

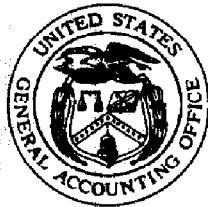


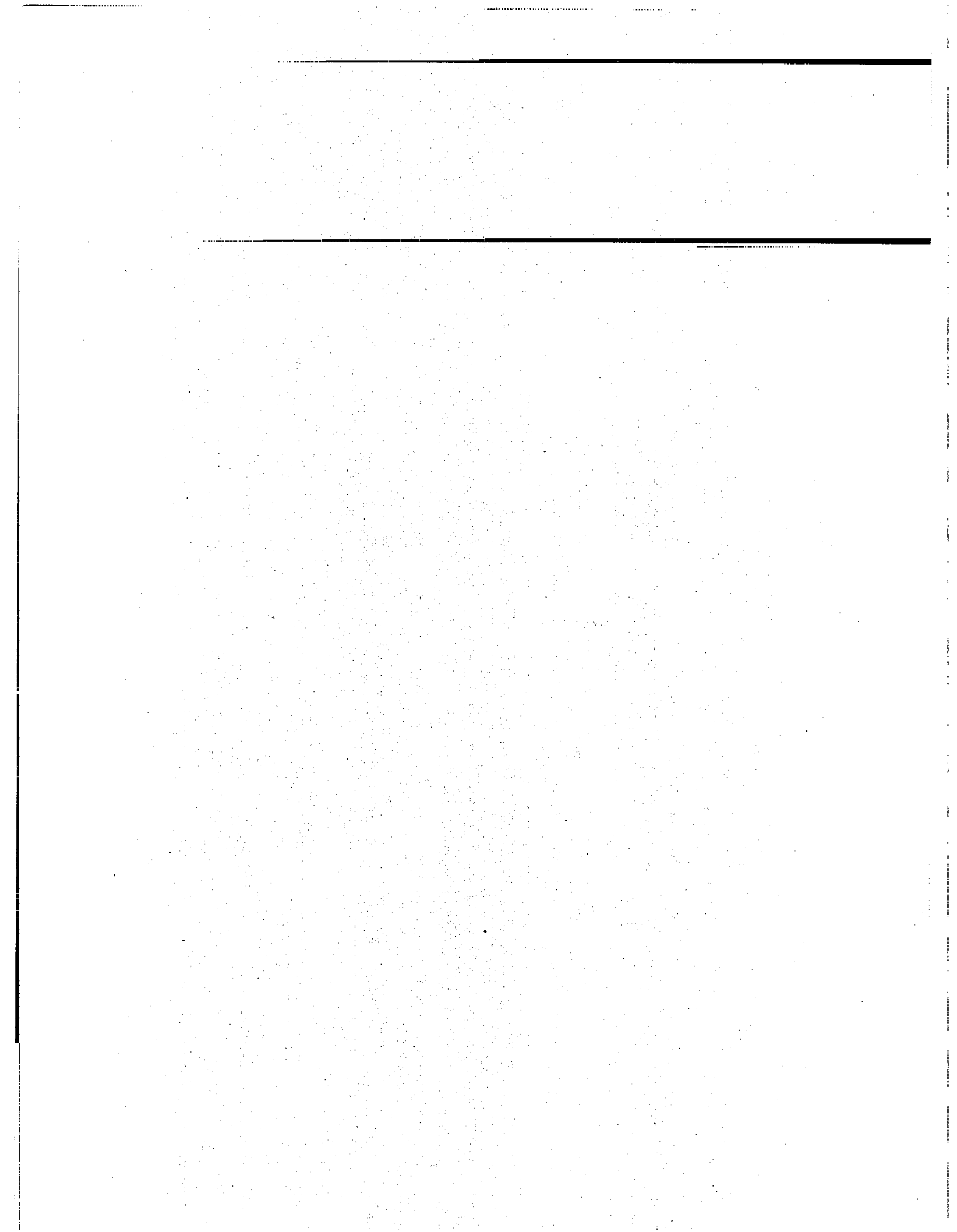
Report to the Chairman, Subcommittee
on Water Resources, Transportation,
Public Buildings, and Economic
Development, Senate Committee on
Environment and Public Works

September 1994

REAL PROPERTY MANAGEMENT

Reforms in Four Countries Promote Competition







United States
General Accounting Office
Washington, D.C. 20548

General Government Division

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The Honorable Daniel Patrick Moynihan
Chairman, Subcommittee
on Water Resources, Transportation,
Public Buildings, and Economic Development
Committee on Environment and Public Works
United States Senate

Dear Mr. Chairman:

This report was prepared in response to your request that GAO examine methods that other countries used to restructure or reform their real property management organizations. The report describes how these countries reformed their real property organizations and the results of these reforms. The report discusses the lessons the countries learned that could be useful as the United States introduces reforms to better meet its real property needs and moves to more results-oriented management.

We are also sending copies of this report to other congressional committees; the Director, Office of Management and Budget; the Administrator, General Services Administration; and other interested parties. Copies will be made available to others upon request.

The major contributors to this report are listed in appendix II. If you have any questions on the report, please contact me on (202) 512-2700.

Sincerely yours,

William M. Hunt
Director, Federal Management Issues

Executive Summary

Purpose

The General Services Administration (GSA) manages and oversees 268 million square feet of space in approximately 8,000 buildings. These buildings are known as real property. In 1991, GAO testified that federal buildings and other real property assets are valuable but undermanaged national assets that are integral to federal departments and agencies for carrying out their operations. However, GAO further reported that long-standing structural and managerial problems limited GSA's ability to strategically acquire and manage its real property assets, effectively support agencies' mission objectives, and maximize the taxpayers' returns on GSA's portfolio of owned or leased buildings.

The Chairman of the Senate Subcommittee on Water Resources, Transportation, Public Buildings, and Economic Development, Committee on Environment and Public Works, is considering alternatives for the acquisition, management, and disposal of federal real property to address these problems. GAO agreed with the Subcommittee to examine efforts that were made by other countries to restructure or reform their real property management organizations. Specifically, GAO agreed to report on (1) the reforms four countries—Australia, Canada, the United Kingdom, and Sweden—made to their real property organizations to address the long-standing problems that were common to the United States and these countries; (2) the results of these reforms to date; and (3) the lessons the countries learned from these reforms that could be useful to the United States as it introduces reforms to better meet its real property needs.

Background

In September 1993, the National Performance Review, a management reform initiative headed by the Vice President, recommended that the government should increase competition and the use of businesslike practices in its management of real property. This recommendation was consistent with other public reform initiatives, such as the Government Performance and Results Act of 1993, which emphasized agency management and accountability for program results and the meeting of customer needs.

Australia, Canada, the United Kingdom, and Sweden have organizations that are similar to GSA in the United States for managing their governments' office buildings and other real property, such as warehouses and courthouses. Like GSA, these real property organizations also provided space and services to customer departments and agencies. Australia, Canada, the United Kingdom, and Sweden began to reform their real property organizations in the late 1980s.

To learn the nature and results of their real property reforms, GAO interviewed officials who had knowledge of the results of these reforms from each of these countries' real property organizations. GAO also interviewed officials at some other organizations who were knowledgeable about the reforms. In addition, GAO obtained independent assessments and additional documents that discussed the reforms, their results, and the managerial concepts underlying these reforms. GAO used these documents to identify the lessons learned by the countries in introducing their real property reforms. Because Sweden did not introduce reforms that would make its real property organizations more competitive until 1993, little information existed on the results of its reforms. GAO relied on, but did not verify, the independent assessments as measures of the impact the reforms had on the countries' real property management practices.

Results in Brief

Like the United States, the four countries had long-standing structural and management problems that limited their real property organizations from meeting customers' real property needs. These problems included poor business practices; inadequate strategies for managing real property assets; conflicting roles as both the building service provider and the oversight agency; customer dissatisfaction; and barriers to the timely acquisition, maintenance, and disposal of real property. Accordingly, these countries questioned whether having a central real property organization was the most effective way to provide building and office space.

To resolve their real property management problems, these countries concluded that they should replace their old approaches of providing real property services with new ones based on entrepreneurial and competitive principles used by the private sector. The reforms they made to their real property organizations can be characterized by the following: (1) introducing competition for real property services; (2) providing more strategic management of assets, that is, in a manner that recognizes the need to manage these assets as investments and to meet customers' mission needs; and (3) separating building services from asset management (except for Sweden) and policy oversight and development roles. The countries' real property reforms began during the late 1980s in concert with governmentwide reforms that were to make government agencies more efficient, innovative, and businesslike.

The real property reforms in the four countries are ongoing, and definitive results are not yet available. However, although obstacles continue, the

preliminary results in Australia, Canada, and the United Kingdom appear promising in terms of improving economic performance and satisfying customer needs. The United States could consider the important lessons the countries learned from these reforms when implementing the National Performance Review's recommendation to make GSA more responsive to its customers' real property needs.

GAO's Analysis

Competition Introduced

The four countries all tried to make their real property organizations more competitive. They allowed customer departments and agencies to choose between these organizations and the private sector to provide their building services, e.g., operations and maintenance. Australia and Sweden also allowed their customers to choose who would provide their office space itself. (See pp. 18 and 19.)

To make themselves more competitive, real property organizations in Australia, Canada, the United Kingdom, and Sweden adopted more businesslike practices. For example, these organizations began preparing strategic business plans to help them focus on their competitiveness, and Australia and Canada established revolving funds to manage and account for real property revenues and expenses. Also, these organizations began upgrading and replacing their accounting and/or information systems to provide more relevant information on their performance. (See pp. 31 to 33.)

Although it is difficult to make a direct link between reforms and the performance of the real property organizations, the limited information available for Australia, Canada, and the United Kingdom suggests that the performance of those countries' real property organizations has improved since competition and the businesslike practices were introduced. The organizations' staffing levels have been significantly reduced, and their financial positions have improved. For example, the staff levels of Canada's real property organizations went from 7,950 in 1987 to 5,999 in 1993, a 25-percent reduction. In addition, the organizations were able to turn an operating deficit of Can\$72 million in 1987 into an operating profit of Can\$45 million from 1987 to 1991. (See pp. 31 to 35.)

According to independent assessments and interviews with real property officials, the countries' real property organizations adopted reforms so that they would be more businesslike without reducing their workloads. Also, officials in these countries said that competition, or allowing the customer to choose the real property service provider, was the essential ingredient to making significant improvements in real property services. As a result of operating in this competitive environment, the officials said real property organizations improved their business practices and were more responsive to satisfying their customers' needs. (See pp. 35 and 36.)

Assets Managed More Strategically

As part of managing their real property assets more strategically, real property organizations made a fundamental shift in their management philosophy for handling these assets. Formerly, they focused primarily on providing basic property needs at the least cost. After the reforms, they began to manage these assets in order to maximize the return on their real property assets and to better meet their customers' mission needs. Specifically, these countries recognized the need to take three actions to carry out this shift in emphasis. The actions were to (1) set target rates of returns—goals set between the government and the real property organizations—for when the organizations should make asset investments; (2) “benchmark,” or compare the organizations' practices with those of well-managed companies in the private sector; and (3) integrate customer space requirements with the real property organizations' strategic business plans to meet their customers' mission needs. (See pp. 20 and 21.)

As of June 1994, assessments showed that Australia had made the most progress in implementing these actions. It had made significant progress toward having a successful asset management program. Its asset management organization had a 10-percent gross return on its sale of assets in 1992. This return exceeded the asset management organization's goal of meeting Australia's long-term bond rate, which averaged 9.8 percent in 1992. (See pp. 36 and 37.)

Building Services Separated From Asset Management and Policy Oversight

All four countries separated their real property organizations' policy oversight and development roles from their roles as the providers of the governments' building services. Australia, Canada, and the United Kingdom also separated their asset management roles from their building services roles. (See pp. 21 to 30.)

Australian real property officials said that separating the roles of their organizations has eliminated or reduced the appearance of conflict of interest that occurred when the organizations both provided and regulated service to customers. (See pp. 22 and 23.) They also said that as a consequence of the separation, their service organizations have improved their service delivery. (See pp. 37 and 38.)

Some Obstacles Continue

The countries' governmentwide reforms, which included financial incentives to make agencies more cost conscious, and real property reforms caused agencies to pay greater attention to customer service and to providing greater value for the services they delivered. (See pp. 29 and 30.)

However, according to assessments GAO received, real property managers in Australia, Canada, and the United Kingdom are still hampered by an untimely approval process for the acquisition of buildings, which limits their ability to readily take advantage of market conditions in the acquisition, maintenance, and disposal of buildings. Studies of the reforms indicated that managers are further hampered by their countries' unchanged disposal requirements that limit the ability to retain the proceeds from their property disposals. (See pp. 38 and 39.)

Lessons Learned by the Countries

While preliminary and incomplete, real property reforms in Australia, Canada, and the United Kingdom provide useful information to the United States as it begins to implement the National Performance Review's recommendation to make GSA more competitive and use businesslike practices.

These three countries found that their reforms had a significant impact on their real property organizations' missions, operating practices, and ultimately on the extent to which the organizations will continue as the governments' sole or even primary real property service providers. The countries had to address important legal and policy issues, as well as internal organizational changes needed to make the cultural shift to a more competitive and results-oriented environment. In making their real property reforms, Australia and Canada found that it was important to identify the principles and objectives of the reform; obtain high-level support; provide staff training, conduct market research, and identify customer needs; improve information systems; identify funding mechanisms; set the "ground rules" for competition; and ensure that a

clear linkage existed between resources expended, resultant actions taken, and the effects of actions taken. (See pp. 40 to 43.)

Recommendations

GAO is not making any recommendations in this report.

Agency Comments

GAO met with the Deputy Administrator of GSA on August 24, 1994, to summarize and discuss the information in this report. She generally agreed that the description of real property practices and experiences presented was consistent with the information available to GSA. She said that the information would be useful in GSA's implementation of its real property reforms, including the National Performance Review recommendations to increase competition and the use of businesslike practices.

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Abbreviations

GSA General Services Administration

Introduction

The General Services Administration (GSA) is the primary provider of office and other general purpose building space (i.e., real property), such as courthouses and warehouses, to federal departments and agencies. It also provides them with related services, such as the acquisition, maintenance, and disposal of buildings. It manages a portfolio of approximately 8,000 buildings that are either owned or leased by the federal government and contain more than 268 million square feet of space. In 1991, we testified that federal buildings and other federal real property are valuable but undermanaged national assets that are integral to federal departments and agencies carrying out their operations. We further testified that these assets have great potential and should be used by management to better meet changing federal work concepts, styles, and technology being introduced into the workplace.¹

Since 1989, we have reported on structural and management problems that limit GSA's ability to (1) strategically acquire and manage real property assets, (2) effectively support the objectives of other federal agencies' missions, and (3) maximize taxpayers' returns on existing and prospective investments in public buildings.² Despite GSA's efforts to correct these long-standing problems, our most recent work indicates that they still exist.³

In September 1993, the National Performance Review, a major management reform initiative under the direction of the Vice President, issued a report with recommendations to make government agencies work more efficiently and cost less.⁴ This report recommended that the President give agencies greater authority to choose their sources of office space and building services. The recommendation stressed that the federal government should increase competition and the use of businesslike practices in its management of its real property.

¹Real Property Management Issues Facing GSA and Congress (GAO/T-GGD-92-4, Oct. 30, 1991).

²General Services Administration: Sustained Attention Required to Improve Performance (GAO/GGD-90-14, Nov. 6, 1989); General Services Administration: Status of Management Improvement Efforts (GAO/GGD-91-59, Apr. 3, 1991); Federal Buildings: Actions Needed to Prevent Further Deterioration and Obsolescence (GAO/GGD-91-57, May 13, 1991); and Federal Office Space: Obstacles to Purchasing Properties from RTC, FDIC, and Others (GAO/GGD-92-60, Mar. 31, 1992).

³General Services Administration: Actions Needed to Improve Protection Against Fraud, Waste, and Mismanagement (GAO/GGD-92-98, Sept. 30, 1992); General Services Issues (GAO/OCG-93-28TR, Dec. 1992).

⁴From Red Tape to Results: Creating a Government That Works Better and Costs Less, report of the National Performance Review Washington, D.C.: Sept. 7, 1993).

Since 1986, four industrialized countries—Australia, Canada, the United Kingdom, and Sweden—that faced problems similar to those of the United States have developed new strategies for managing their real property assets. In this report, we discuss these countries' efforts to reform the management of their real property assets and discuss lessons the countries learned that may offer insights to the United States for improving GSA's real property management.

GSA and Foreign Real Property Organizations Performed Similar Roles

To manage its portfolio of federal buildings, GSA performs a full range of building services. The components of GSA's building services role are (1) operations and maintenance; (2) architecture and engineering; (3) building acquisition (including construction, purchase, and leasing) and disposal; and (4) appraisals. Along with providing building services, GSA also performs two other property management roles: property caretaker and policy oversight and development. As a property manager, GSA provides federal departments or agencies with office or general purpose space. In addition to its property manager role, GSA also develops policies on the use of federal real property and oversees their implementation.

At the time of our review, Australia, Canada, the United Kingdom, and Sweden had real property organizations that provided office space and similar real property management roles to their customers, that is, departments and agencies.⁵ In table 1.1, we show the key characteristics of each of these organizations based on the most current data available.

Table 1.1: Key Characteristics of the Real Property Organizations as of June 1994

Country	Roles	Characteristics					
		Number of properties in portfolio	Total amount of government space (in square feet)	Ratio of owned to leased space	Current value of owned space	Project approval levels ^a	Source of funds
United States	Building services, policy oversight and development, and property management	7,000	268.0 million	53:47	GSA does not maintain current values	\$1.6 million	User fees for services and appropriations for capital improvements

(continued)

⁵In chapter 2, we describe how all four countries recognized the need to manage their real property assets more strategically by shifting from a property manager role to an asset manager role.

**Chapter 1
Introduction**

Characteristics							
Country	Roles	Number of properties in portfolio	Total amount of government space (in square feet)	Ratio of owned to leased space	Current value of owned space	Project approval levels^a	Source of funds
Australia	Asset management and building services ^b	1,000	11.0 million	30:70	A\$2 billion	A\$6 million	User fees for services and appropriations for capital improvements
Canada	Asset management, building services, and policy oversight and development	2,312	54.4 million	59:41	Can\$3.6 billion	Can\$20 million	User fees for services and appropriations for capital improvements
United Kingdom	Asset management, building services, ^c and policy oversight and development	3,500	75.5 million	35:65	£2 billion	£10 million service	User fees for s and appropriations for services and capital improvements
Sweden	Asset management, building services, and policy oversight and development	800	46.7 million	60:40	SKr38 billion	No outside approval needed	User fees for services and government borrowing for capital improvements

Note 1: We describe the real property organizations' characteristics after the countries introduced reforms. The roles performed by the real property organizations are listed to show the similarities in roles among countries. Since the reforms, the roles are performed by a number of separate real property organizations as described in chapter 3.

Note 2: GSA and the real property organizations in the countries reviewed charge departments and agencies for the costs of building services. Except for Canada, they also charge for the rent of office space. These service and rental charges, known as user fees, are supplemented periodically by appropriations or government borrowings.

^aThe project approval level is the threshold for real property organizations to purchase or renovate property without having to obtain approval from an oversight body. In the United States this oversight body is Congress. In Australia, Canada, and the United Kingdom it is the country's parliament.

^bPolicy oversight and development were removed from the real property organizations in 1987.

^cBuilding services were sold to the private sector in 1992 and 1993.

Source: Compiled from countries' data.

GSA Has Had Long-Standing Real Property Problems

GSA has had long-standing problems that have significantly impaired its ability to carry out its mission to meet real property needs for federal

departments and agencies. According to our prior work, GSA's problems can generally be grouped into the following six areas:

- GSA's business practices are poor: for example, it (1) does not focus on increasing the agency's competitiveness or improving its investment in real property assets; and (2) relies on obsolete, inaccurate, or incomplete information and accounting systems to provide data on the value, type, or size of real property assets.
- GSA lacks an overall strategy for how to manage real property assets.
- GSA has potentially conflicting roles as the federal government's agency providing real property oversight and services.
- Customers are dissatisfied with the condition of buildings and the timeliness in which customers' needs are met.
- Agencies are not given incentives to dispose of excess or underutilized real property.
- Funding and budgetary limitations hamper the acquisition and maintenance of real property. For example, while GSA operates a revolving fund,⁶ the Federal Buildings Fund, GSA's authority to obligate is subject to limitations carried in annual appropriation acts. Also, fund expenditures for building projects of \$1.6 million or more require approval from the Office of Management and Budget and Congress.⁷

Objectives, Scope, and Methodology

The Chairman of the Senate Subcommittee on Water Resources, Transportation, Public Buildings, and Economic Development, Committee on Environment and Public Works, is considering alternatives for the acquisition, management, and disposal of federal real property. As a result, we agreed to examine methods that were used by other countries to restructure or reform their real property management organizations. For each country whose real property reforms we reviewed, our objectives were to obtain information on

- how these countries reformed their real property organizations, addressing long-standing problems that were common to both the United States and these countries;
- the results of these reforms as of June 1994; and

⁶Revolving funds are funds used to pay for operating costs and capital improvements. The funds come from user fees that are charged for real property services. GSA is to charge market-based rent payments for its office space.

⁷Federal Office Space: Obstacles to Purchasing Commercial Properties From RTC, FDIC, and Others (GAO/GGD-92-60, Mar. 31, 1992.)

- the lessons the countries learned from these reforms that could be useful as the United States introduces reforms to better meet its real property needs.

We reviewed the real property management reforms and results in Australia, Canada, the United Kingdom, and Sweden. We selected these countries because their real property organizations were similar to GSA in terms of the functions they performed and the problems they faced. Also, each had undertaken real property management reforms since 1986 to address its problems.

To meet our objectives, we visited Australia, Canada, and the United Kingdom in 1992 to interview officials from each of these countries' real property organizations. We interviewed other key government officials in Australia and Canada who represented central budget organizations and customer departments and agencies to obtain their views of the real property reforms. We also interviewed officials from the national audit organizations of Australia, Canada, and the United Kingdom to obtain their views on the results of the reforms. We interviewed Australian, Canadian, British, and Swedish real property officials at a real property conference in Toronto, Canada, in May 1993 to obtain further information on their reforms. Finally, we interviewed those officials during their visits to the United States in 1992 and 1993 to learn how these countries had reformed their real property organizations. In appendix I, we list the foreign agencies we visited or contacted.

Through these interviews with officials from the four countries, we obtained and later reviewed documents that discussed their countries' real property reforms and results as well as the management concepts underlying the reforms. We also obtained additional documents and independent assessments of these reforms. These independent assessments were done by public accounting firms, national audit organizations, or by other government organizations. Although Sweden began implementing other real property reforms in the late 1980s, it did not introduce reforms that would make its real property organization more competitive until 1993. Therefore, little information existed on the results of these reforms. We did not independently evaluate the reforms of the other countries, nor did we assess the financial impact of reported real property savings from the standpoint of the countries' total governmental costs. Instead, we relied on the independent assessments to measure the impact the reforms had on the management practices of the countries' real property organizations.

Chapter 1
Introduction

Our review was conducted from April 1992 through June 1994 in accordance with generally accepted government auditing standards. We discussed the results of our review with GSA's Deputy Administrator, and her oral comments are presented on page 43.

Countries Have Reformed Their Real Property Organizations

Like the United States, Australia, Canada, the United Kingdom, and Sweden had similar real property problems—poor business practices, no asset management strategies, and policy and funding barriers—with the management of their real property organizations. As a result of these problems, in the late 1980s, these countries began to change their real property management organizations. According to real property officials and documents from these countries, each country questioned whether central real property organizations were the most effective way to provide building space. The countries looked to business practices from the private sector for insight on how to resolve their real property management problems and to better meet the real property needs of their customer departments and agencies.

As a result of their observations of practices in the private sector, such as strategic planning, investment of real property assets as part of an asset portfolio, and an emphasis on service delivery to customers, the four countries replaced their old methods of providing services with new ones based on entrepreneurial and competitive principles. They decided that competitive organizations (i.e., those that compete to provide building services or office space) were critical to effectively managing real property and to providing services to their customers. These countries also recognized that their real property portfolios represented valuable assets that needed to be managed to achieve their full potential. In addition, except for Sweden, they separated their building services roles from the property management role of asset management. All four countries separated their building services roles from the property management role of policy oversight and development.

In general, the reforms the countries introduced to address their real property management problems can be characterized by the following:

- competition for real property services,
- the creation of asset management as a strategic role, and
- the separation of building services from other property management roles.

All Four Countries Shared Similar Problems

All four countries shared similar problems in the management of their real property organizations. Independent assessments of real property management in Australia in 1987 and in Canada in 1986 identified widespread dissatisfaction among customer departments and agencies. For example, the Australian government's telecommunications agency, Australian Telecom, reported that having to obtain final approval from the

real property organization before acquiring sites for office buildings and signing leases was a time-consuming requirement that added little value to the process of meeting the agency's real property needs. In Canada, the Canadian Department of Energy, Mines and Resources was dissatisfied because the real property organization was not maintaining the department's buildings.

In addition to customer dissatisfaction, the Canadian assessment further identified general confusion and uncertainty that existed between the country's real property and central budget organizations as to which had ultimate authority for decisions concerning real property. In 1988, the United Kingdom's National Audit Office identified problems in the management of that country's real property organizations concerning customer satisfaction, information systems, and incentives to dispose of surplus real property.

Also in 1988, Swedish government auditors found that the country's real property organization was not considering the economy or efficiency of its decisions, was overstaffed, and had no market pressures that could have encouraged better performance. The auditors also found that Sweden did not have accounting or information systems that could provide the market value or book value, type, or size of the government's real properties.

The adverse findings of these assessments and related reports led these four countries to recognize the need for fundamental changes in their real property management and oversight. Table 2.1 summarizes the problems the countries had and the reforms they introduced to resolve them.

**Chapter 2
Countries Have Reformed Their Real
Property Organizations**

Table 2.1: Summary of Real Property Problems and Reforms in Four Countries

Real property problems	Reforms introduced
Poor business practices	1. Competition to become more businesslike
Lack of an asset management strategy	2. Use of asset management as a strategic role ^a
Conflicting roles of policy oversight and service provider	3. Separation of building services from other property management roles
Customer dissatisfaction	Reforms 1-3
Limited funds and budgetary disincentives for acquiring, maintaining, and disposing of real property	Revolving funds ^b

^aUse of asset management as a strategic role entailed managing assets as investments and meeting customers' needs.

^bAustralia and Canada established revolving funds for their building services organizations but not for their asset management organizations. The United Kingdom and Sweden did not establish revolving funds for their real property organizations. Australia, Canada, and the United Kingdom did not change their incentives for disposing of real property. Since the reform, Sweden can use the proceeds from real property disposals to acquire new property.

Source: Compiled from countries' data.

Competition Was the Key to Real Property Reforms

Probably the most fundamental change these countries made was to give the customer departments and agencies the freedom to choose between a government agency or a private sector firm to provide building services, such as maintenance and alterations. In addition, the Australian and Swedish real property organizations have to compete in the provision of office space itself. The methods the four countries used to introduce this change varied, but all introduced competition into some or all of their building services to improve service delivery and customer satisfaction.

Real Property Organizations Were Reorganized to Become Competitive

To become more competitive, each country reorganized the building services of its real property organizations and required the new organizations to compete with the private sector. Although each country reorganized its building services differently, the intent of these reorganizations was to make the building services more businesslike. In Australia, the six building service components were each placed in a separate real property organization, so that the performance of each component would be easier to monitor. Canada consolidated its building services components into two real property organizations so that customers would have fewer organizational layers to deal with in obtaining services.

The United Kingdom also reorganized its building services components into two new real property organizations as part of its reforms. But, in 1992 and 1993, it privatized these organizations by selling them to the private sector. Sweden restructured its real property organization into two new organizations: a government corporation¹ to provide building services and asset management roles and a government agency to provide policy oversight and development roles.

In addition to competing with private sector firms in providing customers with building services, the real property organizations in Australia and Sweden have to compete in providing customers with office space. With the introduction of competition for office space, the real property organizations in both countries introduced a customer broker component—to building services in Australia and to policy oversight and development in Sweden—to advise customers on how to meet their real property needs effectively. For example, Australia's customer broker component assisted its customers in conducting the necessary planning, negotiating, and managing to meet their office space needs.

At the time of our review, Canada and the United Kingdom still required departments and agencies to obtain office space from their real property organizations. However, both countries were examining the possibility of requiring their real property organizations to compete with the private sector in providing customers with office space as Australia and Sweden did.

Businesslike Practices **Were Introduced**

With the introduction of competition, all four countries made two significant changes to become more entrepreneurial. First, they instituted user fees for all or some of the services that their real property organizations provided. Second, they began adopting a wide range of commercial businesslike practices. All four countries introduced the following:

- strategic business plans to help their real property organizations increase their focus on competitiveness and on improving taxpayers' investments in real property assets;

¹A government corporation is a government-chartered entity created to serve a public function of a predominantly business nature. In Sweden, a government corporation operates like, and is expected to compete with, private sector firms.

- output-oriented performance measures,² such as vacancy rate, ratio of profits to sales, and cost per person housed, to provide a clearer understanding to the countries of the return of money invested in their real property organizations and to measure the effectiveness of these organizations' business strategies; and
- information systems to integrate critical real property information to assist in internal analysis and communication with the real property organizations' customers.

In addition, Australia and Sweden introduced accrual-based accounting systems to identify, record, and report expenses at the time they are incurred along with acquired assets and provide a more complete picture of the real property organizations' financial performance.³ Also, Australia and Canada established revolving funds to manage and account for revenues and expenses of their building services organizations.⁴ Sweden is developing a financial structure equivalent to a revolving fund.

These four countries concluded that to be cost-effective, the real property organizations had to be more entrepreneurial and, through the introduction of competition, be subject to the same risks and rewards as business firms in the private sector.

Asset Management Was Recognized as a Strategic Management Role

As part of their real property reforms, all four countries recognized that to become more entrepreneurial they had to manage their assets as investments rather than just maintain them. This meant that real property organizations were no longer expected to be only "caretakers," or property managers, of their real property assets. Instead, they were to be "owners/investors" of an asset portfolio in which they could strategically invest to better meet their customers' mission needs. In their former property manager roles, the real property organizations had focused primarily on satisfying their customers' office and general space needs at the least cost and maintaining the properties in their portfolios. As owners/investors, they further sought to manage their real property assets

²Output-oriented performance measures are those that measure the tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative or qualitative manner.

³Accrual-based accounting is a method of accounting that recognizes, as far as possible, the financial effects of transactions and events in the periods in which they occur, regardless of whether cash has been received or paid.

⁴The building service organizations in Australia and Canada used revolving funds to charge user fees for building services and used those fees to pay for operating costs.

to increase the value of their real property portfolios and maximize the return from these assets.

The fundamental shift in management philosophy away from their property manager roles entailed several important changes in the way in which real property organizations carried out their new owner/investor, or asset management, roles. In addition to providing space to customers, they began striving to obtain an optimum rate of return on the government's portfolio of real property assets.⁵ They did so by

- using target rates of return, or goals established between them and the government, for deciding when to acquire, renovate, or dispose of assets;
- “benchmarking,” or comparing their asset costs and services with those of well-managed firms in the private sector; and
- integrating the requirements of customer departments and agencies with their strategic business plans to meet the customer's mission needs better.

According to real property officials in the four countries, the primary investment criteria for the real property organizations became whether the buildings made sound financial sense and supported their customers' needs effectively. As a consequence, the countries have recognized the need to establish the policy and conditions under which buildings that did not meet these investment criteria but were desired for other public interest or urban development reasons would be approved and funded. For example, the Australian government made explicit decisions on and appropriated separate funds for these types of buildings. This process provided the Australian government with a way to closer scrutinize the real property decisions that were made in the name of public interest. As a consequence, Australian officials said, the number of this type of decisions has decreased in Australia.

Building Services Were Separated From Other Real Property Roles

The four countries recognized that they had to make changes to the structure of their real property organizations to implement a more competitive and businesslike operating environment. In addition to the aforementioned reorganizations of building services, two fundamental changes were made. First, with the exception of Sweden, each country separated its asset management role from its building services role with separate organizations for each. Second, each country separated its real

⁵An optimum rate of return is the highest rate of return, or benefit from capital appreciation over time, the investment could earn.

property policy oversight and development role from its building services role by placing each in a different organization.

Building Services Role Was Separated From Asset Management Role

With the exception of Sweden, the countries separated their asset management roles from their building services role to avoid what they found was an inherent conflict of interest between the two. According to Australian and Canadian real property officials, if the real property organization's asset management role was collocated with its building services role, there would have been a real or perceived requirement by the customer to use the organization's building services instead of a private sector firm, which might have been the most economical source.

To resolve this potential conflict, Australia, Canada, and the United Kingdom established new real property organizations that were separate from the organizations responsible for providing building services to manage their governments' portfolios of real property assets. As part of their reorganizations, Australia and the United Kingdom expanded the asset management role to include the acquisition and disposal of building assets in their portfolios.

Sweden took a somewhat different path by collocating its asset management role with its building services role in the newly established real property corporation. However, as with building services, it permitted this corporation to either employ its own asset management or the private sector to meet its customers' real property needs.

Building Services Role Also Was Separated From Policy Oversight and Development Role

Officials from the countries whose real property reforms we reviewed reported that organizations that provide both building services and real property policy oversight and development have a built-in conflict of interest. Australian and Swedish real property officials told us that such organizations should not have a policymaking role. They said that their job was to satisfy, not question, their customers' needs for space and services. Questioning these needs, they said, should be the responsibility of other central oversight agencies. They noted that this conflict of interest made it difficult for their real property organizations to perform both roles simultaneously and well.

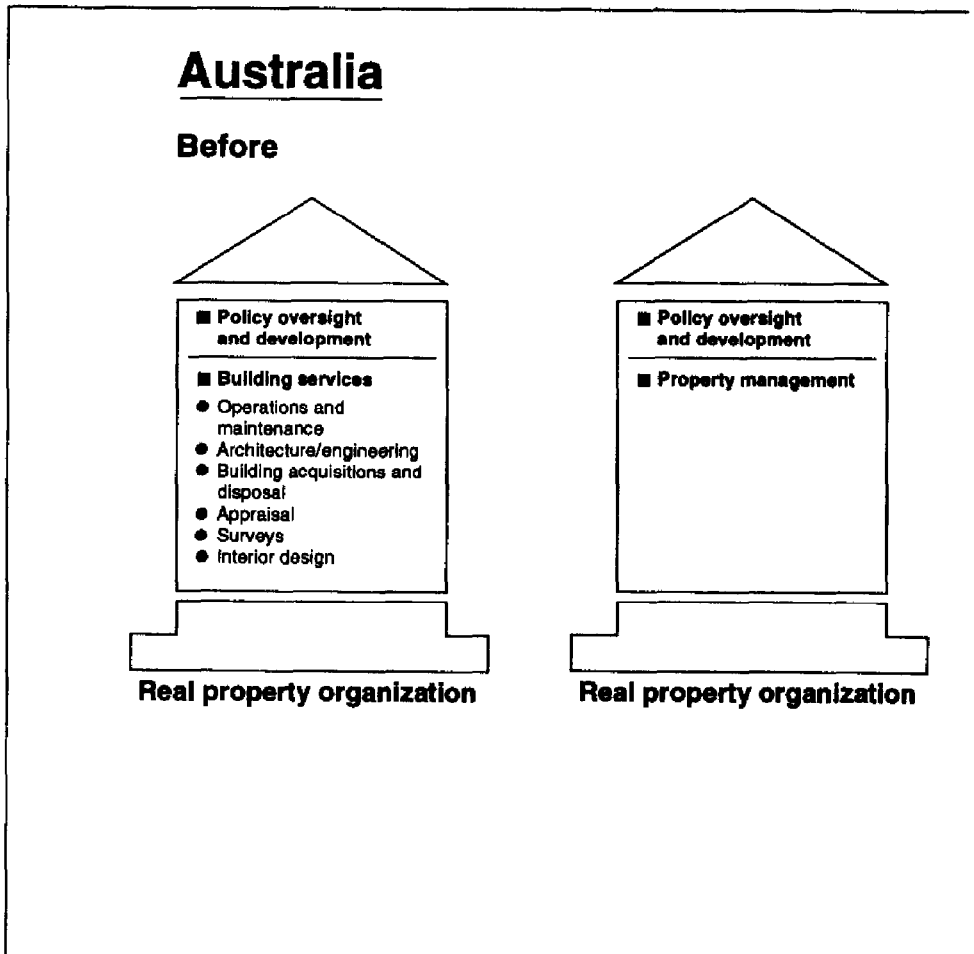
Each country addressed this impression of conflict differently. In Australia, policy oversight and development roles were removed from the real property organizations. These roles were assumed on an ad hoc basis

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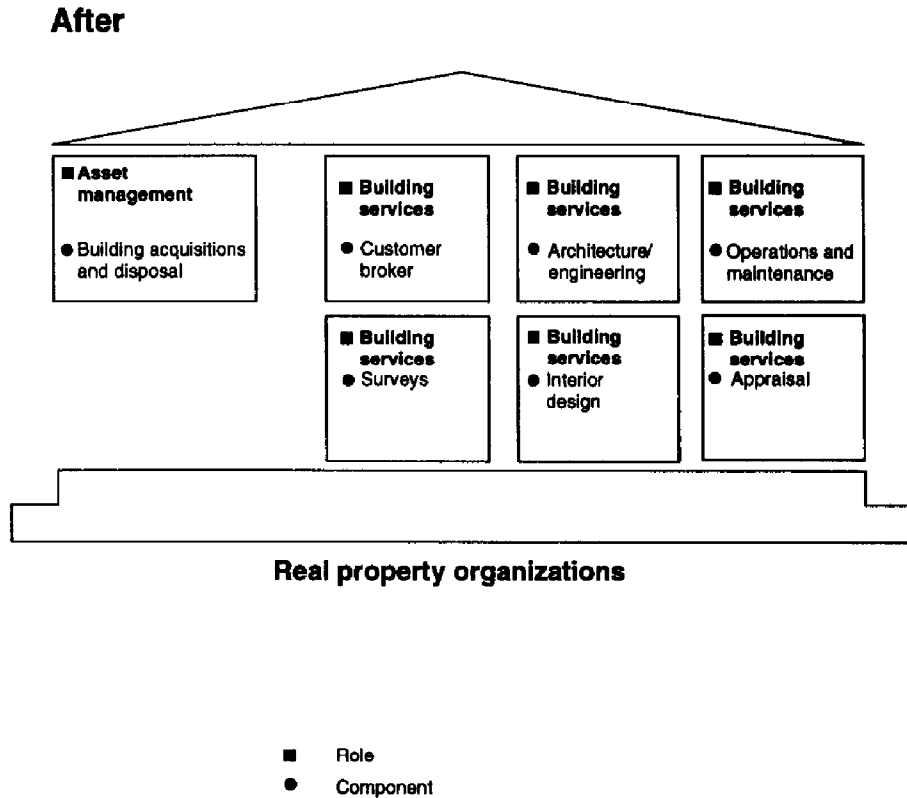
by the central budget organization as part of its review of the budgets of departments and agencies. In Canada and the United Kingdom, real property policy oversight and development roles were assigned to the asset management organization. At the time of our review, the United Kingdom was assessing whether its policy oversight and development role should be removed from its real property organization and transferred to customers. In Sweden, the government transferred its policy oversight and development role to a newly established real property organization.

Figures 2.1 through 2.4 depict the organizational changes made to the real property organizations in Australia, Canada, the United Kingdom, and Sweden.

Figure 2.1: Organizational Changes to
Australia's Real Property
Organizations



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Note 1: After the reform, asset management replaced the property management role.

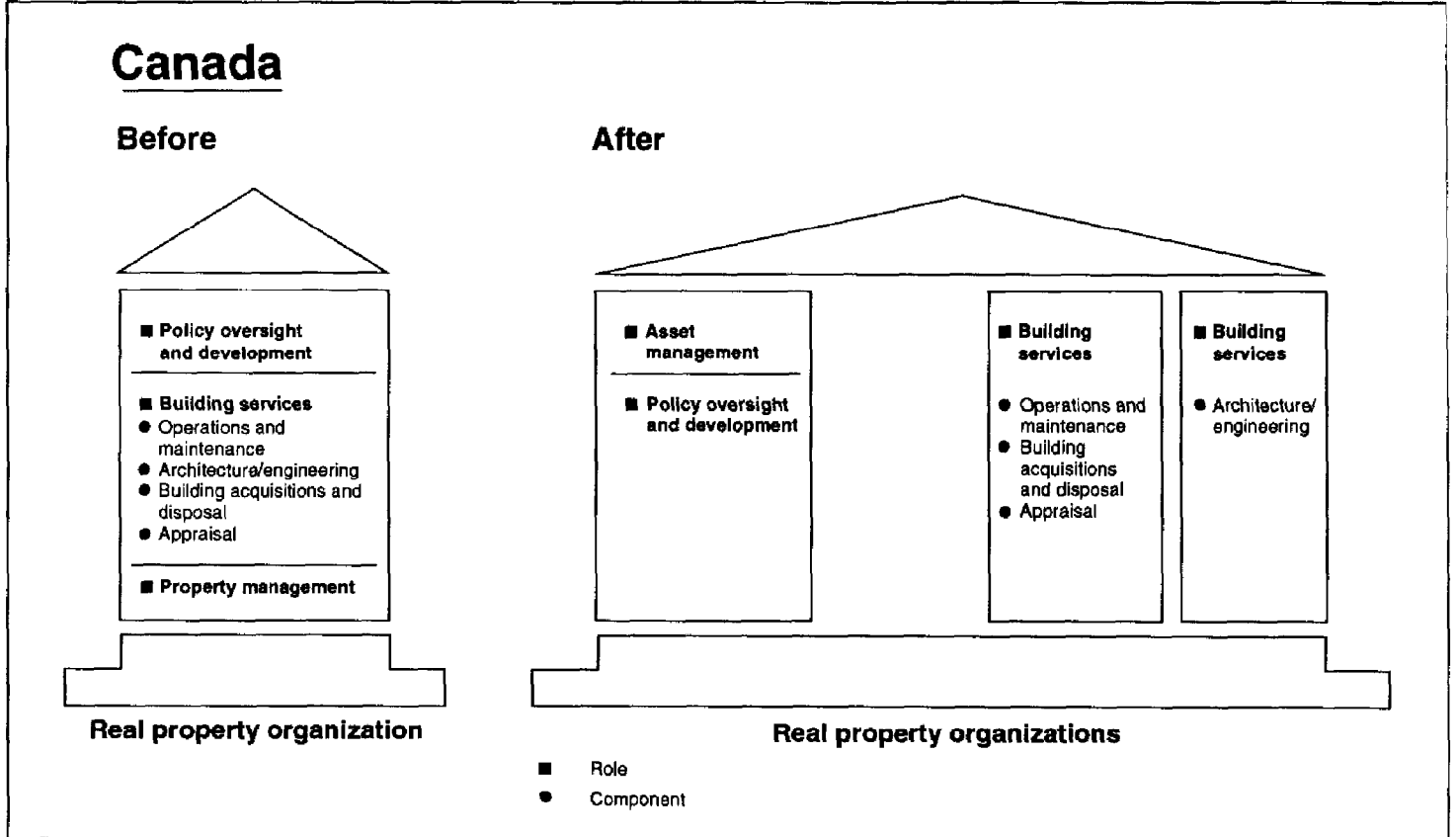
Note 2: The customer broker component was a result of the reform.

Note 3: Policy oversight and development is no longer a role of the real property organizations. It is being done on an ad hoc basis by the central budget organization.

Source: Compiled from country's data.

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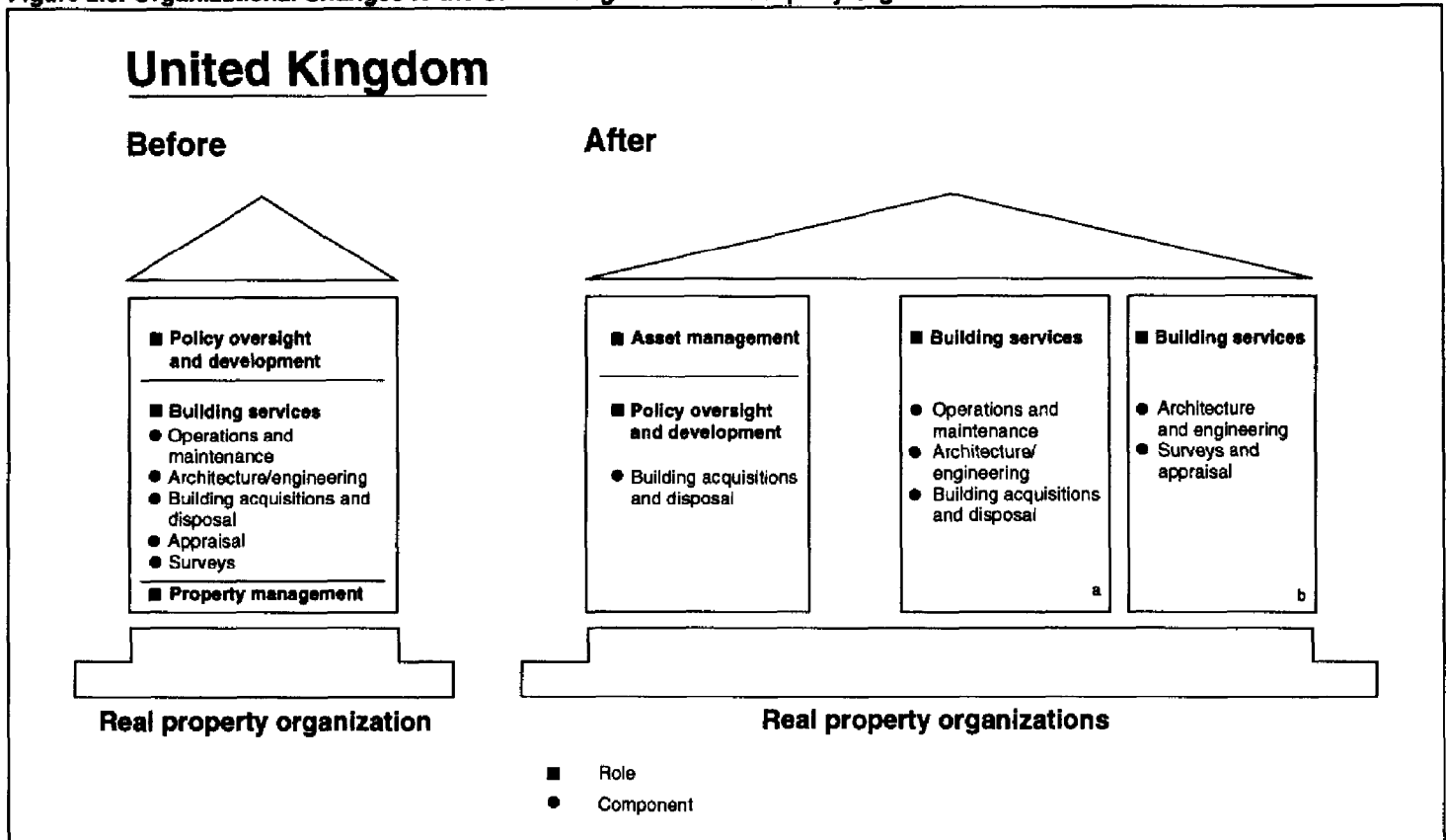
Figure 2.2: Organizational Changes to Canada's Real Property Organizations



Note: After the reform, asset management replaced the property management role.

Source: Compiled from country's data.

Figure 2.3: Organizational Changes to the United Kingdom's Real Property Organizations



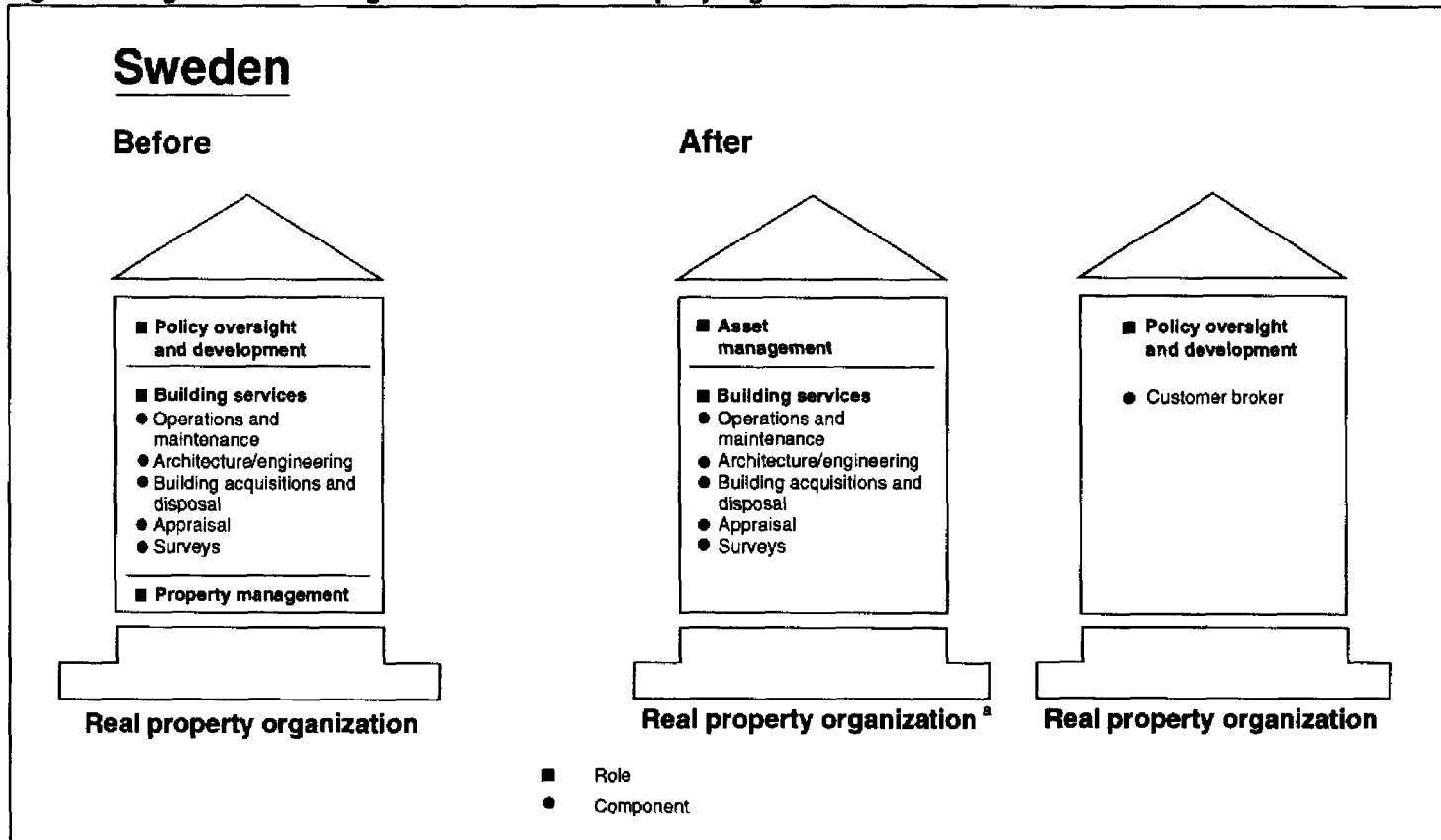
Note: After the reform, asset management replaced the property management role.

^aThis real property organization was sold to the private sector in 1993.

^bThis real property organization, which provided building services for new projects of more than £0.5 million, was sold to the private sector in 1992.

Source: Compiled from country's data.

Figure 2.4: Organizational Changes to Sweden's Real Property Organizations



Note 1: After the reform, asset management replaced the property management role.

Note 2: The customer broker component was a result of the reform.

^aThe building services and asset management roles remained collocated in the same real property organization. However, this organization was restructured as a corporation.

Source: Compiled from country's data.

Real Property Reforms Were Reinforced by Broader Governmentwide Reforms

Each of the four countries approached the reform of real property management differently, and each reform took place against a backdrop of overall governmentwide reforms that focused on achieving results through greater flexibility and accountability. The countries began these broad reforms in the 1980s, when the governments of Australia, Canada, the United Kingdom, and Sweden were faced with rising global competition and long-term revenue and budget constraints. Overall, these broad reforms provided the framework and environment for the government to introduce competition and better business practices to its real property organizations.

Reforms in all four countries focused on achieving results-oriented management. These results-oriented reforms included (1) giving managers greater flexibility in managing resources so that they could respond quickly to changing circumstances and customer needs; and (2) using incentives, such as performance agreements for senior executives, to promote desired behavior by tying their pay to meeting performance targets. These reforms were similar to a series of legislative and executive initiatives begun in the 1990s in the United States, such as the Government Performance and Results Act of 1993, to make federal agencies more accountable for program results and better able to meet customers' needs.

Two governmentwide reforms were of particular value to the implementation of real property reforms. These were (1) in all four countries, allowing customers to retain savings, including those achieved by reducing real property costs, and use them for other operating needs; and (2) in Australia and the United Kingdom, using efficiency dividends. Efficiency dividends represent an annual across-the-board reduction of funds for operating expenses arising from general efficiency improvements that government agencies, including real property organizations, are expected to make as a result of their country's governmentwide financial and budgetary reforms.⁶

These two incentives kept real property organizations and customers focused on making efficiency decisions. They also seemed to ensure that the countries' governments did not increase the funds allocated for real property. For example, officials from Canada's Department of Energy, Mines and Resources said that the ability to keep any savings they might realize on office space had been a real incentive for them to keep their office space costs from increasing.

⁶In 1993, the Australian efficiency dividend was a 1.25-percent reduction of a department's operating expenses. In the United Kingdom, it was a 2-percent reduction in 1993.

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Countries Have Reformed Their Real
Property Organizations

Although all four countries had not fully implemented their broad governmental reforms, officials in those countries reported that the reforms have already caused agencies to pay greater attention to customer service. This focus on service delivery has formed the basis for the reforms in real property management and made such real property reforms more acceptable within the governmental community for those countries.

Early Results of Real Property Reforms Appear Promising, but Problems Remain

By introducing competition and asset management for real property services and separating the conflicting roles in their real property organizations, Australia, Canada, and the United Kingdom had promising results. Since these real property reforms, the reported economic performance of these countries' real property organizations improved, and their customer departments and agencies reported they were more satisfied with the quality of the services provided by the organizations. Officials from the countries told us they were pleased with the progress the countries had made because of these improvements, although the reforms had not been fully implemented. However, they said that restrictions on building acquisitions and property disposal continued to limit the effective management of the countries' real property assets.

While Sweden began implementing other real property reforms in the late 1980s, it did not introduce reforms that would make its real property organizations more competitive until 1993. Therefore, it was too soon for us to determine the results of those reforms. However, Swedish audit office officials estimated that the Swedish real property staff will be reduced by 50 percent, or 1,000 full-time employees, by the time the reforms are fully implemented.

Competition Was a Catalyst for Change

A critical factor to the reform of the real property organizations in Australia, Canada, and the United Kingdom was that the organizations recognized they had to compete with the private sector for customers. This recognition spurred the organizations to adopt businesslike practices, which in turn contributed to their improved economic performance.

Increased Competition Promoted Use of Businesslike Practices

Competition provided the incentive for real property organizations to reorganize and improve their business practices in the areas of strategic business planning, performance measurement, funding, and accounting and information systems. As part of their reforms, the real property organizations started preparing 3- to 5-year strategic business plans that they updated annually. The organizations typically established business strategies and goals as part of these plans. To establish these strategies and goals, the plans indicated that they first assessed their real property program objectives in light of market analyses and customer feedback. Also, by June 1994, these organizations had begun developing output-oriented performance indicators that were to take into account financial performance and customers' satisfaction. With the exception of the United Kingdom, they also established revolving funds for their

building services. Finally, all of these real property organizations began replacing or upgrading their information systems. In addition, real property organizations in Australia and Sweden began to introduce accrual accounting systems to monitor financial and service performance more accurately and to improve their decisionmaking.

Australia, which introduced competition to all of its real property activities, made the greatest improvement to its business practices. Australian real property officials used their strategic business plans to achieve a consensus about the real property organizations' vision for the future and to help employees understand what actions were needed without waiting for direction from top management. The real property organizations linked their strategic business plans, budgets, and operations. Each of the organizations reported regularly to the government on the performance and achievements of its targets. According to a 1992 study of Australian public management reforms, output-oriented performance measures, accrual accounting systems, and information systems are refined and upgraded regularly to provide more substantial measures of performance and information.

Canada's real property organizations also prepared strategic business plans that described their vision for the future. However, at the time of our review, those organizations had not yet implemented these plans. While output-oriented performance measures were developed for Canada's real property organizations, these measures had not been fully implemented. In addition, there continued to be a general lack of confidence in the real property organizations' accounting and information systems, according to a 1992 audit report.

The Canadian real property organizations concluded that because of the positive results of the reforms, inadequate business planning and poor systems were no longer acceptable to sound real property management. As a result, these organizations initiated a broad range of efforts in 1992, including changes to their strategic business plans and service delivery processes, to align and improve their business planning and their accounting and information systems.

After introducing its reforms, the United Kingdom's real property organizations prepared strategic business plans for analyzing markets, allocating resources, and setting financial targets. Also, according to real property officials, since the reforms had been initiated, information systems had been providing more useful financial and performance

information and were regularly being upgraded to provide improved information. However, like Canada, the United Kingdom had not implemented accrual accounting systems or output-oriented performance measures for its asset management activities.

**Better Business Practices
 Have Contributed to
 Improved Economic
 Performance**

Real property organizations in Australia, Canada, and the United Kingdom did not have systems or performance indicators in place at the beginning of their reforms to permit us to measure their economic progress. As a result, it is difficult to make a direct link between a real property organization's implementation of better business practices and its economic performance.

However, on the basis of the limited economic information available, some noticeable economic gains have been made in all three countries since reforms were introduced. Specifically, each country had successfully reduced its number of full-time employees and the operating deficits of its real property organizations without a proportionate reduction in workload.

Reduced Staffing

In table 3.1, we show the changes in employment for Australia, Canada, and the United Kingdom from 1987 through 1990, the most recent period for which data were available for all three countries.

**Table 3.1: Change in Full-Time
 Employment for Real Property
 Organizations From 1987 Through
 1990**

Country	Staff levels			
	1987	1990	Difference	Percent reduction
Australia	9,385	7,334	-2,051	22
Canada	7,950	7,799	-151	2
United Kingdom	22,352	18,054	-4,298	19

Source: Compiled from countries' data.

Perhaps the most visible result of the real property reforms was the sharp downturn in full-time employment in Australia and the United Kingdom. In Canada, while the staffing in its real property organizations decreased by only 2 percent from 1987 to 1990, these organizations decreased their building services staff by an additional 1,800 positions from 1990 to the spring of 1993. Overall, the Canadian real property organizations reduced their staff from 7,950 to 5,999 positions, a reduction of 1,951 positions, or 25 percent, from 1987 to 1993. Real property organizations in Australia and the United Kingdom also continued to decrease their employment levels

after 1990. Real property officials in Australia and the United Kingdom said they expected to lose at least an additional 2,000 positions by the time the reforms were fully implemented. According to officials in the three countries, their real property organizations' staff reductions generally were not the result of increased contracting-out of services.

Improved Financial Position

Despite its difficulty in identifying precise savings in Australia, the Australian National Audit Office considered that competition and the resulting business practices had greatly assisted in improving the efficiency and effectiveness of its services. For example, the Australian real property organizations' annual operating deficit was reduced from A\$86.4 million in 1987 to A\$28 million in 1990. The remaining deficit in 1990 was caused principally by the asset management organization. However by 1993, the asset management organization reported in its business plan that it earned a net profit of A\$76.6 million.

Similarly, Canada's real property organization for building services was able to turn its operating deficit of Can\$72 million in 1987 into an operating profit of Can\$45 million by 1990. The Canadian organization found its large deficit reduction to be due to the combination of (1) a shift from cost-based charging (which reflects charging costs to the recipient organizations for the services delivered), to market-based charging (which reflects charging the recipient organizations with what the competitive market is charging for the service); and (2) an increase in productivity resulting from fewer people performing the same amount of work. In the United Kingdom, the organization responsible for managing the country's real property asset portfolio increased its profits from £161 million in 1991 to £217 million in 1992.¹

Moreover, independent auditors in Australia and Canada noted in their assessments that their countries' improved economic performance was not, as a general rule, accompanied by commensurate decreases in workload. In fact, the auditors in both countries found that sales revenue, which is an approximation of real property service delivery to customers, had remained relatively constant or had increased slightly. However, during the reform periods, the staffing of the real property organizations had decreased significantly. Therefore, these auditors concluded that productivity had increased as a result of the reforms. In the United Kingdom, real property officials told us that before their building services

¹For these three countries, however, insufficient data exist to determine how much operating deficit reductions have been due to increased efficiency of operations and how much have been due to increased prices charged to customers. Accordingly, the impact of these operating deficit reductions on total governmental outlays is unknown.

organizations were privatized, the organizations' workload had not decreased substantially since the introduction of competition.

Competition Has Made Real Property Organizations More Responsive to Customers' Needs

Real property officials in all three countries found that the introduction of competition made real property organizations more responsive to their customers. For example, officials from real property organizations and customers in Australia, Canada, and the United Kingdom said that the real property organizations had improved their business practices and were more responsive to their customers as a result of becoming more competitive. The officials found that the pressures of competition made the real property organizations more creative and innovative. The examples they cited ranged from reduced regulatory requirements, lower prices, more entrepreneurial relationships, and an increased desire on the part of the real property organizations to satisfy their customers' needs. For example, to make its bid proposals more competitive, Australian officials said that Australia's asset management organization was offering potential customers incentive packages that included special modifications to buildings. Real property officials in all three countries said they began training the staffs of their real property organizations to explain the reasons for real property reforms and to update the staffs' skills in such areas as service excellence and information systems.

Officials from the real property organizations told us that competition, or giving their customers the choice of real property service provider, was the essential ingredient to making significant improvements in real property services. They said this was the most significant outcome of the real property reforms and a key factor in the improvement of the efficiency and effectiveness of real property services. They said building decisions and their cost implications were being taken more seriously by both the real property organizations and the customers. An example of the type of savings that these incentives can produce was discussed in a recent report by the British National Audit Office. This office estimated that because of the British Department of Agriculture's ability to select (through competition) the organization that would best meet its needs, the Department's building costs were about 25 percent lower than if it had been serviced solely by the British real property organizations' building services.

Australian and Canadian studies and officials indicated that competition (1) increased customer satisfaction and (2) made customers pay more attention to the costs of their office space and related services. These

studies and officials also indicated that more needed to be done to make real property organizations truly competitive and more entrepreneurial in their management and operation of real property services. According to the Canadian study, Canada's real property organizations needed to (1) be more flexible in their responses to customer requirements, (2) have performance measures of client satisfaction, and (3) connect resource levels to business needs and customer requirements.

Asset Management Was Becoming an Important Strategic Goal

Although officials in all three countries' real property organizations recognized the importance of better managing their real property assets, Australia appears to have made the most progress toward implementing a successful asset management program.

As a result of an increased focus on managing its assets strategically, Australia's asset management organization managed its portfolio of buildings to maximize its financial performance by achieving its target rates of return, minimizing costs, and achieving revenue targets from the sale of surplus land. Before the reforms, Australian real property officials told us they did not even know the rate of return on its assets. But during 1992, Australia's asset management organization reported earning more than A\$200 million in receipts on an inventory valued at approximately A\$2 billion—a gross return on investment of more than 10 percent. This return exceeded the organization's goal of achieving a return that exceeded the Australian long-term bond rate, which averaged 9.8 percent in 1992.

In accordance with its strategic business plans, Australia also disposed of buildings and office space. In 1988, as a result of the real property reforms, the asset management organization took advantage of a real estate boom by selling uneconomical, marginally economical, and some prime real estate. The organization sold prime real estate when it was in expensive downtown locations and the customer departments that used it were willing to relocate into less expensive offices and were still able to meet their departmental objectives. This asset sale returned A\$1 billion to the government (but not to the asset management organization).

Although Canada established a separate organization to manage the country's real property asset portfolio, continued confusion between this organization's asset management and policy oversight and development roles was a key factor preventing it from managing its assets more strategically. Specifically, the asset management organization had not

identified target rates of return or integrated its customer space requirements with its strategic business plans. Instead, as evidenced by its 1992 through 1995 real property plan, the asset management organization's primary focus was still on controlling customer departments' and agencies' use of general purpose and office space and maintaining and upgrading the country's aging portfolio.

Like Australia, the United Kingdom's asset management organization had moved from its former property caretaker role to a more proactive, entrepreneurial one. For example, it separated uneconomical properties from economical ones with the objective of disposing of those that were uneconomical, or surplus. It also began identifying opportunities to improve the financial value on individual properties. However, it had not yet begun to adopt measures of return on investment and related measures of economic performance commonly used by private business to assess whether its asset-related decisionmaking was sound.

Australia's Separation of Real Property Roles Improved Customer Relations

Australia's removal of the policy oversight and development roles from its real property organizations eased the transition to a more competitive environment in two ways. First, because the real property organizations were no longer responsible for setting real property policy, they were able to focus on their service delivery roles and responsibilities. This focus was reflected in their new goals, which documented that their performance was tied to providing more cost-effective real property services to customers than it did previously. For example, as part of its new goals, the asset management organization is to provide space to customers at a cost that meets the organization's target rate of return and satisfies customers' needs.

Second, customers in Australia reported that their real property organizations have improved their service delivery since they began focusing more on meeting their customers' needs. For example, Australia's Department of Taxation found that after the separation of the real property organizations' roles and other reforms, the real property organizations were more competitive with the private sector in meeting the Department's space needs. Specifically, the Department found that once it was allowed to choose who provided its office space, the asset management organization became more responsive and efficient in its bid to serve the Department.

As of June 1994, Canada had not separated its real property organization's policy oversight and development role from its asset management role. As a result, Canada's asset management organization reported in its strategic business plan for 1992 to 1995 that the real property organization's policy oversight and development role was a deterrent to effective operations. Consequently, this organization reported that it was perceived by customers as control-oriented, obtrusive, and slow to meet their needs. The 1991 report of the Auditor General of Canada also noted that the asset management organization was slow in meeting its customers' needs.

In the United Kingdom, real property officials said the separation of the policy oversight and development role from its building services role enabled the building services organization to focus on becoming competitive and serving its customers. However, officials said combining the policy oversight and development role with the asset management role caused tension between the real property organization and its customers. Customers apparently doubted that the asset management organizations could effectively meet their needs for and regulate the use of office space at the same time. As of June 1994, an independent assessment of the asset management organization was addressing whether the collocation of asset management and policy oversight and development roles should continue.²

Barriers Remain to Effective Asset Management

According to the assessments we reviewed, real property reforms, coupled with broad governmentwide reforms, have begun to make real property organizations in Australia, Canada, and the United Kingdom more cost-effective and responsive in their service delivery. However, untimely approval processes for the acquisition of buildings and restrictive disposal requirements remain problems, inhibiting real property organizations from capitalizing on these reforms.

Even after they introduced reforms, at the time of our review all real property organizations were still restricted in the acquisition or disposal of buildings, even when their analyses indicated that (1) old and deteriorating buildings needed renovation or replacement or (2) new space was necessary. These organizations were restricted by what they considered to be an untimely project approval process to acquire buildings or make major renovations. Officials said this process made it difficult for the real property organizations to respond quickly to changing market conditions or to customers' requests for office space.

²The independent assessment was still ongoing as of June 1994.

Chapter 3
Early Results of Real Property Reforms
Appear Promising, but Problems Remain

According to real property officials and independent assessments of the reforms, the real property organizations in these three countries were further hampered by their countries' unchanged property disposal requirements. Because of these requirements, the organizations could not always retain proceeds from the disposal of excess, aging, or marginal properties for the purpose of acquiring needed replacement buildings. Also because of these requirements, the real property organizations had little financial incentive to dispose of such properties and replace them with better performing ones. For example, although Australia had disposed of buildings with a total value of more than A\$1 billion in the mid-1980s, those buildings were not disposed of as part of a systematic and ongoing review to identify and dispose of poorly performing assets, and the asset management organization did not receive the proceeds.

To address these barriers, real property officials in Australia and the United Kingdom said they have pursued several funding alternatives, such as preapproved borrowing authority, multiyear appropriations for capital investments, and the use of a revolving fund arrangement to allow their organizations to operate in a more businesslike fashion.³ These officials said that revolving funds would be the likely alternative selected because they could be more responsive to current market conditions and the real property needs of their customers. However, as of June 1994, Australia, Canada, and the United Kingdom had not established revolving funds for their asset management organizations to acquire or renovate real property assets.

³Sweden's real property corporation may not have the funding disincentives faced by real property organizations in the other three countries. As a government corporation, it has the authority to borrow needed capital and to make unrestricted funding decisions concerning the acquisition and disposal of real property assets.

Lessons the Countries Learned and Agency Comments

Australia, Canada, and the United Kingdom reported varied experiences in their introduction of real property reforms, and their reforms were not fully implemented at the time of our review. As a consequence, despite promising initial results, it is impossible for us to draw final conclusions on the effectiveness of the reforms. However, the initial results show the importance of having real property organizations compete with the private sector in providing services and managing assets in a manner that best serves the customer departments and agencies and the taxpayers. Moreover, other benefits, such as an increased focus on customer needs and strategic planning, could be attributed to the real property reforms in these countries. Sweden expects similar benefits from its reforms as well.

In our September 1993 testimony on the National Performance Review's recommendations that deal with GSA's real property activities, we generally supported the recommendation that the government increase competition and businesslike practices for its management of real property.¹ The recommendation is also consistent with the goals of the Government Performance and Results Act of 1993, which requires federal agencies to establish strategic plans and performance measures. The reforms of the real property organizations in Australia, Canada, the United Kingdom, and Sweden are similar in principle to the recommendations of the National Performance Review. Also, the organizations had to address complex legal, policy, and operational issues similar to those facing GSA as part of implementing their reforms. The real property organizations in these countries adopted their reforms somewhat differently and had their own political environment for introducing these reforms. However, the competitive principles surrounding these reforms could be adapted to fit any country's real property organizations. Accordingly, the United States could consider the lessons from these reforms when it implements this important recommendation.

Lessons the Countries Learned From Real Property Reforms

The reforms we described in this report were reported to us by real property officials in the four countries as having had a significant impact on their real property organizations' missions and operating practices. These officials also acknowledged that the reforms may also affect the extent to which the real property organizations will continue as the governments' sole or even primary real property service providers.

¹Federal Real Property: National Performance Review Recommendations (GAO/T-GGD-93-47, Sept. 21, 1993). Also see Management Reform: GAO's Comments on the National Performance Review's Recommendations (GAO/OCG-94-1, Dec. 3, 1993).

As part of their cultural shift to a more competitive and results-oriented environment, the real property organizations changed performance agreements, training, and organizational reporting structures. Through our discussions with real property officials and our review of independent assessments, we learned that the organizations changed performance agreements and related performance measures that existed between real property organization heads and those who managed their operations to focus on desired results achieved, including the costs of attaining those results. In addition, the organizations described how they began training staff in how to apply businesslike practices in a government organization. The organizations also reported how they changed their reporting structures to provide employees with greater flexibility and to take advantage of market conditions and other changing operational needs.

The Australian and Canadian governments completed studies on the lessons they learned from their real property reforms. Both governments had similar observations. The Australian study provided a good structure for these observations by summarizing them into the following broad areas: (1) a framework for reform, (2) a managed transition, (3) ground rules for competition, and (4) identification of accountability.

Creating a Framework for Reform

According to Australian real property officials, a framework should include the principles and objectives for reform; the level of organizational commitment for its accomplishment; and the nature, extent, funding, and timing of the reform. Also as part of this framework, Australian and Canadian government officials stressed the importance of establishing baseline levels of customer satisfaction and financial performance and quantifiable medium-term targets for future performance. These performance measures are to allow the countries and their real property organizations to assess the progress of the reform.

In addition, the Australian study included a recommendation that the government identify the level of needed organizational separation between the providers of real property services and those organizations with regulatory, advisory, or public interest roles on behalf of the government.

Managing the Transition

Australian officials identified the following four key areas that need to be addressed during the transition: (1) staff training, (2) customer needs and market research, (3) information systems, and (4) staffing needs.

During the transition, the real property organizations of Australia, Canada, the United Kingdom, and Sweden reported that they began a broad-based educational process to train their staffs in the reasons for the reforms and the organizational steps that were to be taken to achieve successful results. In this training, the organizations taught such skills as marketing, sales, and business management. Such skills were not typically fostered in government agencies. Australian officials explained that it was important to expose staff to the commercially oriented philosophies and experiences of public and private leaders to instill in staff the principle that customer service constitutes the driving force of any successful enterprise. In Australia, real property staff were told by their managers that their job satisfaction and career prospects depended directly on their individual efforts to meet customer needs.

Australian officials also encouraged customer involvement in the structuring of real property organizations. In addition, the officials said that the organizations need to understand customer needs for a successful transition. They also reported that early investment in market research could pay dividends to the organization provided the research was professionally designed, coordinated, and acted upon. They said that repeated uncoordinated research into customer views and needs produced no evident improvement and could be counterproductive.

In addition, Australian and Canadian officials explained that early conversion to information systems that reflected the real property organizations' new businesslike requirements was essential to a successful transition. New systems were needed because the information systems typically employed by real property organizations did not meet the requirements of a competitive supplier who had to generate a return on investment. Because its organizations' needs were changing, Australian real property officials recommended incremental introduction of new information systems.

The reforms introduced by Australia, Canada, and the United Kingdom resulted in significant staffing reductions. As a result of the staff reductions in their country, Australian officials reported that planners of similar reforms should anticipate the possibility of similar reductions and address them at the outset. They also said that no amount of time devoted to the transition will resolve all implementation problems and that unduly prolonging the transition would risk diluting or undermining the reforms the transition was designed to achieve.

Establishing the Ground Rules for Competition

Australian officials recommended that the ground rules for introducing competition, or customer choice, should be established at the outset, especially those between the real property organization, its customers, and the private sector. Australian officials suggested that consideration be given to how and to what extent the real property organizations would compete with private sector suppliers; the extent to which private sector regulations, policies, and cost structures should apply to real property organizations; and the level of user fees and extent of customer choice for services provided.

Identifying Accountability

In their assessments, Australian and Canadian government officials emphasized the importance of early identification of accountability for real property services. The Australian real property officials found that accountability between the real property organizations and their government oversight bodies and customer departments and agencies could considerably resolve, or at least defer, some potential organizational conflicts.

The Canadians also recognized the importance of establishing accountability as part of their reforms in order to measure the improvements in performance. According to the Canadian study, accountability for performance improvements came with explicit linkages, in both management and public reporting systems, among (1) the resources used, (2) the action taken and its cost, and (3) the effects of the action taken.

Agency Comments

We met with the Deputy Administrator of GSA on August 24, 1994, to summarize and discuss the information in this report. She generally agreed that the description of real property practices and experiences presented was consistent with the information available to GSA. She said that the information would be useful in GSA's implementation of its real property reforms, including the National Performance Review recommendations to increase competition and the use of businesslike practices.

List of Agencies We Visited or Contacted in the Four Countries

Australia

Real Property Organizations

Australian Department of Administrative Services
 Australian Estate Management
 Australian Property Group
 Australian Valuation Office
 Project Services
 Asset Services

Other Organizations

Australian Department of Finance
 Australian National Audit Office
 Australian Post
 Australian Department of Taxation
 Australian Telecom

Canada

Real Property Organizations

Public Works Canada
 Real Property Program
 Realty Services
 A&E Services

Other Organizations

Department of Energy, Mines and Resources
 Department of Fisheries and Oceans
 Office of the Auditor General of Canada
 Treasury Board Secretariat

United Kingdom

Real Property Organizations

Property Services Agency
 Property Holdings, Department of the Environment

Other Organization

National Audit Office

**Appendix 1
List of Agencies We Visited or Contacted in
the Four Countries**

Sweden

Real Property Organization The National Board of Public Building

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Glossary

Accrual Basis of Accounting	A method of accounting that recognizes, as far as possible, the financial effects of transactions and events in periods in which they occur, regardless of whether cash has been received or paid.
Asset Management	A role of the real property organizations that emphasizes the management of real property assets to increase the value of their real property portfolios and return the maximum income possible from transactions. When used as a strategic tool, asset management entails the management of assets as investments and to meet customers' mission needs.
Benchmarking	Comparing the real property organization's real property costs of assets and services with those of well-managed firms in the private sector.
Building Services	A role of the real property organizations that includes such components as (1) operations and maintenance; (2) architect and engineering; (3) acquisition (including construction, purchase, and leasing) and disposal; and (4) appraisals for their customers.
Businesslike Practices	These practices are intended to make real property organizations more competitive and entrepreneurial. They include such practices as preparing strategic business plans, defining output-oriented performance measures, and implementing accrual accounting systems.
Competition	As used in this report, it means having government real property organizations compete with the private sector in delivering services to customers.
Cost-Based Charging	Charges for services that are based on the costs to the real property organization for the service delivered.
Efficiency Dividends	A return to the taxpayer—an annual across-the-board reduction of funds for operating expenses—arising from general efficiency improvements that government agencies are expected to make as a result of their country's governmentwide financial and budgetary reforms.

Glossary

Government Corporation	A government-chartered entity created to serve a public function of a predominantly business nature. In Sweden, a government corporation operates like, and is expected to compete with, private sector firms.
Market-Based Charging	Charges that reflect what the competitive market is charging for a given service.
Optimum Rate of Return	The highest rate of return, or benefit from capital appreciation over time, the taxpayer could receive on the government's portfolio of real property assets.
Output-Oriented Performance Measures	Measure the tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative or qualitative manner.
Privatize	Sale of ownership of a public service, such as the United Kingdom's sale of its real property organizations' building services, to the private sector.
Real Property Organizations	Government organizations that perform one or more of the roles of providing building services, asset management, and policy oversight and development for real property.
Revolving Funds	Funds used to pay for operating costs and capital improvements. The funds come from user fees that are charged for real property services.
Strategic Business Plans	Plans to help real property organizations increase their focus on competitiveness and on the improvement of taxpayers' investments in real property assets.
Target Rates of Return	Goals established between the government and the real property organizations for deciding when to acquire, renovate, or dispose of assets.
User Fees	The costs of building services and rents for office space charged by real property organizations to their customer departments and agencies.

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