

Entrepreneurial Governance: A Case study in public sector property asset management

Peter Dow, Independent Consultant

James Young and Deborah Levy,
University of Auckland

Public Sector Property Management

- Over the past 20 years has become an increasingly important issue for most governments
 - Government Budget Problems
 - Increasing Realization that property assets constitute a major expense category
 - How do you measure efficiency?

Public Sector Property Management

- Technological Change
 - New methods of service delivery
 - Changing requirements of the public for both infrastructure and range of services (Green, 2010)
- Supply and Demand issues
 - These are property specific
 - Begins to look like corporate real estate problem (Warren, 2002)
 - Similar constraints?

Key Issues

- While the issues outlined represent major challenges, governments are far from consistent in implementation of property asset management strategies
 - Institutional inertia and culture
 - Political will
 - The difference between a DEMAND for change or simply a desire to be more efficient if we can in due course
 - Measurement
 - How do you measure 'efficiency'
 - Efficiency is in the eye of the beholder
 - Transferability to other jurisdictions?

New Zealand Context

- New Zealand is unique in that the concept of ‘entrepreneurial governance’ has provided a basis for political decision making since the mid-1980’s (Murphy, 2000)
 - Reaction to traditionally strong centralized governmental functions
 - Each governmental agency must provide a ‘return’ on investments
 - If the ‘return’ is not monetary, then efficiency in service provision must still be demonstrated

The Case of Auckland

- Auckland is the largest city in New Zealand
 - The greater Auckland region represents over 33% of the population for the entire country
 - Largest hub for banking, finance, shipping, transportation and logistics
- Region governed by 8 different local governmental bodies

Auckland Regional Governance – Pre-council merger



The entire light blue area is now one council with new boundaries for local boards that have Representatives on the new council

The entrepreneurial makeover of Auckland

- Perceived inefficiency in service provision in Auckland
 - Lack of agreement between existing councils on major infrastructure projects (costs and benefits accruing to each individual council)
 - Lack of regional strategy for service provision
 - Lack of flexibility
- Royal Commission Report on Auckland Governance (2007)
- Local Government Act 2009
 - November 2010 target date set for all local councils to be combined into one Auckland Council

The property problem

- Property portfolio of 8 different councils combined under one management structure within a 12 month period
 - Portfolio efficiencies expected to be forthcoming amidst background of significant institutional change
 - Focus has been on operational issues, given the tight time frame
 - Structural resources for property management have been neglected

PROPERTY PORTFOLIO SUMMARY



	PROPERTY	\$ (Billions)	COMPARABLE PORTFOLIOS	COMMENTS/OBSERVATIONS
CITY SHAPING	Strategic Holdings, Development Sites	\$0.42	Long Term Property Developers e.g. Britomart, Westgate, Stonefields, Khyber Pass (AMP) plus Hobsonville, Flat Bush, Wynyard	City Shaping focus Generally \$1B+ projects
	Land held for future Infrastructure	\$0.33	NZTA, OnTrack, Utility companies	Likely to transfer to roading CCO
CORE COUNCIL OPERATIONS	Parks & Reserves	\$3.86	Department of Conservation	Non trade-able land
	Specialist Buildings such as Libraries, Halls, Galleries, Pools, Zoo's	\$2.05	Defence, Education, Health, Courts, Police, Corrections	Special purpose – limited alternative uses Focus is high levels of public access/use and platform for city services
	Office Premises		General Business Premises	Focus on supporting productivity of staff
NON CORE PROPERTIES	Housing	\$0.22	Housing New Zealand	Mainly subsidised housing for the aged
	Surplus	\$0.19	Surplus properties of LINZ, Defence, Education	Focus on maximising sale proceeds
	Investment	\$0.14	AMP, ING	Focus on financial performance of portfolio
TOTAL		\$7.21		

NOTES

1. Value of development land holdings not yet known – part of CCO discovery
2. Classification and reliability of type of property and values based on information provided as part of discovery – deemed adequate for high level analysis only

Outstanding Issues

- Entrepreneurial governance gone large
 - How do you combine property asset management structures?
 - How do you measure efficiency?
 - Institutional change
 - Staff resources and skills
 - Expectation of enhanced management capability but no time to develop strategy
 - Do the resources exist given the 'silo' mentality developed within each council and the expectation of a 'return' under the philosophical rationale employed?

Best Practice?

- This case illustrates a key problem for research in public sector asset management
 - Each governmental problem and jurisdiction is unique
 - What is best practice in this case?
 - Very few councils have been combined on this scale
 - Much less with the expectation of operational and cash flow efficiency – as a corporate
- New Zealand provides a unique laboratory for testing the concept of how corporate asset management strategies can be implemented
 - Institutional perspective of cultural change
 - Structural issues surrounding management
 - Expectations of Royal Commission report and central government on benefits may not be forthcoming in property portfolio?

Further analysis

- The verdict is still out on whether the desired efficiency gains will be forthcoming provided the speed at which the new council has been established
- While the new governmental arrangements may provide efficiency in many areas, for property it will take time
 - Further analysis to be conducted over the next 3-5 years on portfolio issues
- Will this transformation provide a useful framework for other jurisdictions?
 - Concept of entrepreneurial governance can have drawbacks, particularly when operations are combined