate a vision for property with objectives and timetables to all property staff; and
- focus the work of property staff around delivery of those objectives.

As described above, JPH has most but not all responsibilities for the management of operational land and buildings. JPH did develop a draft business plan for 2017 setting out key objectives for the year (see Exhibit 9) and setting out a range of activities, targets, performance indicators and risks.

### **Exhibit 9: Objectives in Draft JPH Business Plan 2017**

Optimised asset understanding and utilisation

Delivering an agreed programme for rationalisation of States administration and the development of working environments which support more collaborative and efficient ways of working

The identification and release of surplus properties to provide funds to support capital investment

Manage and maintain the States property portfolio through the progression of necessary works in a phased and prioritised programme plan along with reacting to individual instances of concern

Delivery of new buildings to support the delivery of services by the States of Jersey

Guardian of property and land owned by the States and utilised by no-States organisations and individuals

### 3.10 However:

- although JPH developed an annual business plan for 2017, this remained in draft at the end of 2017. Discussion of its business plan for 2018 did not start until February 2018, after the start of the year. This reflects my wider concerns about business planning that I highlighted in my *Review of Financial Management - Part 2* (February 2016);
- there is no evidence of wider consultation with staff beyond the JPH management team or other stakeholders in development of the 2017 business plan;
- although it includes a number of output targets (such as rent collection levels and a deadline for completion of tender documentation for a major project), the 2017 business plan did not set out priorities and desired outcomes;
- although performance against the business plan is reviewed monthly at JPH Management Team meetings, JPH management acknowledges that it does not drive the JPH business agenda; and
- the JPH business plan does not reflect all property management activity across the States. Indeed, the Health and Social Services Department's 2017 business plan had an action to finalise a separate estates strategy.

### ***Policy for property***

#### 3.11 Best practice involves:

- vesting property assets at a corporate level;
- agreeing corporate procedures for the involvement of operational managers in property decisions; and
- following those corporate procedures in practice.

#### 3.12 Within the States:

- operational land and buildings are held corporately and excluded from the balance sheets of individual States departments. However, as discussed above, the level of involvement of JPH varies, with HSSD retaining its own estates team reflecting the specific requirements of the General Hospital; and
- operational managers are consulted on an individual basis with the extent and nature of the consultation dependent on the specific project.

### ***Strategic responsibilities***

- 3.13 In high performing organisations the responsibilities for the strategic management of property assets are clearly set out and understood and include:
- a corporate asset management group with a clear role involving representatives from key departments and an emphasis on joint working;
  - a 'Chief Property Officer' with appropriate qualifications and experience;
  - appropriate ongoing training of those involved in the strategic management of property;
  - a strategic decision making process clearly understood by those involved in property related decisions; and
  - formal rules for, and documentation of, strategic decisions related to property.
- 3.14 The Head of JPH holds a master's degree in real estate and is supported by a team some of whom hold relevant professional or academic qualifications and some of whom have relevant experience.
- 3.15 Despite the establishment of a Corporate Property Board being in the original objectives for JPH at its establishment in 2005, no such Board was established. The absence of a States-wide forum reinforces, in the context of property, the silo mentality to which I have referred in many of my reports.
- 3.16 In addition:
- although the JPH role is set out in the States of Jersey Annual Report, the actual arrangements for strategic management of property are not formally documented and communicated; and
  - although strategic decisions on property are recorded in the capital programme and meeting notes, there are no formal standards for documentation of those decisions.

### ***Operational responsibilities***

- 3.17 In high performing organisations the responsibilities for the operational management of property assets are clearly set out and understood. Typically, these include:
- a dedicated building manager for each building;
  - agreed and documented arrangements for the administration of each property; and
  - a training programme to ensure that building occupiers are aware of, and equipped to discharge, their responsibilities.

3.18 Within the States:

- there is a designated building manager for each building for which JPH is responsible and a designated 'person in charge' within the occupying department responsible for liaison with JPH;
- Service Level Agreements (SLAs) for hard facilities management including maintenance are in place between JPH and most individual departments and are in the process of being rolled out to cover the remaining departments. The respective maintenance responsibilities of JPH and the department are clearly set out in the SLAs reviewed; and
- however, responsibilities for soft facilities management are not clearly documented in the SLAs reviewed.

3.19 There is some ad hoc training for building occupiers when JPH staff visit buildings and a corporate training programme for health and safety. However, there is no structured corporate training programme for building occupiers to raise awareness and promote consistency in areas such as energy, waste management, accessibility and security and safety.

***Responding to change***

3.20 Best practice involves establishing and operating clear processes to anticipate and respond to internal change or external influences. Such processes include:

- an ongoing process proactively to propose changes to the property portfolio;
- an ongoing process of review to enable timely reaction to service needs; and
- an ongoing programme of review with partner organisations.

3.21 Within the States:

- in the absence of a property strategy, there is no structured process to initiate and propose changes to the property estate. Some reviews are initiated by JPH but others are initiated by individual departments, either focussing on individual assets or, as in the case of assets used to provide mental health services, as a result of a wider service review; and
- there is no strategy for strategic involvement with stakeholders, including States owned companies and parishes. As a result, opportunities to utilise property most effectively across the public sector may not be secured.

## **Recommendations**

- R2** Prioritise development of a comprehensive property strategy linked to corporate objectives and other strategies and plans.
- R3** Following consultation, develop and communicate comprehensive objectives for the management of all operational land and buildings.
- R4** Develop outcome measures to drive attainment of objectives for property.
- R5** Focus business management of property around the delivery of priorities, outcomes and outputs taking into account the recommendations made in my *Review of Financial Management - Part 2* (February 2016).
- R6** Establish a corporate asset management group with a clear remit and representation of departments occupying operational property.
- R7** Formally document the arrangements for, and recording decisions relating to, the strategic management of property.
- R8** Develop and roll out a corporate training programme for building occupiers to equip them to discharge their responsibilities.
- R9** Assess the effectiveness of existing arrangements for soft facilities management and ensure arrangements are reflected in the Service Level Agreements.
- R10** Alongside development of a property strategy, develop an approach proactively to propose changes to the property portfolio, working collaboratively with other stakeholders.



## Consulting and engaging with stakeholders

- 4.1 Effective engagement with stakeholders, both internal and external, is central to the effective management of property assets. The focus of my work on consulting and engagement with stakeholders is set out in Exhibit 10.

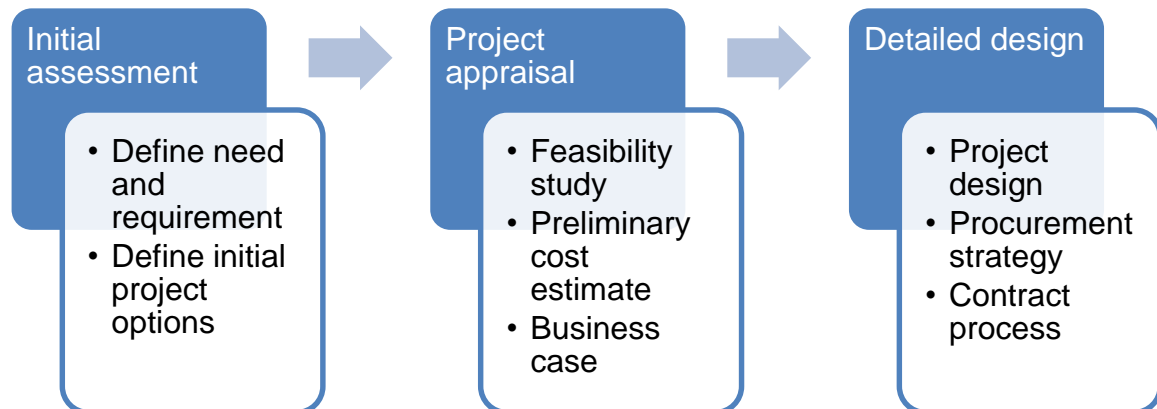
### Exhibit 10: Focus of work on consulting and engaging with stakeholders



### ***Identifying and evaluation proposals and needs***

- 4.2 Best practice involves effective involvement of services and partner organisations in the process to identify future needs and evaluate proposals.
- 4.3 Within the States, capital investment projects are usually initiated by departments as occupiers of buildings who in turn put forward bids for inclusion in the capital programme that is coordinated by Treasury and Resources. Financial Directions prescribe the stages that must be followed for a capital project (see Exhibit 11).

### Exhibit 11: Pre-contract stages required by Financial Directions



Source: Financial Direction 5.6 Control of Capital Expenditure

- 4.4 JPH acts as a 'client agent' undertaking work on behalf of the client department. The precise timing and extent of JPH involvement can vary meaning that there is an increased risk that strategic considerations are not taken into account. In Case study 1 above I described the development of a proposal for the development of Highlands College that did not fully align with strategic objectives. In that case JPH was not involved at an early stage.

4.5 In addition:

- JPH performs its role in the absence of a property strategy and, therefore, is not focussed on looking at individual proposals in the context of a wider vision for service delivery;
- as noted above, there is no structured mechanism for engagement with partner organisations in the process of identification and evaluation of proposals; and
- I referred above to capacity constraints identified by JPH management that had an adverse effect on delivery. For example, the business case for the redevelopment of Granville School was signed off in 2015 and reflected in the capital programme, before a feasibility study to develop detailed costings had been undertaken.

***Engagement with community and stakeholder groups***

4.6 Best practice involves effective engagement with community and stakeholder groups when evaluating future needs and considering changes via:

- clear established consultation channels;
- inclusion of consultation as part of established processes;
- formal consideration of the views of defined community and stakeholder groups in each proposal for change; and
- structured and evidenced assessment of the benefit of using property to support community outcomes.

4.7 Within the States, although there is some evidence of elements of consultation with users and other stakeholders, no formal processes are in place. I am concerned that consultation with community and stakeholder groups is not embedded. Indeed, in my 2017 report, *Decision Making: Selecting a Site for the Future Hospital (March 2012 - February 2016)*, I highlighted my concerns about the effectiveness of consultation in relation to the site for the Future Hospital.

**Recommendations**

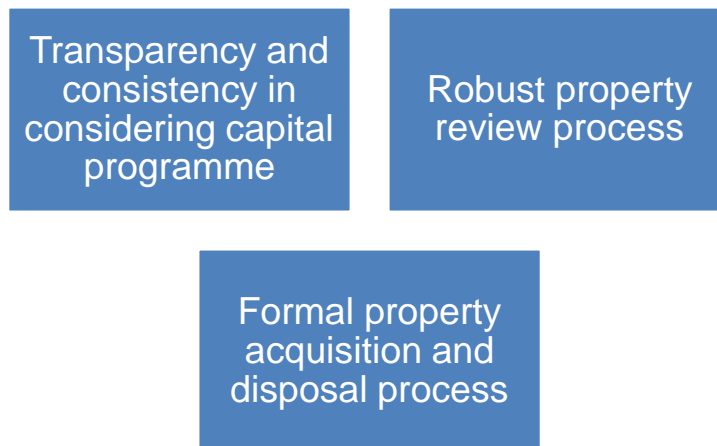
**R11** Ensure that JPH is involved at the initial assessment stage of all major proposals relating to property.

**R12** Develop and implement a robust process for consultation with community and stakeholder groups as part of all property proposals.

## Implementing plans and programmes

- 5.1 The development of appropriate strategies alone is not sufficient: it must be supported by effective arrangements for implementation. The focus of my work on implementing plans and programmes is set out in Exhibit 12.

### Exhibit 12: Focus of work on implementing plans and programmes



#### ***Transparency and consistency in considering capital programme***

- 5.2 High performing organisations have arrangements to secure transparency and consistency in considering proposals for the capital programme. These involve:
- an approved, consistent investment proposal process;
  - sufficient information for thorough and robust consideration of proposals;
  - clear criteria for decision making, reflecting financial factors (including whole life costs) and non-financial factors; and
  - the use of outcome indicators.
- 5.3 Treasury and Resources has developed a standard template to be used at business case stage assisting in ensuring that relevant information is collated on a consistent basis (see Exhibit 13).

## Exhibit 13: Contents of Treasury and Resources business case template

Overview of request

Fit with Strategic Plan and Departmental Business Plan priorities

Economic case – options that have been considered

Management case – how project will be managed

Financial analysis – including full life capital and revenue implications

Commercial case – proposed procurement and contract process

Outcomes – including SMART indicators relating to improved performance, added value, business growth, additional income and cost avoidance

Associated disposals

Impact of not progressing

Related projects

Other dependencies

Risks

Timetable and milestones

Sign – off

- 5.4 I reviewed a sample of recent business cases, including those for Les Quennevais School, Overdale and the Jersey Archive. In my view, they were completed in accordance with relevant guidance.
- 5.5 Until new management arrangements were introduced in early 2018, completed, approved business cases were submitted to the Corporate Management Board and Council of Ministers for possible inclusion in the capital programme as part of the Medium Term Financial Plan and budget processes. The process for consideration of the relative merits of different proposals is judgemental and, in the absence of a property strategy and clear criteria for prioritising proposals, it is more difficult to determine whether the proposals prioritised make the strongest contribution to strategic objectives.

### ***Robust property review process***

- 5.6 Best practice involves a formal, robust process for review of the existing property portfolio with such a programme:
- covering all land and buildings;
  - engaging with user departments and partner organisations; and
  - leading to formal reporting and agreed actions.
- 5.7 JPH does not have a formal programme to review all property assets over a defined period. It did programme six reviews in 2017 working with user departments to review:
- current use;
  - future needs;
  - options; and
  - exit strategies should they be necessary.
- 5.8 Of the six reviews planned, one was completed, leading to vacation of the site and leasing of the property pending a longer-term view. Four reviews are in progress and one has yet to commence

### ***Formal property acquisition and review process***

- 5.9 Best practice involves establishing clear processes for acquiring and disposing of property assets, including:
- formal, understood acquisitions and disposals processes;
  - consideration of a number of different disposal routes;
  - appropriate record keeping for disposals; and
  - consideration of alternatives to sale.
- 5.10 Within the States:
- Financial Directions and the Standing Orders of the States provide a framework for property acquisition and disposal;
  - a property terrier is maintained and is updated for acquisitions and disposals; and
  - formal protocols are in place governing consideration of transfer of surplus assets to the States of Jersey Development Company.
- 5.11 Although Financial Directions cover disposals, they do not cover the different routes to disposal and the basis on which a choice between them should be made. In practice, most surplus property identified for disposal is marketed via local agents.

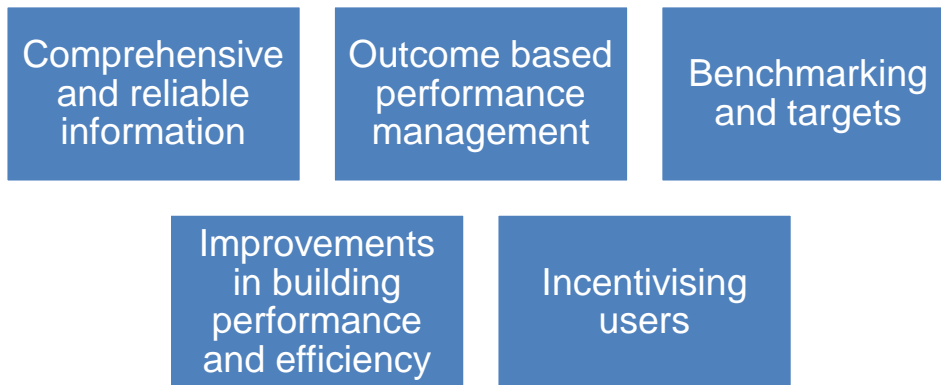
## **Recommendations**

- R13** Set out clear criteria against which competing capital investment proposals are compared.
- R14** Establish a forward programme for property reviews, covering all property assets over an agreed period, and monitor delivery of the agreed programme.
- R15** Reflect in Financial Directions the choice between different routes for the disposal of surplus properties.

## Assessing, monitoring and challenging performance

6.1 An integral part of effective management is the establishment and operation of effective mechanisms to establish and challenge current performance. The focus of my work on assessing, monitoring and challenging performance is set out in Exhibit 14.

### Exhibit 14: Focus of work on assessing, monitoring and challenging performance



### ***Comprehensive and reliable information***

- 6.2 Effective management of property is dependent on comprehensive and reliable information on property, including:
- a comprehensive property database providing information on matters such as location, age, construction, condition, fitness for purpose, maintenance requirements and expenditure, accessibility, valuation and energy efficiency;
  - clear arrangements for the maintenance of the database;
  - procedures to ensure that the database is promptly, accurately and completely updated; and
  - sharing of property information with partner organisations.
- 6.3 The States invested £189,000 in an integrated asset management system that went live in 2016 and includes modules that between them record comprehensive information on property held. Core information on the location, size and contact details for each building managed by JPH has been input. The system is currently being populated with other data from a variety of historic sources. Plans are in place to input information on condition and equipment between April and June 2018. Maintenance information is now being added by managers and operatives on a live basis.

- 6.4 There are limited arrangements in place to enhance data accuracy:
- access controls limit who can input what information within the asset management system; and
  - reports that identify certain input errors triggering review.
- 6.5 However:
- the use of the system is not mandatory across the States and where property related functions are performed outside JPH core information relevant to strategic property management may not be captured;
  - space utilisation and occupancy data is not included even though this information is important for the strategic management of property. Data was collated as part of the Office Management Project but has not been maintained;
  - there are no formal procedures for testing the completeness and accuracy of information being loaded on the asset management system;
  - details of all maintenance expenditure on operational land and buildings across the States is not routinely held and used to inform effective management of the estate; and
  - key property information is not routinely shared with partner organisations, such as States-owned companies to facilitate effective management of property assets across the public sector.
- 6.6 An essential element of property information is an up to date understanding of the condition and maintenance needs of individual buildings. This information is not available. The last condition survey of buildings managed by JPH was carried out in 2011 (other than in respect of buildings responsibility for the maintenance of which transferred from the Health and Social Service Department (HSSD) to JPH in 2015, when the last condition survey was undertaken in 2014). Structured information on the condition of the estate managed by JPH is therefore at least three and up to seven years out of date meaning that the information necessary to drive both capital investment decisions and routine maintenance budgeting is sub-optimal. Maintenance budgets are therefore in practice rolled forward from year to year.
- 6.7 The importance of up to date condition surveys for planning and budgeting is demonstrated by:
- the 2014 condition survey of the non-hospital HSSD estate. This identified that much of the estate was in relatively poor condition and included costed proposals for remedial works to bring the estate up to standard over the next 15 years. In response an initial £1.15m per annum was allocated for the period 2016 to 2019; and



- the 2015 survey of long term hospital requirements that identified high priority maintenance that was required prior to the construction of the Future Hospital. This survey led to growth funding of £2.85m.
- 6.8 JPH management accepts that up to date information on the condition of buildings is required but has no concrete plans for further condition surveys.

### ***Outcome based performance management***

- 6.9 The effective management of land and buildings involves managing the performance of the estate against outcomes, developed in the context of strategic objectives and reflecting both financial and non-financial considerations.
- 6.10 I have highlighted in many other reports the absence of effective and embedded arrangements for performance management across the States, including the collation and use of Key Performance Indicators (KPIs).
- 6.11 JPH's Energy Manager does monitor energy consumption by building over time, allowing the identification of trends and anomalies. Reports are provided to building users and departmental managers. However, this initiative is in isolation and is neither driven by strategic objectives nor does it drive delivery (see Case study 3).

#### **Case study 3: Energy efficiency**

Despite measuring energy efficiency, it is not linked to strategic or departmental objective:

- it is not recognised as a key objective for property: it is not reflected in JPH's draft 2017 business plan; and
- there are no explicit links to the States' Energy Plan developed by the Department for the Environment.

Although performance information is shared with some departments, it is not used to drive corporate decisions on investment to improve energy efficiency.

- 6.12 I recognise that the development of a property strategy, rooted in strategic objectives, would make it easier to develop such KPIs. However, the absence of such a strategy does not mean that some KPIs could not be developed in the interim. Some possible KPIs are set out in Exhibit 15.

**Exhibit 15: Possible Key Performance Indicators for property**

<b>Accessibility</b>	% of buildings and floor area accessible to the mobility impaired
<b>Maintenance costs</b>	Costs per m <sup>2</sup> by building and over time
<b>Maintenance backlog</b>	Backlog per m <sup>2</sup> by building and over time
<b>Water use</b>	Water consumption per m <sup>2</sup> by building/over time
<b>Occupancy</b>	Percentage of floor area unused over time
<b>Utilisation</b>	For office buildings, m <sup>2</sup> per head by building/over time

6.13 JPH has recognised that its asset management has the capacity to provide a means of collating a wider range of KPIs and has aspirations to develop such KPIs. However, there is at present no concrete plan to do so.

***Benchmarking and targets***

6.14 High performing organisations routinely benchmark their performance against the performance of comparable organisations and against recognised best practice. Benchmarking and setting targets for performance are key tools in driving improvement.

6.15 Best practice involves:

- regular dialogue with comparator organisations;
- using comparative data;
- setting targets;
- monitoring performance against targets;
- comparing not just quantitative measures but also systems and processes to drive improvement; and
- formal reporting of performance against targets and against individual initiatives for improvement.

6.16 Although JPH uses industry standards from the UK as reference points from time to time, I am concerned that the States does not routinely benchmark, or set related targets for, property management.

### ***Improvements in building performance and efficiency***

- 6.17 High performing organisations work towards and can demonstrate ongoing improvements in building performance and efficiency, including in the condition and suitability of buildings, including accessibility, driven by high quality data.
- 6.18 In the absence of the requisite information, measurement and monitoring, the States are unable to do so.

### ***Incentivising users***

- 6.19 Many organisations establish budgetary arrangements designed to incentivise building occupiers and managers to efficient and effective utilisation of buildings. Those arrangements often involve some form of 'asset rent' where an internal charge is made by the 'landlord' to 'tenant' departments for the occupation of owned buildings. Such charges mean that owned buildings are not seen as a 'free good' and user departments take into account the full costs of occupying buildings in their decision making.
- 6.20 When JPH was established in 2005, one of the key objectives was to incentivise building occupiers through charging internal rents. Such a system was partially implemented: JPH has 'income' of approximately £4 million per annum, predominantly internal income. Following a recommendation in my report, *Review of Financial Management*, published in 2015, charging was extended to cover depreciation. However:
- not all property occupiers pay such charges;
  - JPH cannot demonstrate that charges consistently reflect market rents; and
  - recharges for shared operating costs for multi occupancy buildings are not fully recovered as no inflationary increase has been permitted for the period covered by the current MTFP without efficiency savings having been identified.

### **Recommendations**

- R16** Ensure the use of the asset management system for all States property assets whether managed by JPH or not.
- R17** Add utilisation and occupancy data where available to the asset management system.
- R18** Establish arrangements for validating the completeness and accuracy of data held in the asset management system.
- R19** Consider sharing key property information with partner organisations.
- R20** Adopt a concrete plan for undertaking condition surveys of operational land and buildings on a routine basis.

- R21** Review maintenance budgets in light of the results of the condition surveys undertaken.
- R22** Agree and measure property performance against a suite of KPIs.
- R23** Identify and participate in arrangements for benchmarking the management of land and buildings.
- R24** Set targets for property management activities and report performance against them.
- R25** Review the arrangements for charging for the occupation of property and, if an asset rent model is retained, apply it on a consistent basis.

## Conclusion

- 7.1 Over a decade ago the States recognised that it was not managing its operational land and buildings effectively and took the initiative to move to corporate management of those assets. In 2005 it established JPH with a wide remit to drive corporate management of operational land and buildings. However, many of the objectives set for JPH have not been secured. As a result the benefits of strategic management of property have not been realised. I am concerned, for example, that the proposals for a new, fit for purpose, main office building for the States, although backed by a compelling business case, took too long to develop and have stalled due to lack of an agreement on funding.
- 7.2 There is no single reason why the benefits anticipated from changing the way in which property was managed were not fully realised. However, establishing a corporate operation in an organisation that was not committed to corporate working presented substantial challenges to implementation. The move to a new corporate way of working, following the adoption of the Machinery of Government (Miscellaneous Amendments) (Jersey) Law 2018 and the implementation of the Target Operating Model proposed by the Chief Executive, should provide an environment where it is easier to drive home the benefits of corporate management of property.
- 7.3 There is a lot to do, on a wide front, to ensure that the States' property management is fit for purpose. The key priorities are:
- establishing a comprehensive property strategy;
  - establishing a corporate group to lead strategic asset management;
  - establishing clear criteria for assessment of competing proposals for capital expenditure;
  - setting a timetable for completion of a rolling programme of property reviews;
  - utilising the new asset management system to best effect;
  - undertaking and using the results of an up to date condition survey;
  - using KPIs as an integral part of property management; and
  - implementing a consistent approach to internal charging for property that incentivises users appropriately.
- 7.4 I shall monitor implementation of any actions agreed in response to my recommendations as the organisation moves to the new Target Operating Model. I shall also shortly be commencing work on my review of the States of Jersey Development Company.

## **Appendix 1 – Summary of Recommendations**

### **Overall arrangements**

- R1** Review the organisation, skills and capacity of the States' strategic property function in light of the findings of this review.

### **Vision, strategy and organisation**

- R2** Prioritise development of a comprehensive property strategy linked to corporate objectives and other strategies and plans.
- R3** Following consultation, develop and communicate comprehensive objectives for the management of all operational land and buildings.
- R4** Develop outcome measures to drive attainment of objectives for property.
- R5** Focus business management of property around the delivery of priorities, outcomes and outputs taking into account the recommendations made in *my Review of Financial Management - Part 2* (February 2016).
- R6** Establish a corporate asset management group with a clear remit and representation of departments occupying operational property.
- R7** Formally document the arrangements for, and recording decisions relating to, the strategic management of property.
- R8** Develop and roll out a corporate training programme for building occupiers to equip them to discharge their responsibilities.
- R9** Assess the effectiveness of existing arrangements for soft facilities management and ensure arrangements are reflected in the Service Level Agreements.
- R10** Alongside development of a property strategy, develop an approach proactively to propose changes to the property portfolio, working collaboratively with other stakeholders.

### **Consulting and engaging with stakeholders**

- R11** Ensure that JPH is involved at the initial assessment stage of all major proposals relating to property.
- R12** Develop and implement a robust process for consultation with community and stakeholder groups as part of all property proposals.

### **Implementing plans and programmes**

- R13** Set out clear criteria against which competing capital investment proposals are compared.
- R14** Establish a forward programme for property reviews, covering all property assets over an agreed period, and monitor delivery of the agreed programme.
- R15** Reflect in Financial Directions the choice between different routes for the disposal of surplus properties.

### **Assessing, monitoring and challenging performance**

- R16** Ensure the use of the asset management system for all States property assets whether managed by JPH or not.
- R17** Add utilisation and occupancy data where available to the asset management system.
- R18** Establish arrangements for validating the completeness and accuracy of data held in the asset management system.
- R19** Consider sharing key property information with partner organisations.
- R20** Adopt a concrete plan for undertaking condition surveys of operational land and buildings on a routine basis.
- R21** Review maintenance budgets in light of the results of the condition surveys undertaken.
- R22** Agree and measure property performance against a suite of KPIs.
- R23** Identify and participate in arrangements for benchmarking the management of land and buildings.
- R24** Set targets for property management activities and report performance against them.
- R25** Review the arrangements for charging for the occupation of property and, if an asset rent model is retained, apply it on a consistent basis.



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