

# **State and Public Land Management: The Drivers of Change**

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# State and Public Land Management: The Problem

- Substantial portion of most nations' land is in the hands of the public sector
- Public sector is an important supplier of services that require real estate assets eg health care, education, defence
- Evidence that often public land assets are badly managed
- Is this state inevitable or can something be done to improve public land management?

# The Drivers of Change

- **The New Public Management**

- Greater freedom for front-line staff to determine *how* public services are delivered with central controls over *what* is to be delivered.
- Front-line staff have greater control over budgets and resources, including real estate.
- Responsibility for achieving targets on front-line staff – incentives for doing so and disciplining for failure

- **Accruals accounting**

- Income matched against cost of earning it.
- Accounting for use of fixed assets like real estate.
- Full economic costs charged for use of assets

# Implications of the drivers of change

- Front line staff have obligations to achieve targets
- Front-line staff have control over resources
- There are no “free” assets, only ones for which full economic costs have to be paid
- Front-line staff can question whether resources should be put into real estate assets or other areas that enable them to achieve their targets
- Pressure on managers to use real estate assets efficiently
- Need for coherent strategy for real estate assets – what assets are needed, acquisitions and disposals, and whether assets should be owned or leased
- Real estate resources need to be part of corporate plan with human resources, finances and information technology

**PUBLIC LANDS ARE A MEANS TO AN END NOT THE END IN ITSELF**

# The New Public Management

- Term applied to a series of policies aimed at reducing top-down controls and empowering front line staff
- Description of collection of policies rather than a monolithic philosophy
- Leading exponents include Australia, Canada, Netherlands, Sweden, New Zealand, UK, USA
- Interest shown by wide range of other countries eg Turkey, Latvia, Thailand, Nepal, Botswana, Namibia, Tanzania
- Some important differences between leading exponents eg
  - **New Zealand:** Emphasis on contracts between government ministers and service providers – ministers prime role in enforcing standards and targets
  - **UK:** Emphasis on citizen's charters and entitlements of individuals – significant role for citizens to enforce standards

# Features of New Public Management

- Hands-on professional management
- Stress on private sector styles of management
- Explicit standards and measures of performance
- Greater emphasis on output controls
- Funding and accounting systems based on contracted purchase of defined outputs
- Shift to disaggregation of units in the public sector
- Stress on greater discipline and parsimony in resource use
- Shift to greater competition in the public sector
- Reduced role for the state and greater use of market-type mechanisms and privatisation
- Contestability in which public bodies compete with each other or against private sector

# Organisational implications of New Public Management

- Greater autonomy of front-line staff
- Front-line staff can be in government department, government agency, private company or charity
- Staff may not be public servants
- Can be paid at different rates from public servants, including performance related pay ie incentivised
- Can be employed on different conditions from public servants eg less job security so can be disciplined for failure
- Staff responsible for achieving targets – rewarded for meeting them – held accountable for failure
- Agencies can be closed in event of failure or contracts with private bodies terminated or penalties imposed

# Why has the New Public Management been adopted?

- Leading exponent countries do not have significant governance problems in their public sectors
- Public sector behaves ethically in predictable fashion in accordance with laws and regulations
- Strong controls over finances - low level of serious corruption, theft of resources and abuse of office
- Appointments and promotions made on merit

## **BUT**

- Controls over unwanted behaviour stifle initiative, innovation and economy
- Public sector is not efficient
- Can be run as a producers' co-operative rather than in interests of customers

# The New Public Management and the Management of Public Lands

- Parsimony – greater efficiency, less use of real estate assets, and disposal of surplus lands.
- Control of real estate resources passes into the hands of front-line service providers who are not real estate specialists eg head-teachers
- Potential conflict over whether resources should be used for real estate or directly for the supply of the public services
- Emphasis is placed upon activities and access to land rather than its ownership.
- Real estate seen as a non-core activity eg can be contracted out
- Performance targets set for real estate eg space and cost standards
- Greater customer orientation of public service facilities eg redesign to make them more user friendly.

# Accruals accounting v traditional government accounting

- **Accruals accounting requires:**
  - Matching revenue and costs incurred in earning it
  - Requires costs and revenues to be allocated to correct accounting period eg prepayments, unpaid debts, use of fixed assets
- Is normal method used in private sector and required in accounting standards
- Shows whether companies are going concerns able to meet all their liabilities and costs
- **Traditional government accounting:**
  - Use of cash accounting – costs treated as incurred when paid not when assets used, including fixed assets
  - Inability to carry surpluses forward to next financial
  - Revenue accounts in public sector not normally charged with full economic costs of fixed assets

# Accruals accounting in public sector

- Compilation of balance sheets, income and expenditure accounts, and cash flow statements
- Balance sheets include fixed assets eg real estate and taxpayers' equity (funds contributed by taxpayers)
- Real estate assets can be valued at open market values
- Introduction of depreciation and amortisation of fixed assets and impairment charges
- Public bodies have to meet full economic costs of fixed assets
- Governments must develop public sector accounting standards
- Auditing against new accounting standards
- Creation of whole of government accounts

# Accruals accounting and the management of public lands

- The maintenance of accurate records of public lands - essential for balance sheets.
- The valuation of real estate assets using international valuation standards
- Charging public bodies the full economic costs of using real estate assets.
- Obliging public bodies to pay for the cost of capital
- Use of discounted cash flow investment appraisal methods
- Use of formal risk management techniques
- Development of performance measures for real estate assets – essential to prevent users meeting financial targets at the expenses of the quality of public services

# Tensions in the management of public lands: objectives of operational staff

- Front-line staff want real estate assets for operational reasons
- Desire operational autonomy
  - acquisition and disposal as they see fit
  - lease or own according to operational needs
- Land is just another facility – aim to minimise costs
- No incentive to invest in real estate beyond contribution it makes to service output
- No commitment to assets used beyond securing their availability to meet service requirements at best price

# Tensions in the management of public lands: objectives of central bodies

- Objectives include capital growth and maximisation of asset value – investment in real estate assets to secure these and not just greater operational efficiency
- Need to avoid burdening current operations with cost of investment to secure capital growth
- Income objective as real estate can generate income from rents as alternative revenue to taxes
- Wish to avoid vacant properties
- Potential conflict between these objectives and those of operational staff

# Management of operational properties: key issues

- Much operational property used to deliver public services is specialist eg hospitals, prisons
- No general market and no easy conversion to other use
- Design of real estate assets influences service delivery
- Management of real estate assets closely connected to how the service itself is to be managed
- Traditional model of direct management by the public sector with inputs purchased from private sector eg pharmaceuticals
- New Public Management results in alternative ways of delivering public services and, therefore, of managing real estate assets

# Management of operational properties: alternative means of delivering public services

- Public sector agencies
- Outsourcing or strategic partnership arrangements
- Private Finance Initiative
- Public works or public service concessions
- Privatisations
- Deregulation

# Management of assets that support service delivery: issues

- Assets are not unique to public sector eg offices
- Risk that service requirements will change making assets obsolete eg change from paying social security benefits from offices to direct payments to bank accounts
- Often assets have poor investment value eg offices in small provincial towns
- History of poor design, construction and maintenance of assets
- Can the risk of obsolescence be shifted on to the private sector?

# Management of assets that support service delivery: alternative means of delivery

- In-house public sector property companies who act as quasi-landlords eg Australia, Canada
- Use of Private Finance Initiative for sale and leaseback with private sector eg UK

# Conclusions

- Charging public bodies full economic costs of estate assets (accruals accounting) **PLUS** empowering front line staff (New Public Management) **EQUALS** search for most efficient means of providing real estate assets
- Rooting out of underperforming assets
- Debate as to whether assets should be owned or leased
- Convergence of management approaches of public and private sectors
- Recognition of need for comprehensive asset management integrated into corporate planning process in public sector

## The final question: Are these changes suitable just for a few rich countries?

- Can New Public Management be followed where governance is weak?
- Will loosening of top-down controls just make governance worse?
- Many aspects of the New Public Management and accruals accounting strengthen governance eg
  - Setting service standards
  - Monitoring of service standards
  - Contestability of supply
  - Independent auditing
  - Securing stable finances