State and Public Land Management: The Drivers of Change

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SUMMARY

A feature of the management of public lands throughout the world is its poor quality. The result is waste and poorer level of productivity than are capable of being achieved if best practice were to be used. The paper focusses on two key drivers of change in the public sector namely the so-called New Public Management and the introduction of accruals accounting into the public sector. The New Public Management is a term used to describe a range of changes that involve the empowerment of front-line staff to determine how public services are to be delivered. The policies give them much greater power over how budgets are to be spent, including over real estate assets. Central government performs the role of determining what services are to be produced and of setting and enforcing standards for these. Top-down controls over expenditure, staffing, and assets are reduced with incentives for front-line staff to achieve performance targets but penalties if they fail to do so. Power over real estate assets tends to shift to the service providers, such as teachers and doctors. This opens up questions as to whether the most effective provision of real estate assets is by ownership or rental, as well as the generation of performance targets for real estate. Accruals accounting is the system of accounting used by the private sector. It matches revenue against the costs of earning it so that profits or losses can be calculated. Traditionally the public sector has not used such a system but has used cash accounting ones. These have resulted in public bodies not paying the true economic cost of the assets they occupy. They have not had to provide for the depreciation, amortisation or impairment of real estate assets or to ensure that their use achieves a target rate of return on the capital employed. When these are required of public bodies, it raises questions about what assets ought to be owned and whether renting is an option. It brings about changes in management, such as the use of investment appraisal techniques to determine expenditure and explicit risk management methods. The combination of obliging public bodies to meet the full economic costs of the assets used and giving greater powers to front-line staff with incentives to achieve performance targets changes approaches to the management of public lands. The management of public lands tends to become more closely aligned to management systems in the private sector and under-performing assets are identified and disposed of.
1. INTRODUCTION

The vesting of ownership and administration of substantial portions of a nation’s land in the hands of the public sector is a widespread feature of many national land tenure structures. The public sector is an important supplier of services, such as health care and education, which make a major contribution to welfare, using land it owns or controls to produce them. Therefore how the public sector manages the land it owns or controls is likely to have important implications for the well-being of the population. Inefficient or ineffective land management by the public sector can have serious adverse consequences, whilst efficient management can release resources to meet other objectives. Public lands are important assets that, when managed well, can be of great benefit to society. This requires the use of best practice management methods.

Yet, as Zimmermann (2007) has argued, the management of government property is badly handled across the world. Public property assets are typically mismanaged and it is normal for countries to fail to utilise these assets to their full potential. Kaganova, McKellar & Peterson (2006), for example, provide a number of examples of poor use of public lands – vacancy rates of over 30% of municipally owned floor-space in countries of the former Soviet Union; municipal rents at 22% of private rents in Kyrgyzstan; and a $5.7 billion backlog of maintenance repairs for the US General Administration Office which manages 10% of government space. A recent report by the UK’s National Audit Office into the British government’s office property (NAO 2007) concluded that:

Central government departments are a long way from achieving full value for money from their office estate (NAO 2007, p9).

The National Audit Office estimated potential savings at between 14% and 50% of the current annual expenditure of £6 billion on office property. For example, the average space per person was 17.1 square metres, but departments ranged between 13.3 and 21.9 square metres per person, whilst the median office costs per person varied between £2,592 and £12,041 per annum.

These examples can be multiplied many times over. Few countries in the world have not experienced similar problems. In some cases, the way that public lands have been managed may be a direct contributor to poverty and the undermining of human rights. This is not a matter of poor countries failing to manage their resources well compared with richer ones. Rather it is a universal problem in which there are some beacons of good practice that are not necessarily even applied universally in the countries where they exist. However, a number of countries have been engaged in a major revolution in the management of public lands during the past quarter of a century as part of the process of changing the ways in which the public sector delivers public services. Whilst in no case can the process be said to be complete or to have been wholly successful, the changes have been substantial.

The paper examines the two main drivers of change in the management of public lands, the so-called New Public Management and the move towards accruals accounting in the public
sector. It is from these fundamental changes in policy that the innovative management techniques that are being adopted in the management of state lands stem. They provide the intellectual underpinning of these management techniques. The New Public Management reduces top-down controls over the delivery of services in favour of greater freedom for front-line staff to operate within the policy framework set by government. Responsibility for achieving targets is placed on front-line staff who have greater scope to determine how this is to be achieved, including how best to deploy their budgets and resources such as real estate. Accruals accounting systems require income to be matched with the costs incurred in earning it. This includes accounting for the use of fixed assets like land and buildings by making provision for depreciation and amortisation as well as their running costs, and generating a surplus to pay for the cost of capital tied up in them. The combination of the New Public Management approach of placing budgetary obligations on front-line staff to achieve performance outcomes and accruals accounting requiring that the resources used are paid for at the full economic cost forces front-line managers to question whether finances should be put into real estate assets or into other resources. This therefore brings changes in the way that real estate assets are managed since there is pressure on managers to use them efficiently.

Being clear about the reasons why public lands are owned or occupied is an essential aspect of achieving efficient management. Much state land has come into the possession of public bodies for accidental or random reasons rather than as a result of a coherent strategy, for example as a result of bequests, gifts, or lawful seizures of property. Fundamental to the efficient management of public lands is the development of coherent and appropriate strategies by public bodies. This means answering questions about what they are trying to achieve and what role public lands ought to play in doing this (see RICS 2008, chapter 2). This should be part of a public body’s corporate planning process. When a public body knows what it is trying to achieve with public lands, it can then determine the best way of accessing these, whether by ownership, renting or other means. Only when the purpose of having public lands is clear, can one then produce strategies about asset acquisition, disposal and replacement, and develop the policies and processes by which to achieve these. An implication of the two main drivers of change is that public lands are a means to an end and not the end in itself. The management of public land cannot stand apart from the management of other resources, such as human resources and information and communication technology but needs to be co-ordinated with these to achieve the objectives of public policy.

2. THE NEW PUBLIC MANAGEMENT

The New Public Management (hereafter NPM), as was noted above, is a term that has been applied to a series of policies aimed at increasing the efficiency with which public services are provided by reducing top-down controls over their delivery in favour of greater freedom for front-line staff to operate within a policy framework set by the elected government. The approach has seen a shift away from central government exercising input controls over finances, premises, and staffing towards using output controls over what is actually delivered. Front-line staff are given output targets which they must achieve and must manage their resources, including real estate assets, in such a way as to achieve these within the budget.
allocated or fee income generated. There is consequently pressure to reduce the use of real estate assets in production and to increase the productivity with which they are used.

Hood (1991), who was one of the first to use the term New Public Management, argued that NPM was a fusion between the new institutional economics with its emphasis on public choice, transactions costs and the relationship between principals and agents, and managerialism in the public sector. He argued that the main features of the NPM are:

- Hands on professional management
- Explicit standards and measures of performance
- Greater emphasis on output controls
- Shift to disaggregation of units in the public sector
- Shift to greater competition in the public sector
- Stress on private sector styles of management
- Stress on greater discipline and parsimony in resource use.

To these can be added a reduced role for the state with greater use of market-type mechanisms and privatisation (Glor 2001), funding and accounting systems based upon the contracted purchase of defined outputs (Chapman & Duncan 2007), and contestability in which public sector bodies have to compete against the private sector or private sector bodies against each other to deliver public services or support services for these. The differences between the methods used for managing public and private sector organisations become minimal allowing interchange of personnel and methods between the two sectors. It is no longer possible to talk about “public” management and expertise in public administration systems may be of less importance and management expertise.

The greater autonomy enjoyed by front-line staff means that they do not have to be within a government department or local authority but may be part of an agency contracted to deliver services to a government department or, indeed, may work for a private company or a charitable body. This means that they do not have to be public servants and can be paid on a different basis and enjoy different terms of employment. An implication of this is that they may receive performance related pay and be incentivised to meet performance targets but may not have the job security that public servants enjoy in the event of failure to meet targets. The staff can therefore be held accountable for failure to meet targets but are rewarded for achieving them.

The reason why countries have adopted the NPM is because of the belief that the public sector is not as efficient as it could be. The richer countries of the OECD do not encounter many of the problems found in the public sector in some other parts of the world. The public sector generally behaves ethically and operates in a predictable fashion in accordance with well-defined laws, regulations, and formal rules and without serious governance problems. These countries have very strong systems of formal control over the public sector so that they are accountable to the elected representative of the population. Appointments and promotions are made on merit. Financial and system audits are used to check on the implementation and effectiveness of the controls. Whilst many public sector employees may be paid less than their private sector counterparts, they generally have a good total
employment package of pay, pensions and working conditions. The public sector is therefore normally able to attract qualified and skilled employees and does not have capacity problems.

Yet, in spite of this there are efficiency problems in the public sector and in the delivery of public services. The system for controlling the public sector is designed to ensure that resources are used only for the purposes for which they have been allocated and that public servants operate in accordance with policies and procedures. It is designed to give good top-down control and generally works well to deliver public services and to ensure that public resources are not stolen and that public servants do not abuse their offices. But the system lacks mechanisms to promote efficiency and the best use of resources. It promotes the attitude that public servants must operate within the set rules. The systems control unwanted behaviour by public officials rather than promoting desired traits, such as initiative, innovation, and economy. Public money is spent on the purposes for which it has been allocated but has it been spent wisely? The problem is not with the public servants but the incentive environment in which they operate (Bale & Dale 1998, p 105). They tend not to operate in a business-like way – that is to produce the services that customers want as economically as possible. The professionals delivering the services may have colonised them so that they act as a producers’ cooperative (Ackroyd, Kirkpatrick & Walker 2007). Indeed, the consumers may not be regarded as customers or clients in the way that a business regards those who purchase its services as they have no choice and little redress against inefficiency.

The New Public Management has been a feature of public sector reform in a number of the richer OECD countries, including Australia, Canada, New Zealand, UK, the Netherlands, Sweden, and USA (Glor 2001), but countries as diverse as Turkey, Latvia, Thailand, Nepal, Botswana, Rwanda, Namibia, and Tanzania have also shown an interest in adopting it (Levy 2007, Bryld 2003, Kiragu & Matuhaba 2006). Although the approach is given the label of the New Public Management (NPM), there are some important differences in policy and execution between countries which are often regarded as being at the forefront of the change. For example, New Zealand has tended to use contracts between government ministers and service providers (Christiansen & Lægreid 2001). By contrast, the UK has placed a greater emphasis on citizens’ charters and entitlements of individuals. Rather than relying on ministers to enforce contracts, individual citizens have been provided with means of redress if services are unsatisfactory (NAO 2005). Redress can include the right to complain that processes have not been followed as well as appeals against the substance of a decision, but can also include compensation for bad decisions or for the failure to follow processes. These differences in approach mean that in some respects, NPM is a convenient label under which to bring together a series of changes in public administration introduced at around the same time in a number of countries pursuing similar objectives, rather than being a coherent philosophy of public management. However, at the heart of the NPM is the identification of a particular set of problems faced by governments and an approach as to how these might be tackled.
3. THE NEW PUBLIC MANAGEMENT AND THE MANAGEMENT OF PUBLIC LANDS

The provision of real estate assets involves a number of different processes – design, build, finance, operation, ownership. These are, in principle, capable of being delivered by different bodies. Under the New Public Management, the public sector is the commissioner of the service and determines service specifications. However, the delivery of the service could be by a number of different types of body. These include direct provision by a public body, delegation to another public body operating in a semi-autonomous fashion, or contracting out to a private company or charitable organisation. Like large private sector companies, the public sector is faced with questions about which parts of its processes it should deliver itself, which parts to contract with others to supply it with, and which to outsource to others to supply direct to its clients.

The separation between the commissioner and supplier of public services, which is at the heart of the NPM, has particular implications for the management of real estate.

- Parsimony. NPM aims at increasing productivity in the delivery of public services. As public lands are used more efficiently, it should be possible to reduce the amount of land used in the delivery of public services and its costs, and to dispose of surplus lands.
- The control of real estate resources is likely pass into the hands of front-line service providers who are not real estate specialists, for example, headteachers may control budgets for school buildings or doctors those for hospitals. Real estate professionals may have to justify the use of resources for real estate to those who are likely to favour having their budgets used directly for the supply of the public services.
- Emphasis is placed upon activities rather than ownership. The means by which access to land is gained for the provision of public services is less important than the achievement of the targets for the services. Ownership is not an objective in its own right and real estate assets may be rented if this is more effective.
- Real estate is likely to be seen as a non-core activity by public service providers and therefore an activity that can be contracted out.
- Performance targets are likely to be used for real estate, such as space standards, the quality of premises, and periods of downtime.
- Greater customer orientation of public service facilities is likely to mean their redesign and refurbishment to make them more user friendly.

4. THE MOVE TO ACCRUALS ACCOUNTING

The New Public Management has gone hand-in-hand with a second major change in public management, namely the introduction of accruals accounting. Arguably, the impact of accruals accounting on the management of public lands is even greater than that of the New Public Management. Accruals accounting is a system under which income and costs are matched so that the income earned in an accounting period is recorded together with the costs incurred in earning it. This enables companies to compute the profit (or loss) for each trading period since the actual costs incurred can be deducted from the revenue earned as a result of...
their expenditure. Revenue is treated as having been earned when invoiced rather than when it is paid. This enables advance sales and sales on credit to be allocated to the correct accounting period. Similarly costs are treated as occurring when they are incurred and not when paid so that prepayments and sums owed to creditors are allocated to the correct trading period. The costs of using fixed assets, such as machinery and buildings, are apportioned between the time periods in which they are used. This enables their cost to be recovered so that they can be replaced at the end of their economic life. The use of accruals accounting is a requirement of International Accounting Standards and local Generally Accepted Accounting Practice (GAAP). Such accounts show whether companies are going concerns meaning that they are able to meet all their liabilities and costs, including the costs of their fixed assets.

Traditionally governments have not used accruals accounting for their own accounts. Instead they have tended to use cash accounting systems. Public bodies account for the appropriations they receive and revenue paid in a financial year. Unused appropriations typically have to be repaid. Costs are charged against the year when they are paid and not when the assets are used. The combination of costs being charged against the year in which they have to be paid rather than incurred and the inability of public bodies to either carry a surplus or a deficit forward to the next financial year results in practices such as spending sprees at the end of the financial year to use up appropriations and delaying certain payments until the new allocation is received. The result is that income is not matched against the costs that should be incurred against it, unlike in an accruals accounting system. Traditional government accounts distinguish between capital and revenue expenditure. However, revenue accounts are not charged with the costs of using fixed assets like buildings other than direct recurrent costs, such as energy and security costs and maintenance. This means that fixed assets are often “free” goods for government bodies, which may not pay the true economic cost of using them.

Under accruals accounting systems public bodies compile balance sheets and account for the costs of using fixed assets such as buildings and premises. These are depreciated or amortised as wasting assets that have to be replaced at the end of their economic lives. Depreciation has not been an aspect of traditional government accounting (CIPFA 2002). If the value of an asset has declined, there should be an impairment charge. Public bodies are expected to generate a return on their capital, including real estate assets, equal to its opportunity cost. Their liabilities include the equity owned by taxpayers. Buildings and premises are no longer “free” goods. How much of them to use and whether to own or rent them become significant issues when real estate is no longer a free good.

The income and expenditure accounts produced under accruals accounting differ significantly from those produced on a cash accounting basis (HM Treasury 2005). They are similar to those produced by companies. Alongside accounts that reconcile expenditure to appropriations, public bodies must produce operating cost statements or income and expenditure accounts, balance sheets, and cash flow statements. These require governments to develop and adopt new public sector accounting standards against which these accounts can be audited. New Zealand has used accruals accounting since the mid 1990s (Dow et al 2006, The Treasury 2005); Australia for departments of state since 1994/95 and for the whole
government since 1999/2000 (Conway 2006); the UK since the 1990s with accounts following GAAP since 1998/99 (HM Treasury 2005); and Canada since 2003 (McKellar 2006). The spur to change was not problems in accounting for public funds. None of these countries has serious governance problems with its public finances. Rather, the change was in response to budgetary crises and was intended to ensure that these would not be repeated. For example, in the UK it was to cement self-imposed government expenditure rules adopted in 1997 about only borrowing over the course of an economic cycle to fund investment and the need to distinguish between borrowing for investment and borrowing for current expenditure (CIPFA/Audit Commission 2004). However, in order to implement accruals accounting across the whole of government, the UK government had to produce a manual that set out government accounting standards (HM Treasury 2005, 2007) and to create an independent Financial Reporting Board that reports to Parliament to advise on how the manual should ensure that there is compliance with UK GAAP.

5. ACCRUALS ACCOUNTING AND THE MANAGEMENT OF PUBLIC LANDS

Accruals accounting has brought about some important changes to the way in which public lands are managed.

- The maintenance of accurate records of public lands as these are essential for public sector balance sheets.
- The valuation of real estate assets. A balance sheet requires not just a list of assets but also their valuation. In the UK and New Zealand the governments have adopted the valuation standards set by the leading valuation professional bodies, which are in turn compatible with the International Valuation Standards (HM Treasury 2007, The Treasury 2007).
- Charging public bodies the full economic costs of using real estate assets.
- Obliging public bodies to pay for the cost of capital tied up in real estate. The UK government applies a charge of 3.5% in real terms (HM Treasury 2007).
- The employment of discounted cash flow investment appraisal. The target return on capital is used to determine priorities for capital investment (for example HM Treasury 1997, the so-called “Green Book”).
- The use of formal risk management techniques to take account of the potential inaccuracy in projected cash flows in investment appraisal and how risks can be managed or shifted on to other parties (see for example HM Treasury 2004, the so-called “Orange Book”, the companion guidance document to the “Green Book”).
- The development of performance measures for real estate assets. These are essential to ensure that users do not economise on the use of real estate assets to meet financial targets at the expenses of the quality of public services and the satisfaction of their users with these. For example in the UK, HM Prison Service is obliged to maintain prison accommodation according to measurable standards with the aim of maintaining decent living conditions for prisoners. This is audited by means of a cell certificate with the condition of prisoner accommodation being checked on a daily basis.
A central question for the public sector is whether it should own property. There are few property services that the public sector cannot, in principle, purchase from the private sector. Its property needs could, in theory, be met by leasing or some form of partnering arrangement with the private sector. The adoption of accruals accounting makes explicit the costs of owning real estate assets. It forces public bodies to be clear about why property should be owned by posing the question of whether the benefits are greater than the costs. The Australian government, for example, states that the circumstances in which property should be owned include those where the yield from its benefits exceeds the opportunity cost of capital, where the property has national symbolic significance, where it is needed for national security or has a highly specialised use, and in situations of market failure (Conway 2006).

6. THE CHANGING MANAGEMENT OF PUBLIC LANDS

Public bodies have different types of real estate assets.

- Land, buildings and infrastructure used to deliver a direct service to the public, for example, schools, social housing, roads, and bridges.
- Assets that support service delivery, for example, administrative offices and vehicle depots.
- Investment properties that can generate an income now or in the future as an alternative to raising revenue through taxation.
- Trust properties whose ownership is vested in a public body which can act as the trustee or guardian of such properties on behalf of the community as a whole, for example, heritage buildings, or a section of it, such as reserves set aside for indigenous peoples.

The issues raised with the first two types of property are essentially matters of efficiency. For the last two there are issues of values and principles, such as the balance to be struck between different sources of potential income, so this section concentrates on the first two types of property.

For public lands, as with private business, there is a tension between the occupational and investment requirements of real estate assets (McKellar 2006, Edington 1997). Those front-line staff, who need public lands for operational reasons desire operational autonomy to acquire and dispose of real estate as they see fit to meet operational requirements. They seek to gain access to land by whatever means they deem appropriate, whether by lease or ownership. Land is just another facility, like vehicles or computers, whose use is to be optimised. Land is just one part of the cost of programme delivery and the aim is to minimise costs. There is no incentive to invest in real estate assets beyond the contribution they make to service output.

By contrast central institutions have an ownership and portfolio perspective. Their objectives may include income, capital growth and the maximisation of asset value, and the avoidance of vacant properties. Income from real estate from rents and other charges is an alternative source of revenue for public bodies to taxes. They may wish to invest in real estate where there are potential future benefits rather than just to secure improvements to current services. A distinction needs to be drawn between investing in the operations and investing in the asset.
to secure future income or capital growth. It is important that operations are not burdened with the costs of improving investment returns on the asset. The delegation of budgetary authority to front-line service managers in NPM makes this less likely but they have no commitment to the assets they use beyond securing their availability to meet service requirements at the best price possible.

### 6.1 The Management of Operational Properties

Much of the operational property used to deliver public services is of a specialist nature for which there is no general market, for example, schools, hospitals, and prisons. It is not easily converted to another use. Their design influences how the services are provided and is an integral part of the delivery of the service itself. How the real estate assets are to be managed is therefore closely connected to questions about how the service itself is to be managed. The traditional model of providing public services is that the public sector should deliver them through direct management, though with some inputs, for example, pharmaceuticals and schoolbooks, being supplied by the private sector under contract. NPM with its emphasis on empowerment of front-line staff to determine *how* a public service is to be produced can result in a number of different ways in which public services are delivered and, therefore, of the management of operational real estate.

- **Public sector agencies.** The use of semi-autonomous public agencies to deliver public services is a feature of NPM. These function almost as publicly-owned trading bodies managed by boards and quasi directors. Their income is derived from the commissioning bodies. They may have to compete for this revenue or to be financed from income generation from the fees they charge, such as the case with the UK's HM Land Registry. Staff tenure is dependent upon performance with dismissal for poor performance occurring (for example, see NAO 2006). They can be obliged to produce audited annual accounts and are audited as to whether Key Performance Indicators have been met (NAO 2000). The growth of such agencies has been relatively recent but on a large scale. In the UK, for example, only 5% of the civil service worked for agencies in 1988 but by 2002 this had increased to 78% (OPSR 2002, NAO 2003). In 2002 there were 127 executive agencies. Agencies can also work at local government level. In the UK approximately one-third of local authority housing is now managed by Arms Length Management Organisations (DCLG 2007). Agencies function within an accruals accounting framework and have to produce a return on the capital they employ. Significantly, although the UK has made widespread use of executive agencies, none have been privatised although there has been discussion about the merits of doing so. Agencies seem to work best when given a narrow range of tasks to fulfil for which precise key performance indicators can be set.

- **Outsourcing or strategic partnership arrangements.** The service is delivered to citizens free at the point of consumption but is provided wholly or partly through contract with a private company. Part of the back-office administrative functions, like finance or legal advice may be outsourced but, in principle, the whole service could be outsourced. The aim is to produce contestability so that the supplier is obliged to maintain efficiency
and minimise costs as a result of regularly being faced with market testing or contract renewal. For example, in the UK the commissioner of custodial prison services is the National Offender Management Service (NOMS). Since 1993 public prisons and public prisons operating under service level agreements have been the responsibility of the Prison Service, an executive agency. NOMS sets Key Performance Indicators and incentives and penalties in contracts. In addition to the prisons run by the Prison Service, there are also public prisons that are privately managed and prisons constructed and operated by the private sector under the Private Finance Initiative (NAO 2003a, HM Prison Service 2007). Evidence from the private sector suggests that between 60 and 70% of strategic partnership arrangements fail to meet expectations and British local authorities have experienced problems with early terminations of contracts and complaints of inflexibility and slowness in producing benefits (Audit Commission 2008).

- **Private Finance Initiative (PFI).** PFI projects involve the private sector providing and maintaining the infrastructure for the delivery of public services (HM Treasury 2003). They can take a number of different forms but mainly involve the construction or refurbishment of real estate assets like schools, hospitals, local authority housing, or university student halls of residence. Typically a private consortium finances and constructs or refurbishes the facility and undertakes to make it available for a period of time under specified conditions. The public body pays an annual charge and the facility usually reverts to the public body at the end of the contract. As the consortium has to borrow at a higher interest rate than the government, the key to a PFI project's success is that the private sector delivers the facility more efficiently than the public sector and the public sector is able to shift risk on to the private sector. There are risks for public bodies, though detailed guidance is now available (for example, HM Treasury 2004a and 2004b). This has not prevented governments for being placed at risk where they have inadvertently placed too high a proportion of contracts with a single supplier or where bidders with limited resources have bid too low a price (Koganova & Polen 2006).

- **Public works or public service concessions.** Where a service can be financed through fees paid by consumers, a possible way for it to be delivered is by a concessionaire. The concessionaire constructs and operates the facility in return for receiving the fees paid by consumers for the period of the contract. At the end of the contract, the facility reverts to the public sector. The method is commonly used for the provision of infrastructure, such as roads, bridges and railways.

- **Privatisation.** Privatisation has been used to introduce contestability in services which were once the preserve of publicly owned utilities. These tend to be natural monopolies as competitors are not able to construct rival networks. The privatisation of monopolies with price control and service specifications that can be enforced by regulators offers one possibility. In the case of the British gas and electricity industries, competition has been achieved by obliging the gas and electricity generating companies to divest themselves of the delivery networks, which remain a regulated monopoly, but deregulating the marketing and supply so that rival companies compete for custom based upon price and other factors.
- **Deregulation.** In some industries governments have ceased to provide what was previously regarded as being a public service. Instead private companies offer the service. For example, in UK bus services regulation is now limited to safety issues and no longer covers fares, routes, and timetables. The government and local authorities no longer provide bus services but offer subsidies to private companies, principally through vouchers to citizens. Private companies compete for consumer fees and for public subsidies delivered through vouchers presented by individual customers for payment of the services received.

### 6.2 The Management of Assets that Support Service Delivery

Support assets are not unique to the public sector. For example, offices can be used by a variety of different users. The public sector can supply them but this means it will retain the risk of doing so (PriceWaterhouseCoopers 2004). For example, assets may become obsolete if social security benefits are paid direct into bank accounts rather than being collected in person from offices or if cadastre data is accessed through the internet rather than by calling at an office. Offices in small provincial towns often have a low investment value and a limited resale value if disposed of. They may be poorly maintained, particularly if the occupiers do not pay an economic cost for their use and generate sufficient income to do so. The public sector has an incentive to shift the risk of changes in the delivery of public services causes assets to become redundant on to the private sector.

Different governments have tried different solutions to this problem. In Australia non-defence government property is leased to public bodies by the Department of Finance & Administration (DoFA) (Conway 2006). It operates as an in-house property company functioning as the quasi landlord. Public bodies are not obliged to rent from DoFA and so are not captive customers. They pay the market price with service standards being guaranteed by contract. Canada has made use of Special Purpose Corporations (SPC), such as Canada Lands CLC, which purchases surplus strategic properties from the federal government and improves, manages, or sells to achieve optimal financial and community value (McKellar 2006a). However, SPCs at provincial level have been problematic, possibly because they were a creation of the era of cash rather than accruals accounting.

The UK government by contrast has used a PFI approach to sell properties to the private sector which it then leases back. An example of this is the PRIME contract used by the UK's Department of Work and Pensions (NAO 2005a). In 1998 the then Department of Social Security transferred the ownership and management of its estate (over 700 buildings) to a private company, Land Securities Trillium (LST). In 2003 this contract was extended to include 1,108 buildings of the former Department of Employment. Many of these were traditional office buildings, often in locations with limited investment potential. Under the extension of the contract, the government received £140 million from LST and took on a contract to pay £1,200 million (in terms of the net present value) to LST to supply serviced offices until 2018. LST took on the payment of rents to landlords, upgrading costs, dilapidation payments and other liabilities on the buildings. The Department expected the...
amount of space it needed to contract and for the space to be capable of housing new information technology systems. The contract allows it to vacate up to 54% of the space at set prices which are not building specific and to receive 50% of the profits LST makes from the sale of the space. LST has to be registered in the UK and there are restrictions on its ability to transfer the ownership of the buildings abroad so as to avoid paying UK taxes. Its parent company has also had to provide guarantees to the UK government. This is a second generation contract from which the UK government has learned important lessons from earlier real estate outsourcing contracts, such as the STEPS programme used by HM Revenue and Customs (NAO 2004). A number of leading private companies have followed the government's lead and outsourced their own real estate in exchange for taking on contracts for long-term supply of serviced accommodation.

7. CONCLUSIONS

The combination of charging public bodies the full economic costs of real estate assets plus the empowerment of front line staff through greater control over how their budgets are to be spent and incentives for staff to achieve targets means that public bodies are motivated to search for the most efficient means of providing real estate assets for public services. These are bringing changes to the way in which real estate assets are managed and attitudes towards land ownership by the public sector. They are tending to result in the disposal of under-performing assets and consideration as to whether assets should be owned or rented. They are promoting prompter responses to changes that require different real estate assets, such as delivering information through the internet rather than through local offices. This is turn brings attempts to shift risks on to the private sector through contracts for them to supply fixed assets. If public officials are charged with the same responsibility to maximise efficiency and achieve customer satisfaction as managers working for private companies, then they are likely to adopt similar approaches to the management of real estate. This means that comprehensive asset management strategies need to be developed and integrated into other strategic processes. In other words asset management should be part of a public body's corporate planning process. Guidance on this can be found in publications such as RICS (2008), DTLGR (2002), DCLG (2008), and PriceWaterhouseCooper (2004).

The countries that have been at the forefront of these changes have well-developed property professions so capacity for the management of public lands is not an issue. They also have a stable legal environment in which property rights are protected and the results of government processes are predictable. They do not have serious governance issues, either with corruption or abuse of office by officials or capture of the state apparatus by cliques. This does raise serious issues about the applicability of these measures to other countries who are faced with such problems. Does it mean that the New Public Management and accruals accounting can help improve the efficiency of the public sector in countries where there is no governance problem but have no relevance for the many countries engaged in the struggle to improve governance?

As Hood (1991) has argued, NPM assumes a culture of public service with honesty and neutrality as given. Schick (1998) has argued that these reforms require internal markets and
internal contracts which can exist in the countries at the forefront of the changes because there are robust markets and means of contract enforcement. Surely the last thing to be recommended in a country in which governance is weak is to loosen top-down controls and empower front-line staff? If anything such controls need to be strengthened in order to improve governance. The analysis of requirements for good governance in land administration by FAO (FAO 2007) showed that many of the policies that can be used to enhance the quality of governance are compatible with the NPM and accruals accounting. Indeed a number of the policies used in these approaches, such as setting service standards, establishing independent auditing, and securing the finances of public services are also those that enhance governance. The danger, when looking for best practice, is to “cherry pick” techniques and approaches that work well but, when trying to translate them into practice elsewhere, to fail to recognise that they are part of a system that has its own internal logic. Thus the techniques may fail to work effectively in their transplanted environment as the assumptions on which their operation depended are not satisfied in their new surroundings.

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Session 2 – FAO

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REFERENCES


BIOGRAPHICAL NOTES

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