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

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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
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


- 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

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

### 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