REVIEW OF THE ARRANGEMENTS FOR THE MAINTENANCE OF BUILDINGS OWNED BY THE STATES OF JERSEY

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EXECUTIVE SUMMARY

1. The States of Jersey own buildings with a value of £1.2billion. In 1999, Departments spent an estimated £13.5million from revenue expenditure on maintaining and improving the property under its control. In addition, an unspecified amount of capital expenditure will have also included an element of building maintenance.

2. In 1991, following a review of States' property management undertaken by Drivers Jonas, the States approved the setting up of a "Property Management Office", subsequently renamed Property Services, under the auspices of the Planning and Environment Committee. The role of this office included consulting with Departments and establishing and monitoring a programme of maintenance for property owned by the States.

3. The Audit Commission has conducted a review of the arrangements currently in place for maintaining the property in States control and finds that they are inadequate for ensuring that value for money is achieved.

4. The States has a responsibility to ensure that the assets in its stewardship are properly cared for. The current arrangements, whereby eighteen different Departments manage their own building maintenance with little regard to the agency set up by the States to oversee such arrangements, does not result in good efficiency and effectiveness. Nor does the lack of corporate co-ordination and guidance on issues such as contracts, tendering, and approval of contractors. In the future there should be single accountable "landlord" overseeing States property, including maintenance.

5. The remit of Property Services to establish and monitor a programme of building maintenance has clearly not worked within the framework set out for it for four principal reasons:
   - policy, although formulated and issued for consultation, has never been formalised;
   - lack of authority to require Departments to fund an agreed maintenance programme;
   - lack of suitable resources to manage the process;
   - lack of a robust funding mechanism outside departmental cash limits.

Thus Property Services has not fulfilled this part of its role. Under current States procedures, there is no performance review mechanism which would monitor the effectiveness of States decisions and highlight such failures.

4. Whilst it is acknowledged that Departments' operational requirements may outgrow particular buildings, there is no realistic assessment of the lifetime of a building, nor any commitment by the States to the ongoing costs of capital developments. Nor does it adequately consider or provide financially for the replacement or major refurbishment of its buildings. The Audit Commission believes that it is unacceptable that the States approves capital schemes without full knowledge of the impact on revenue expenditure in the longer term.

5. A significant number of staff are involved in maintenance across States Departments . There is possible scope for rationalisation and a reduction in duplication across the various departments currently managing property by making better use of existing staff. There is also scope for improving value for money in some developments by including maintenance staff at the design stage, and ensuring that any economies of scale are exploited.

8. A lack of funding has been argued as a reason for not introducing long term maintenance programmes and, if the situation is to improve, a method of funding maintenance outside departmental control needs to be found. It is difficult to assess whether the current expenditure

estimated at £13.5million per annum represents good value for money, although the surveys carried out by Property Services in 1996 on a limited number of properties suggest that on the whole, States' property is in reasonable condition, which, considering the suggested shortfall in funding of £4.5million, is reassuring. This is, however, undoubtedly due to a number of refurbishment projects being funded from the capital programme, therefore the actual costs of maintenance are certainly higher than the revenue expenditure figures suggest and a re-assessment of the framework could save significant sums of money.

9. The current funding mechanism is not robust. Maintenance programmes are funded by individual departments through cash limits which means that non-core functions, such as building maintenance, are vulnerable in times of budgetary restraint, resulting in increased costs in the longer term. Underfunding also encourages Departments to seek other methods of funding, such as through the capital fund, which is effectively free. The introduction of new financial systems and the move towards commercial accounting provides a good opportunity to get funding right.

Summary of the main findings

Corporate Policy and the role of Property Services

- corporate policy on building maintenance has not been formally issued;
- most planning is done by States departments on an annual basis;
- previous condition surveys carried out by Property Services are not used as a basis for maintenance programmes;
- each department makes its own arrangements - none consult with Property Services formally (although there are informal contacts);
- priorities for maintenance are often linked to business needs (e.g. change of use/refurbishment) rather than the needs of the building;
- each of the major departments advertises for contractors and goes through the selection procedure individually;
- no corporate tendering guidelines/requirements;
- no mandatory States contract - arrangements vary - not all comply with best practice
- the framework is inadequate for Property Services to be effective (e.g. insufficient authority to ensure compliance with policy).

Manpower/resources

- no one person/department is responsible for all aspects of States property;
- eighteen different States departments currently administer property;
- one hundred and thirty five staff are involved to some extent in building maintenance;
- some departments have in-house labour (who usually do other things as well), all contract out some maintenance work, some contract out all maintenance work;
- in most cases, in-house resources are not costed or compared to the private sector;
- manpower constraints and agreements mean that there is little incentive to ensure that the in-house workforce is cost-effective or efficient;
- there are several property/asset management systems across the States;
- economies of scale are not always fully exploited;
- building maintenance staff are not always consulted over specifications for new developments (finishes/fittings etc.).

Funding and Expenditure

- on-going revenue costs of a capital scheme are not identified and committed to;
- no whole life costing;
- funding is currently from departmental cash limits and historically based;
- building maintenance is not part of departmental core service and will often be the first budget to be cut, leading to maintenance backlogs;
- income from rental is not linked to the maintenance programme (except for some Housing Department schemes);
- rents are not always commercial, or set within a defined criteria/classification for States properties;
- cost to departments of occupying States owned property is low therefore there is no incentive to vacate or develop;
- inequity with those departments renting at commercial rents from the private sector;
- capital servicing is paid by the Treasury as a bookkeeping exercise, therefore there is no incentive to maintain property at optimum;
- lack of commercial accounting means that the cost of accommodation is not always included in service costs, therefore benchmarking exercises with other jurisdictions where commercial accounting is used is flawed;
- funding available is rarely sufficient to carry out all maintenance work required;
- some evidence that departments opt for refurbishment/replacement through the capital programme rather than committing revenue to proper maintenance programmes because capital is "free".

Summary of the recommendations

It is recommended that the States should:

- **re-appraise the current framework for the management of States-owned property**
- **consider the formation of a separate States property agency to be responsible for all aspects of States property management.**
- **review the current organisation of resources allocated to property management.**
- **re-assess the funding mechanism for building maintenance.**

BACKGROUND

10. The States' portfolio of buildings was valued for insurance purposes in December 1999 at £1.2billion[1], summarised by Committee as:-

Committee	Department	£'000
Agriculture and Fisheries		5,200
Home Affairs	Police	7,350
	Fire Service	1,747
	TA Centre	3,308
	Miscellaneous Buildings	2,447
	Prison	13,448
Education		258,100
Finance and Economics	Government House	4,900
Gambling Control		11
Harbours and Airport	Airport	26,834
	Harbour	28,772
Health and Social Services		126,200
Housing		475,700
Planning and Environment		19,000
Postal		12,000
Public Services		128,300
Sport Leisure and Recreation		38,900
Employment and Social Security		7,600
Telecoms		16,300
Tourism		750
Sub-total		**1,176,867**
Other property administered by Trusts and other bodies, but "owned" by the States of Jersey:		
Waterfront Enterprise Board		930
Jersey Arts Trust		7,750
Jersey Heritage Trust		18,150
Total		**1,203,697**

11. Under current arrangements, all property of the States is administered by individual Committees, with transfers of property between Committees approved by the States. Each of the Committees listed above is responsible for its own property, including maintenance. In addition, Public Services manages property on behalf of a number of other States departments. Planning and Environment are also responsible for land and property held pending transfer to user Committees.

12. In 1991, following a review of States' property management undertaken by Drivers Jonas, the States approved the setting up of a "Property Management Office" under the auspices of the Planning and Environment Committee. The Report and Proposition[2], presented by the Policy and Resources Committee, set out the role for the Office (subsequently renamed Property Services), which included:

"ensuring the implementation of policy and the efficient performance of States' property in regard to:

a) property management services (record keeping, leasing, acquisition etc.)
b) **maintenance of the existing stock**; and
c) efficiency in use."

13. The Corporate Maintenance Policy[3] refers to the definition of building maintenance as:-

"Work undertaken to keep, restore or improve every part of a building, its services and surrounds to an agreed standard, determined by balancing need and available resources; but specifically excluding works of improvement that are undertaken solely for the benefit of the user, and/or complete or substantial refurbishment of a building."

14. Analysis of revenue expenditure on building maintenance[4] shows that during 1999, estimated expenditure (excluding separately administered Trusts etc.) was in the region of £13.5million (1.2% of insured value). Comparative expenditure from 1996 to 1999 is shown in figure 1.

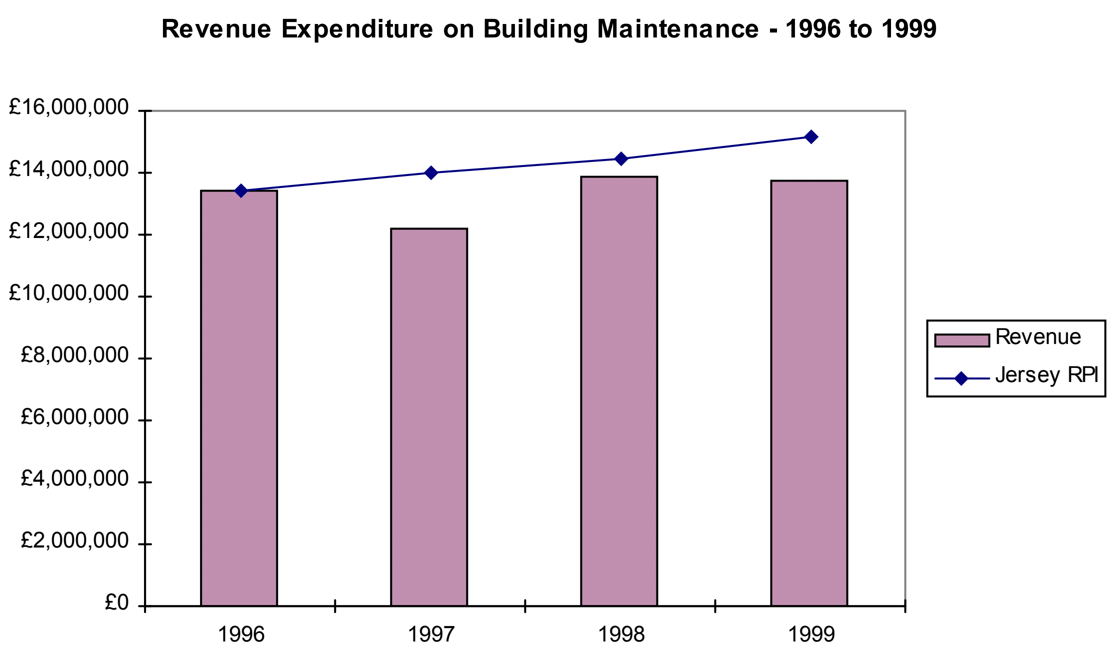


Figure 1

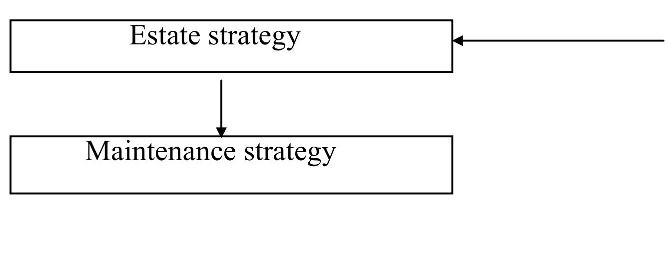
Note: As usual when using financial data sourced from the Millennium system, we must attach a health warning to the effect that the figures may not show the entire picture. Indeed, the reason for including several codes relating to premises is that departments have a choice of codes to which building maintenance expenditure can be allocated. Staff costs have been included where these could be separately identified or estimated, however, this was not always possible, therefore the figures are understated. Despite the definition above, we have also included revenue expenditure on improvements, as this will also include a significant element of maintenance.

15. In addition, many refurbishment projects funded from the capital programme will include significant amounts of building maintenance, or will have had the effect of reducing revenue expenditure in prior years due to the expectation of future refurbishment.

16. The U.K. National Audit Office, in its audit guide on Estate Management/Building Maintenance [5] sets out aspects of best practice in building maintenance as:

Aspect:	Issue:	Risk to value for money:
Maintenance strategy	recognises that buildings are both an asset and a resource. It helps to ensure that buildings are maintained to a standard sufficient to preserve their value and secure operational efficiency. Sets objectives and defines standards.	Maintenance activity may be reactive, resulting in inefficient use of funds. Capital values may be diminished. Buildings may be over or under maintained. Operational efficiency may be impaired.
Maintenance records	provide a sound basis for ensuring that buildings are adequately maintained at reasonable cost.	Failure to determine standards may lead to uneconomic and inefficient use of resources.
Building records	help ensure that maintenance is managed effectively.	Management decisions may not be properly informed.
Planning maintenance requirements	ensures that necessary work is identified and carried out with maximum economy. Should be split into planned corrective maintenance, planned preventative maintenance, and unplanned maintenance.	Requirements may not be properly identified leading to a loss in operational efficiency.
Determination of resource needs	should ensure that buildings are maintained to an appropriate standard at least cost.	A maintenance backlog may accumulate.
Implementation of maintenance work	Effective controls over maintenance work ensure that it is carried out to the required standard.	Poor quality work may result in high remedial costs.
Monitoring	helps to ensure the achievement of the strategy	Maintenance strategy may not be fully informed, planned or executed. Optimum allocation of resources may not be achieved.

This is shown diagramatically in figure 3



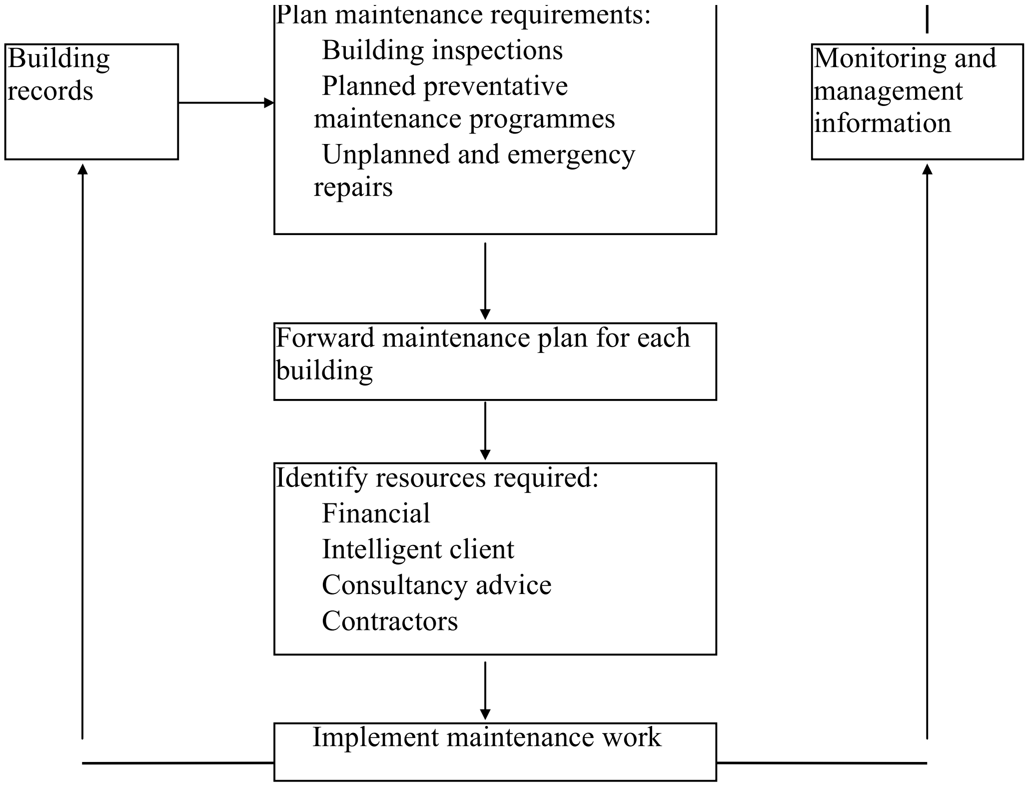


Figure 3

17. Detailed reviews of the arrangements in place for undertaking building maintenance were carried out under the auspices of the relevant departmental Audit Committees in five States departments - Education, Health and Social Services, Housing, Public Services, and Sport Leisure and Recreation - by staff from the Audit and Risk Management Division of the States Treasury. (Individual operational recommendations have been reported directly to these Departments by the Audit Committees in separate reports.) In addition, questionnaires were sent to the remaining property-owning departments in an attempt to establish:-

compliance with corporate policy and the role of Property Services

planning arrangements

financial and other budgeting and control procedures

organisation and staffing levels

performance against best practice.

Analysis of responses is attached at **Appendix A** .

18. In addition to the five departmental reviews, we also consulted with Property Services' staff, and the Chief Executive Officer of the Planning and Environment Department who gave much help and advice during the review,. The Commission would like to thank all of the departments and individuals who contributed for their assistance and co-operation.

19. The scope of the review excluded specialist areas such as maintenance of grounds, sea walls, sewers, roads, runways, harbours etc..

FINDINGS

Corporate policy and the role of Property Services Department

20. The 1991 Report and Proposition set out the role for a Property Services Department with regard to building maintenance as:

> "……… would exercise a co-ordinating role and set guidelines. It would not be responsible for the day to day management or maintenance of States' properties, which responsibility would remain with the individual committees of the States………… What would be called for, however, is a process of **consultation** with the Property Management Office on all property transactions and **property maintenance** programmes to ensure that the action taken is not in conflict with the guidelines set………".

21. Detailed responsibilities would include:

- setting guidelines for a planned maintenance programme for each committee with property management responsibilities;
- ensuring that each of the committees concerned has a planned maintenance programme in accordance with those guidelines;
- ensuring that a condition audit is undertaken of individual States' properties as and when required;
- ensuring that the agreed maintenance programme is executed effectively; (Property Services in carrying out its responsibility would look for support from the skills and experience presently available within the Public Services Department; for example, for reports on the proper execution of individual planned maintenance programmes.)

22. Individual Committees would remain responsible for implementing all maintenance work in the areas for which they have responsibility in accordance with planned maintenance programmes agreed with Property Services. In carrying out their responsibilities Committees would continue to look to the Public Services Department for technical support, and unnecessary duplication of technical resources would thus be avoided. Property Services would agree with the Public Services Department and individual departments the most effective way of carrying out the planned maintenance programme agreed for each Committee.

23. Accordingly, Property Services, consulted with the relevant departments and produced a corporate strategy and policy for the planned maintenance of building stock, along with a set of maintenance standards and guidelines for individual committees which represents best practice.

24. The Policy states:-

> Condition based planned maintenance is effective in that it determines the total maintenance that is needed on a building over a ten year period based upon a professional assessment of the actual condition of the various elements, components and services.......
>
> It (condition based planned maintenance) eliminates the need for Committees to base their maintenance budgets on a % increase on the previous year............ It will also result in the highly desirable situation, that after an initial period of usually one, two, or three years,

Committees will actually be requesting significantly lower maintenance budgets.

Condition based planned maintenance is also an inherently flexible system and the plan can be adjusted to accommodate unforeseen items of expenditure, though ideally, Committees should exercise long term forward planning as far as possible. Properly administered, condition based maintenance will provide:-

- value for money expended on maintenance.
- protection of the asset value and the resource value of the buildings.
- protection against the breach of statutory obligations."

18. Five stages are then set out for the implementation of the policy by departments:-

Preparation of a maintenance policy document to suit the requirements of the property portfolios (to be agreed with Property Services)

Condition surveying the properties and preparing ten year maintenance schedules, forming the basis for the maintenance to be carried out.

Preparation of yearly planned maintenance programmes for each property using the ten year schedule as a basis, to be agreed with Property Services.

Administration and overseeing of the maintenance work by individual Committees in accordance with the programme and policy document.

Monitoring the success of the maintenance in accordance with the policy document.

18. The Policy also sets out the best practice framework for a Departmental maintenance policy which should be an effective working document and therefore include:-

long-term plans for the building
response times
annual recorded inspections by suitably qualified/experienced people.
Maintenance surveys carried out every five years by a qualified surveyor
the use of computer systems to record work schedules
planned maintenance schedules covering ten years, with work prioritised and agreed with Property Services, including statutory maintenance (lifts, boilers etc.), and maintenance of services
arrangements for emergency maintenance
contract administration including tendering procedures, approved contractors, contracts
monitoring procedures

27. The draft strategy, policy, standards and guidelines were issued to departments for comment as part of the consultation process required by the States proposition before presentation to the Planning and Environment Committee for approval. To date, only one Department has responded with comments, therefore the policy document first issued in 1993 remains in draft awaiting approval.

28. In 1996, Property Services commissioned condition surveys of 564 States' buildings administered by the committees listed below:
Agriculture & Fisheries (40)

Defence (21)
Education (123)
Airport (15)
Harbours (47)
Public Services (142)
Health & Social Services (132)
Sport Leisure and Recreation (44)

29. This was carried out in two stages at a total cost of £159,680 (excluding internal staff time which cannot be estimated with any accuracy). In addition, £9,000 was paid for the database programme on which to record the results and produce ten year maintenance programmes for each building surveyed. (*It is worth noting that this would have been considerably cheaper had a mainland surveying practice been used as originally intended - the lowest U.K. tender was £50,808, the highest £98,000 - with local tenders ranging from between £350,000 and £1.9million for a total package of inspections, computer programme, data input, training and preparation of reports. Representation from local practices at political level resulted in the Finance and Economics Committee requesting the Planning and Environment Committee to find a way to undertake the survey using local surveying practices or surveyors. In the circumstances, it was decided that Property Services should manage the survey and develop the necessary computer software "in-house" using local surveyors from private practice to undertake the survey inspections*.)

30. In the opinion of Property Services, the overall findings of the survey showed that a "good proportion" of the stock was in an acceptable condition, but identified consistently poor maintenance of services installations, and failure to comply with good Health and Safety practice. The budgetary forecasts from the surveys also indicated that there was underfunding to a level of approximately £4.5million per annum when compared with actual maintenance budgets allocated. It was felt that this underfunding was mainly in respect of long-term repair and replacements of major building elements such as roof coverings, windows, and services, which at present tend to be dealt with during refurbishment, and are usually funded through the capital programme.

31. Our research shows that of the seventeen departments providing information, only five related their maintenance programme to the latest condition survey. It is also worth noting that of the four in-depth reviews carried out and included in the above list of committees, only Public Services use the surveys carried out by Property Services as a basis for their maintenance programme. The reason for not doing so was that insufficient funds were available from departmental budgets (the agreed method of funding building maintenance) to complete the programme recommended by Property Services. It is also the case that maintenance programmes are often affected by the operational requirements of a department (refurbishment/change of use etc.) which may divert scarce funds from planned maintenance.

32. The Commission believes that, regardless of any shortfall in funding, the programme should at least be used as a basis for the annual maintenance programme. It is likely that some of the maintenance set out in the surveys has been carried out, but as the schedules have effectively been ignored it is impossible to assess how much of the work is outstanding. It is also the case that there are number of different computer systems used to administer maintenance in the various departments. The Property Services database was not intended to meet departmental needs for day to day maintenance. Work by Planning and Environment on a corporate, States-wide property management system is still in progress. **It is important that this system is integrated with the new corporate financial system.**

33. Responses to the questionnaire also show that of the seventeen departments reviewed:

7 have a written maintenance policy
11 have a written property schedule recording property details
7 have a written programme of building maintenance, of which
5 relate it to the latest condition survey
1 agrees the maintenance programme with Property Services
4 produce long term plans of 5 to 10 years (or longer)
13 produce an annual plan
6 record progress against the plan
7 adhered to and completed plans
7 did not know the proportion of planned/unplanned maintenance

34. The majority of departments draw up their maintenance programme on an annual basis, even though it is acknowledged that longer term planning will save money in the long run. Therefore a high percentage of maintenance is reactive, which in turn diverts funds from the planned maintenance.

35. In the Report and Proposition, it was envisaged that Property Services would have one qualified surveyor allocated to property maintenance. Currently, only a proportion of this surveyor's time is spent on property maintenance, which is inadequate for the task. It would be feasible to outsource this work if funding was available.

36. It can therefore be concluded that whilst the corporate strategy and policy is in line with best practice, the majority of departments do not comply with it. It can also be concluded that the current framework in which Property Services operates does not provide the authority for it to fulfil the role set out by the States. (This view is echoed in the Planning and Environment service review, which also highlights a lack of resources in Property Services.)[6] A single "landlord" for States property would ensure that approved policies were effectively implemented.

37. It is therefore recommended that the States re-appraise the current arrangements for the management of States-owned property, and consider the formation of a separate States property agency to be responsible for all aspects of States property management. This would require a full review of the role, responsibilities, authority and reporting lines of Property Services. The agency's responsibilities should include:

the maintenance programme for all States property, which may, where appropriate, be contracted to individual departments to be implemented on a facilities management basis; (e.g. maintenance of Education, H&SS, Housing, Harbours, Airport could be contracted to those departments, with the programme and funding agreed with Property Services). The rest could be contracted to an internal or external facilities management provider(s) whereby Property Services would maintain a monitoring role to ensure that the agreed programme was delivered.

ensuring that the incorporated departments and other bodies administering States' property have a property strategy/policy which reflects best practice to ensure that the States' and public's interests are protected.

long-term building maintenance plans (typically 5 to 10 years in duration) based on professionally carried out surveys should be introduced. Plans would be drawn up by the property services agency in conjunction with Departments. The agency would monitor

implementation and be required to agree any changes to the programme.

Organisation and staffing levels

38. Eighteen States departments are responsible for organising their own building maintenance. In addition, Public Services provide a facilities management service to other departments if required. They also provide advice and guidance on contracting matters.

39. All Departments contract out at least some of their maintenance work to the private sector, although the level of contracting out depends on the number of in-house staff available to carry out work and varies from 100% contracted out to "not known". According to departments, a total of 135 staff are involved in building maintenance activities across the States (**Appendix B**), the majority on a part-time basis. In those departments where maintenance work is carried out in-house (ten) only three record the costs of individual jobs and regularly compare costs with the private sector.

40. The analysis shows a number of specific trades are represented across the board in addition to Estates management skills and there may be opportunities for some rationalisation. However, where job analysis and costing is not undertaken, it is difficult to quantify the financial savings which could result. The Commission believes, however, that there is scope for headcount savings through rationalisation. Certainly departments such as Health and Social Services maintain a large workforce who also maintain equipment as part of their duties. This Department justifies an internal workforce on the basis that a lack of prompt attention in certain instances could be life threatening. Whilst this is accepted, and may also be the case in other departments, the appropriate level of such resources cannot be determined without further information on the volumes of work carried out, its urgency, and any alternative provision.

41. Where work is contracted out, the are no corporate guidelines or requirements for:
- tendering
- the use of standard contracts
- approved contractors
- the use of schedules of rates

42. We believe that an important role of Property Services should be to:
- issue guidelines on tendering limits and procedures for work contracted out;
- ensure that standard contracts are used for all States work;
- issue guidelines on the use of schedules of rates (where, in appropriate circumstances, contractors may be awarded on-going maintenance contracts for a fixed period at agreed prices).
- maintain a list of suitable contractors for use on States contracts (this should include ensuring that contractors have the requisite liability insurance, and obtaining feedback on the performance/quality of work);

43. It can therefore be concluded that there is scope for rationalisation, better utilisation of skills, and a reduction in duplication across the various departments currently managing property. There is also scope for improving value for money in some developments by including maintenance staff at the appropriate design stage.

44. It is recommended that the States should review the current organisation of resources

allocated to property management, and consider:

- **the costing of in-house resources with periodic comparison with the private sector;**
- **contracting out work where it is cost effective to do so, thus releasing in-house resources for other duties;**
- **pooling some resources and/or skills by transferring to Property Services, who should also be responsible for issuing corporate guidelines on issues such as contracts, tendering procedures, and maintaining a central list of approved contractors;**
- **consolidating resources where practicable to ensure economies of scale;**
- **possible economies of scale for large/corporate developments (e.g. Housing);**
- **ensuring that operational maintenance staff are consulted over plans/finishes for proposed new buildings; (contracts for new developments do specify low maintenance materials)**
- **introducing a corporate IS system for property management/maintenance records which addressees the needs of all Departments.**

Funding/expenditure

45. The 1991 Report and Proposition states that:

- existing budgetary arrangements should be continued;
- committees should provide, for each year's budget, an estimate of the expenditure required to execute the planned maintenance programme. The estimate and programme would be agreed with the Property Management Office;
- revenue expenditure on maintenance would be met within the financial target set for each committee;
- committees should only be able to transfer money from the maintenance vote within their budget to other votes with the approval of the Property Management Office;
- regular maintenance audits should be prepared at the request of the Property Management Office, using the resources of the Public Services Department or outside agencies as appropriate.

46. Funding of building maintenance has hitherto been at the discretion of individual departments, particularly in the light of the lack of liaison with Property Services. The chart at figure 1 shows that funding has been fairly constant and expenditure has not kept pace with inflation. Whilst this could indicate greater efficiency in managing budgets, it is more likely that some maintenance work is not being undertaken, which is likely to lead to higher remedial costs in the long term and possibly increased pressure on the capital programme. Responses to the questionnaire show that whilst the majority of maintenance programmes are costed, only seven departments manage to complete their planned programmes. Fourteen departments indicated that the funding was insufficient to carry out all of the maintenance required, and as previously recorded, the surveys carried out by Property Services indicated a shortfall in funding.

47. The suggestion was made during the individual reviews that the maintenance budget was a soft target when departmental budgets were cut. It was also suggested that maintenance priorities may change due to other influences affecting departmental operational requirements.

48. The on-going revenue implications of capital building schemes are not identified in any detail at the time of the request for funding, therefore no commitment is required to service long term maintenance needs.

49. The Commission believes that the principle of whole-life costing should be introduced, whereby the expected lifetime of each scheme, along with the likely maintenance costs, be notified to the States at the time of the request for approval. The on-going maintenance costs would then be recovered through charging Departments an appropriate rental which would be paid into a maintenance reserve. The level of rental would be sufficient to cover agreed maintenance programmes and contingency for unplanned, or emergency maintenance. This arrangement would provide:

- a funded maintenance programme;
- "ring-fenced" funds, thus not a soft target during budget cuts;
- incentives to vacate or develop property;
- information on the full costs/income for properties to inform the property strategy.

50. In an ideal world, commercial accounting would also be used to provide for eventual replacement costs. This would mean:

- the recovery of capital costs, via depreciation, thus providing for replacement;
- capital funds are available when required;
- equity - all departments would pay for the property they occupy, thus there is an incentive to use property resources efficiently and effectively.

42. Currently, the cost of property to departments is variable across the organisation. For example, some departments pay nothing in terms of rental/property cost other than through the maintenance/improvements budgets; other departments pay a rental to Public Services (Cyril Le Marquand House, States' Building), although this rental is not set at a commercial level and increases are limited to 2.5% per annum; other departments, who rent from the private sector, pay full commercial rents. This leads to inequity in the cost base between departments. It also means that there is little incentive for those departments who pay nothing to relinquish or develop any property inappropriate to their needs. It is also the case that the majority of rentals do not reflect either the opportunity cost of the building, or the maintenance costs (the exception being some recent Housing Department schemes).

43. Departments have not been required to finance their own capital assets (once funds have been granted from the capital fund, the only requirement placed on a department is to deliver the project within budget). Bookkeeping entries are made in the States' annual accounts to represent repayments and interest on the voted capital sums, but no-one is held accountable for these. This is likely to encourage departments to apply for refurbishment/replacement funds from the capital programme as an alternative to funding long term maintenance from revenue cash limits, thus placing further pressure on the capital fund.

44. It is worth noting that in the U.K. public sector, in particular central government, the introduction of full commercial accounting ensures that the full costs of property is included in the costs of services. This is essential to the outcome of any benchmarking exercises carried out between Jersey and the U.K. as property costs will not be reflected in the cost of Jersey's services (except

in those departments occupying private sector property). The Commission has been advised that consistent efforts have been made on behalf of Planning and Environment to draw the attention of the Treasury to the shortcomings of the current funding mechanism, which are unlikely to be addressed until the introduction of resource accounting and budgeting.

54. The lack of funding has been used as a reason for not introducing long term maintenance programmes and, if the situation is to improve, a method of funding maintenance outside departmental cash limits needs to be found. It is difficult to assess whether the current expenditure of an estimated £13.5million per annum represents good value for money, although the surveys carried out by Property Services in 1996 on a limited number of properties suggest that on the whole, States' property is in reasonable condition, which, considering the suggested shortfall in funding of £4.5million, is reassuring. This may be due to a number of refurbishment projects being funded from the capital programme, therefore the actual costs of maintenance are certainly higher than the revenue expenditure figure suggests and a re-assessment of the framework could save significant sums of money.

55. It is therefore recommended that the issue of the funding of building maintenance be re-assessed and consideration given to:

funding maintenance programmes through a "rental", or charge, applied to all properties, set at a level (in the short term) to cover the agreed maintenance programme. These funds should be ring-fenced. In the longer term, it is recommended that full commercial/resource accounting should be introduced which would:

recover capital costs (via depreciation)

recover maintenance costs (via notional rentals paid into a maintenance reserve)

identify on-going costs at the inception of a project

ensure that capital expenditure/funds are available for existing developments;

ensure equity whereby all departments would pay for the property they occupy, thus creating an incentive to use property resources efficiently and effectively

"ring-fence" funds

provide information on the full costs/income for properties thus informing the property strategy

This is likely to require another survey of property (to bring the programmes up to date) which, based on previous costs, is likely to cost at least £150,000, depending on whether local or U.K. surveyors are used. Also, bearing in mind the previous estimated shortfall of £4.5million, decisions need to be made on whether any extra funding is a) required and b) is to be funded from current Departmental budgets.

the whole-life costing of capital building projects at the time of approval which identifies:

the expected life of the scheme

the ongoing revenue implications of the scheme

significant funding points within the life of the scheme

CONCLUSION

56. The States has a responsibility to ensure that the assets in its stewardship are properly cared for. The current arrangements, whereby eighteen different Departments manage their own building maintenance with little regard to the agency set up by the States to oversee such arrangements, does not result in good efficiency and effectiveness. Nor does the lack of corporate co-ordination and guidance on issues such as contracts, tendering, and approval of contractors. In the future there should be single accountable "landlord" overseeing States property, including maintenance.

57. The establishment of Property Services with the remit to establish and monitor a programme of building maintenance has clearly not worked within the framework set out for it. Property Services has no authority to require Departments to spend money on maintenance and has therefore not undertaken this role. Under current States procedures, there is no performance review mechanism which would monitor the effectiveness of States decisions and highlight such failures.

58. Whilst it is acknowledged that Departments' operational requirements may outgrow particular buildings, there is no realistic assessment of the lifetime of a building, nor any commitment by the States to the ongoing costs of capital developments. Nor does it adequately consider or provide financially for the replacement or major refurbishment of its buildings. The Commission believes that it is unacceptable that the States approves capital schemes without full knowledge of the impact on revenue expenditure in the longer term.

59. A significant number of staff are involved in maintenance throughout the organisation. There is scope for rationalisation and a reduction in duplication across the various departments currently managing property by making better use of existing staff. There is also scope for improving value for money in some developments by including maintenance staff at the design stage, and ensuring that any economies of scale are exploited.

60. A lack of funding has been used as a reason for not introducing long term maintenance programmes and, if the situation is to improve, a method of funding maintenance outside departmental control needs to be found. It is difficult to assess whether the current expenditure of £13.5million per annum represents good value for money, although the surveys carried out by Property Services in 1996 on a limited number of properties suggest that on the whole, States' property is in reasonable condition, which, considering the suggested shortfall in funding of £4.5million, is reassuring. This is, however, undoubtedly due to a number of refurbishment projects being funded from the capital programme, therefore the actual costs of maintenance are certainly higher than the revenue expenditure figures suggest and a re-assessment of the framework could save significant sums of money.

61. The current funding mechanism is not robust. Maintenance programmes are funded by individual departments through cash limits which means that non-core functions, such as building maintenance, are vulnerable in times of budgetary restraint, resulting in increased costs in the longer term. Underfunding also encourages Departments to seek other methods of funding, such as through the capital fund, which is effectively free. The introduction of new financial systems and the move towards commercial accounting provides a good opportunity to get funding right.

FOR THE STATES AUDIT COMMISSION

T. Dunningham

D.M. Bralsford

Mrs P. Carter

P.J.C. Fergusson

Advocate D. Lang

W.S. Morvan

Deputy P. Ozouf

STATES AUDIT COMMISSION - BUILDING MAINTENANCE QUESTIONNAIRE

Number of Departments surveyed -18. Number of responses - 17.
(Only those Departments known to administer their own property were included)

	Responses
Does your Department manage its own property maintenance?	Yes - 16 Yes/No - 1
Does your Department maintain a written property schedule?	Yes - 11 No - 6
Does your Department have a written building maintenance policy?	Yes - 7 No -10
When was the last condition survey of your Department's property carried out?	1996/1998 - 9 1998/1999 - 4 not known - 1 constantly - 2 from time to time - 1
Does your Department have a written programme of building maintenance?	Yes - 5 No - 6 Yes/No - 2
Is it related to the findings from the latest condition survey?**	Yes - 3 No - 8 Yes/No - 2
If YES, is the programme agreed with the Property Services Department?**	Yes - 1 No - 13
What period of time does the plan cover?**	*1 year or less - 2* *1 to 5 years - 7* *5 to 10 years - 3* *more than 10 years - 1*
Is the plan costed and budgeted for?**	Yes - 12 No - 1
Is the budget adequate to complete all the maintenance required?	Yes - 3 No - 14
Is performance against the plan monitored and recorded?	Yes - 6 No - 9
Are plans generally adhered to and completed?	Yes - 7 No - 6 Yes/No - 1
What is the current value of your Department's property portfolio?	*See table on property values*

How much did your Department spend on building maintenance from 1996 to 1999?	*See chart on expenditure*
What percentage of the Revenue expenditure was on **planned** maintenance	% Planned Maintenance Nil - 2 20% to 60% - 2 60% to 70% - 2 70% to 80% - 4 > 80% - 0 Don't Know - 7
How many staff are engaged in duties related to building maintenance?	*See appendix B on staff*
What proportion of building maintenance work is contracted out?	10% to 30% - 2 60% to 70% - 2 90% to 100%- 3 100% - 7 Don't Know - 3
If you have internal staff engaged on building maintenance, do you record the full costs of each job?	Yes - 3 No - 9
If yes, do you periodically compare costs with the private sector?	Yes - 2 No -5
Does your Department have a formal tendering procedure?	Yes - 13 No - 3
Does your Department have a list of approved contractors?	Yes - 10 No - 7

** Departments answered these questions although they did not have a written maintenance programme.

Analysis of Staff Engaged in Building Maintenance Activity

Department	No of staff	Type of staff	estimated% time involved
Health & Social Services	68	1 director of estates	10%
		2 engineers/managers	50%
		2 electrical and mechanical supervisors	50%
		1 buildings supervisor	80%
		6 carpenters	90%
		7 painters	95%
		2 building technician	100%
		15 electricians	20%
		15 fitters	60%
		2 electrical mates	50%
		2 fitters mates	50%
		4 plant attendants	5%
		9 labourers	5%
Sport Leisure & Recreation	11	1 Technical Services Manager	80%
		1 Operations Manager	10%
		3 chargehands	70%
		6 technicians	100%
Public Services:			
Municipal Services	7	1 municipal maintenance manager	80%
		1 assistant manager - building services	100%
		2 carpenters	100%
		3 painters	100%
Bellozanne	6	1 manager	30%
		technicians	30%
		labourers	30%
Housing	7	1 maintenance manager	100%
		4 maintenance officers	100%
		1 customer services officer	100%
		1 secretary	100%
Airport	5	1 mechanical services technician	70%
		2 building maintenance technicians	90%
		1 painter	90%
		1 civil servant	50%
Police	2	1 facilities manager	70%
		1 facilities assistant	5%
Fire	3	1 health and safety officer	5%
		1 administration manager	25%
		1 operational support technician	50%
Education	4	1 estates manager	50%
		1 administrator	75%
		1 maintenance manager	90%
		1 maintenance officer	90%
Tourism	1	1 chief hotel inspector/planning officer	30%

Prison	3 + inmate labour	1 unit manager 2 engineers	100% 100%
Harbours	10	5 carpenters 1 blocklayers 2 painters 2 electricians	30% 30% 30% 30%
Employment & Social Security		management time only	
Emergency Planning		management time only	
Driver & Vehicle Standards		management time only	
Telecoms	5	1 head of facilities group 1 facilities manager 1 premises manager 2 tradesmen	60% 90% 100% 90%
Agriculture & Fisheries	1	1 maintenance foreman	80%
Planning & Environment	2	1 building maintenance surveyor 1 trainee maintenance surveyor	10% 5%
Total staff numbers	**135**		**fte 31.4**

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[1] Source - Alexander Forbes Risk Services

[2] Report and Proposition P43 , 26th March 1991

[3] Issued for consultation by Property Services in 1993

[4] source - States general ledger (millennium) codes 12661/112* (premises/general upkeep), 12661/110001(premises/repairs and maintenance), 12661/113* (premises/plant repairs), 12661/12* (premises/improvements), information provided by Departments.

[5] NAO Estates Management Audit Guide Module 7: Building Maintenance (August 1997)

[6] Strategic Review of the Planning and Environment Committee: Stage 1 - September 1999