



## MUNICIPAL PROPERTY ASSET MANAGEMENT – A COMPARATIVE STUDY OF UK AND RUSSIA

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Received 9 January 2010; accepted 17 June 2011

**ABSTRACT.** Property asset management is a discipline of growing significance for local government across the world. The perceived wisdom of transition countries lagging behind developed countries in the maturity of asset management has not been tested with empirical data. An analytical framework was developed comprising models to measure why councils do asset management (rationale); how they do it (practice) and what they achieve (outcomes) and applied through a comparative study of municipalities in the UK and Russia. A weak but discernable link was found between rationale and practice but the link between practice and outcomes was unproven. Russia appeared to lag UK in its development of asset management and case studies in both countries had a consistent view of the critical success factors for effective asset management. These were strategic focus, organisation will, portfolio intelligence and an entrepreneurial culture. The research used the strength of these factors with the analysis of rationale, practice and outcomes to position cases in a typology which provided a simple metric to position organisations in terms of both their maturity and development path in asset management.

**KEYWORDS:** Property asset management; Asset management typology; Municipal government; Property management; UK asset management; Russian asset management

### 1. INTRODUCTION

Property asset management has emerged as a distinctive discipline as part of broader worldwide trends. In the private sector businesses have responded to globalization and competition through greater efficiency and revised business processes. The public sector has mirrored these reforms through increasing adoption of private sector practices. In both sectors property has been progressively recognised as a strategic resource which can be exploited to meet organisational objectives. In the private sector corporate real estate man-

agement (CREM) has emerged as a distinctive discipline to exploit this previously ‘hidden’ resource; and asset management in the public sector has followed at both a national and municipal level.

Asset management practice has not developed uniformly across the world. Australia, New Zealand and the UK are perceived to be most advanced driven by strong national government direction. In countries where such direction has been lacking then asset management practice has tended to lag. Commentators argue that in transition countries asset management is almost non-existent; although

this orthodoxy of differences in maturity has not been fully tested. The different historical and institutional contexts between developed countries and transition countries, such as the UK and Russia provided the basis for this comparative research into municipal property asset management.

## 2. LITERATURE REVIEW

### 2.1. The management of municipal property

Local government owns or uses substantial amounts of property. In some cases this can be nearly all assets in an area (Kaganova and Nayyar-Stone, 2000). According to UK accounts public sector assets amounted to £658 billion; 58% of these, being held by local government (Lyons, 2004). Russia has seen wide scale *municipalization* of property as part of its reform processes and as a result municipalities are important property owners with 40% of public property belonging to municipalities, representing 16% of Russia's capital funds (Daniellian, 2002).

Although local government owns significant property it generally has been the least managed of its resources Deakin (1999), Bertovic et al. (2000) and Carter (2000), Fernholz and Fernholz (2006). Property plays an important role in delivering municipal services. It provides a point through which services are supplied and a place for staff and citizens to work and meet. Property plays a wider role than simply supporting services. It projects an image of the council and can act as a catalyst for the economic and social well being of an area Bertovic et al. (2000), Burns et al. (2001) and Hentschel and Utter (2006).

For most countries municipal property represents a significant area of management concern (Council of Europe, 1998). Managing property involves two strands of activity. These are strategic considerations over the number,

type and location of properties needed; and operational considerations related to the maintenance of buildings and services required on a daily basis (Audit Commission, 2000). In the past local government has tended to concentrate on the technical, operational aspects of property rather than its strategic dimension (Audit Commission, 2000). This approach has been characterised as '*providing and maintaining*' property (Deakin, 1999); as a '*stewardship*' role (Fernholz and Fernholz, 2006) or a '*patrician and bureaucratic*' model of property management (Carpenter et al., 2006).

The lack of consideration of property as a strategic resource has been because councils have adopted a largely passive approach to property management tending to concentrate on service delivery rather than resource matters (Audit Commission, 1998). This approach has been characterised as viewing property as an '*incidental resource*' (Lyons, 2004). Property assets have not been given the strategic attention they warrant for a variety of reasons. These include: lack of policy direction; because their management was traditionally seen as a technical matter, and because assets were viewed as illiquid and thus unable to contribute to annual financial or medium term political cycles of local government. Thus property was a neglected resource with little executive attention and general ignorance of property costs, value or performance (Carter, 2000). These issues are common worldwide (Brzeski and Kaczmariski, 2002; Kaganova and McKellar, 2006; Burns, 2002, 2003; Wills, 2009).

### 2.2. Global trends in asset management

The traditional approach of municipalities to managing assets has changed however; driven by several resource and policy factors which in combination have emphasised the need for asset management. These influences include maintenance legacies, rising services standards, socio-economic changes and scarce

public funds (Bertovic et al., 2000; Jolicoeur and Barrett, 2005; Kaganova and McKellar, 2006). Such pressures have prompted greater use of commercial practices including asset management principles within the public sector. A parallel can be drawn between the rise of asset management in the public sector with that of CREM which some suggest is its private sector equivalent (Deakin, 1999; McDonagh and Frampton, 2002; Gruis and Nieboer, 2004, 2007; Smid and Nieboer, 2008; Priemus, 2003; Aalbers, 2004; Gibb and Nygaard, 2006; Goodman et al., 2010). This emergence of asset management within local government has not been an isolated process; but part of broader reform processes in many countries termed New Public Management (NPM) intended to improve the efficiency of the public sector (Ashworth, 2000; and Conway, 2006). These NPM reforms have been characterised as radical shift from a public service based on welfare to an enterprise culture based on efficiency (Masarenhas, 1993).

The literature on asset management from an international perspective is limited (Hentschel and Utter, 2006). From the available literature some broad trends are discernable which point to a growing interest in the discipline, but differences in approach and an uneven pattern of development (Burns, 2002, 2003, 2007; Kaganova and McKellar, 2006).

The emergence of asset management can be set against some long term trends. The conceptual changes which underlie the transition from property management to asset management include a shift from public to private ownership of property, recognition of property as a '*productive asset*' rather than a '*public good*' and introduction of private sector practices (Kaganova and Nayer-Stone, 2000). An identifiable trend founded on local government moving from a '*provider*' of property for end users, to a '*partner*' with the private sector for the provision of property, to an '*enabler*' of the private sector as a provider of property

has been identified (Kaganova and Nayer-Stone, 2000). This trend may eventually see local government as a '*consumer*' of property provided by the private sector. As local government re-invents itself to meet the challenges of changing processes in democracy, accountability and service delivery so councils are increasingly questioning the need to own assets at all (Ashworth, 2000).

Trends in asset management development can be summarised as 'top down imposed', 'bottom-up promoted' and 'externally advocated'. The 'top down imposed' are characterised by Australia, New Zealand and UK where asset management has been directed by government policy. The 'bottom up promoted' approach is exemplified by municipal institutions in USA where asset management has been driven initially by practitioners themselves in the absence of a strong national policy steer. The 'externally advocated' approach is typical of transition countries, such as those of Eastern Europe where development agencies have advocated it as part of broader reforms. In addition it can be argued that central government initiated asset management has tended to be accountancy orientated with reporting standards requiring public bodies to show asset values and liabilities in their accounts which contrasts to a more property orientated approach in USA (Kaganova and Nayer-Stone, 2000).

Despite a growing body of practice asset management is still in its infancy as a discipline; but of growing importance (Deakin, 1999; Burns, 2002, 2003; Kaganova and McKellar, 2006; Li et al., 2011; Cox, 2007). Except for a few countries asset management is not very advanced with a generally low level of awareness in local government (Kaganova and Nayaar-Stone, 2000). There are also some differences in maturity across the world; in particular between the top-down, bottom-up and externally advocated approaches (Kaganova and Nayar-Stone, 2001). At one end in the spectrum of maturity countries such

as Australia, New Zealand and the UK, have implemented significant reforms in municipal property management; whereas at the other end of the spectrum many countries, including transition countries, have yet to make any real progress (Kaganova and McKellar, 2006). As the UK, Canada, Australia, New Zealand, and Sweden are further advanced in NPM reforms, so asset management as a subset of these reforms is also further advanced (Kaganova and McKellar, 2006). This contrasts with transition countries which are at a different stage of evolution in public sector reform. The processes of reform in these countries have led to incomplete asset inventories and problems in asset management skills and capacity within local government (Beasley, 2004). In transition countries there is little focus on assets as a productive part of government capital with a low level of awareness of asset management in municipalities (Brzeski and Kaczmarek, 2002; Kaganova and Nayyar Stone, 2000).

### 2.3. Difference between developed and transition countries

Municipal property management approaches have been shaped by the different institutional and legal contexts in which they are set (Fernholz and Fernholz, 2006). The nature of this management has evolved in response to these different concepts of political authority, the legal framework and the relative power and interests of stakeholders. There is a need to understand the different historical contexts in which municipal property ownership has developed in order to understand the nature of municipal property management (Council of Europe, 1998). The UK and Russia as a developed country and a transition country represent perceived difference in maturity of asset management and also reflect different institutional contexts as a result of their municipal evolution. The UK is perceived to be at the forefront of asset management practice, with a mature, stable local government structure and

a legacy of property management practice acquired over many years. In contrast Russia as a new democracy with local government subject to continuing reform may appear to lag the UK in its asset management maturity.

A range of differences in municipal property management between developed and transition countries have been identified. These include the quantum of property held, the legal basis of property ownership, asset management capacity, the adoption of 'best practice' and cultural attitudes towards property (Bertovic et al., 2000; Brzeski and Kaczmarek, 2002; Peteri, 2003; Beasley, 2004). The reforms of transition countries, like Russia, have led to changes from a *centralised public administration to a more decentralised model* with the creation of municipalities (Danielian, 2002). Such processes of decentralisation and democratisation are redefining the roles of central, regional and municipal government in transition countries (Fernholz and Fernholz, 2006). Ownership of property is part of this redefinition and with reform processes there has been a transfer of property from national and regional government to local government and into private ownership; described as the *municipalization of property* (Danielian, 2002). This transfer of state owned property to municipalities has occurred in many countries of Eastern Europe alongside broader reforms of political decentralisation and the re-assignment of public functions and their funding (Peteri, 2003).

These processes of transformation have led to frequent changes in the content and size of municipal portfolios and in becoming large owners of property, municipalities in Russia have properties that are not needed for the delivery of services (Bertovic et al., 2000). Whilst legislation has been directed to ensure municipalities in Russia only own what they require for their responsibilities and to divest the remainder there has been reluctant progress in this area (Bertovic et al., 2000). Within these dynamics of reform and democratisation there is also

sometimes confusion over asset ownership, with new legal instruments, lines of authority and guidelines for using public sector assets still evolving Fernholz and Fernholz (2006). The amount of property held by Russian municipalities is in contrast to UK local government, which does not have substantial property holdings because many services delivered by the state under socialism have traditionally been provided by the private sector in market economies. It is also the case that following a period of property accumulation in the 1960's UK local government has been divesting itself of unneeded property in response to policy direction, resource pressures and as a result of embracing asset management practices (DETR, 2000).

The maturity of local government itself acts to facilitate or constrain the adoption of innovations such as asset management. In most countries local government exists with locally elected councils which set policy and executives which implement this. However, in some countries of the former Soviet Union local government can be seen as simply a local form of a single system of state administration. This hierarchical sub-ordination to the state curtails interest in adopting new methods such as asset management unless directed from a national level. In Russia frequent legislative changes as local government evolves may constrain municipalities' capacity to adopt new ideas. Even where legal provisions are in place to establish local government as independent entities there is often inertia among local officials to embrace new ideas due to a legacy of working within a state hierarchy.

In countries where there is a distinction between public and private ownership, national constitutions or laws provide the basic framework for ownership of properties such as municipal buildings. In most western countries there is no special legislation regarding municipal ownership, since this comes under general rules which are applied irrespective of ownership (Council of Europe, 1998). This contrasts

with transition countries where there are specific rules on municipal property ownership with the adjective 'municipal' having a distinct meaning in relation to property in some countries. In developed countries municipal ownership is the result of a lengthy process; whereas in transition countries municipalities have acquired ownership almost instantly with political changes. With these changes and wholesale transfer of assets there was often need on behalf of central government to legislate on the regulation of municipal property as a specific form of property ownership.

At no stage in the 20<sup>th</sup> century did Russia have private ownership of property for any length of time or in the full sense of the term as under socialism property was neither bought nor sold (Overchuk, 2000; Kosareva, 2001). Private property ownership was first introduced by the Constitution of the Russian Socialist Federation of Soviet Republics in 1990 and this began a gradual liquidation of the state monopoly on property ownership (Kosareva, 2001). At the same time a specific form of municipal property ownership was created and subsequently enshrined in Article 9 of the Russian Constitution (Overchuk, 2000). Thus in Russia a property market and a municipality's participation in it is a new, evolving phenomenon, which contrasts with the mature property market in which UK councils participate.

Organisational arrangements within municipalities in transition countries tend to reflect reliance on procedural compliance and a priority to divest property holdings through privatisation (Brzeski and Kaczmarek, 2002). Municipalities have not yet created positions of asset managers with various functional components of asset management fragmented or dispersed organisationally (Brzeski and Kaczmarek, 2002; Kaganova, 2003). This contrasts with the UK where there is a strong, centralised organisation of property management and a corporate, rather than devolved approach to managing the asset base (York



Consulting, 2002). The processes of reform and re-distribution of property have led to incomplete asset inventories and problems in development of asset management knowledge (Bertovic et al., 2000). As a consequence municipal property assets whilst significant in scale are also one of the most under utilised and poorly managed resources of municipalities. In transition countries asset management is in many ways non-existent and policy and practice tends to lag that of countries like the UK (Bertovic et al., 2000; Kaganova, 2003; Kaganova and Mckellar, 2006).

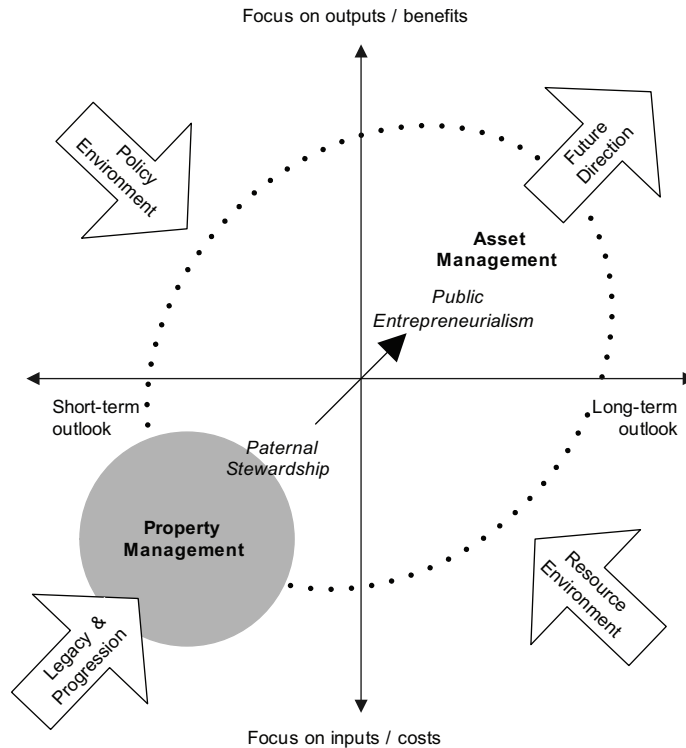
Property in the UK is often perceived as incidental to councils which have a more functional focus on service delivery. It has tended to be viewed as a professional division within an organisation focussed on service delivery. The concept of an ‘enabling authority’ in the UK may promote property as a resource which is consumed when required rather than something that needs to be owned. This is in contrast to transition countries where property may symbolise a municipality with the number of properties being an influence on its status. Although most municipalities in developed democracies such as the UK believe that they should only own properties needed to perform their functions, in transition countries municipalities are eager to own properties regardless of need, in order to generate revenue or simply for the sake of ownership itself and without a clear purpose (Institute for Urban Economics, 2005).

Despite variations in institutional circumstances UK and Russian local government face some similar challenges. These include a common concern to manage property so as to contribute to the overall objectives of the municipality and to deal with finance pressures which requires them to examine the asset base to release value, generate funds or reduce costs. Asset management in both countries can therefore be seen as a common approach to address such problems (Kaganova, 2003). The orthodoxy of perceived differences

in asset management maturity between developed and transition countries has not been fully examined. There has been limited research into municipal management in Russia; with the research that has occurred limited to local government functions and funding rather than property management (Vetrov, 2004). The different historical, legal and institutional circumstances of UK and Russia coupled, with similar property management concerns, provided the basis for this comparative research which was directed to examining the link between rationale, practice and outcomes in asset management as a mechanism for gaining a better understanding of the discipline.

### **3. METHODOLOGY**

From the literature review it can be seen that asset management is a new discipline emerging as a transformation from the existing discipline of property management. It represents an evolution from a ‘traditional stewardship’ view of property to one of ‘public entrepreneurialism’ and from an operationally focussed view of property to one which promotes consideration of buildings as a strategic asset of an organisation. There is a rising level of interest in asset management across the world and variations in its maturity. Examining the relationship between why organisations do asset management, how they do it and what they achieve provides an understanding of what factors influence this transformation of property management to asset management. The nature of the transformation is shown in Figure 1 adapted from the ideas of Deakin (1999); Jenkins et al. (2006) and Lloyd (2007). This shows the development of asset management influenced by the wider policy and resource environment. This can be extended to advance a broad typology of asset management relating to the four quadrants of the model to position organisations according to their maturity or progression in asset management.

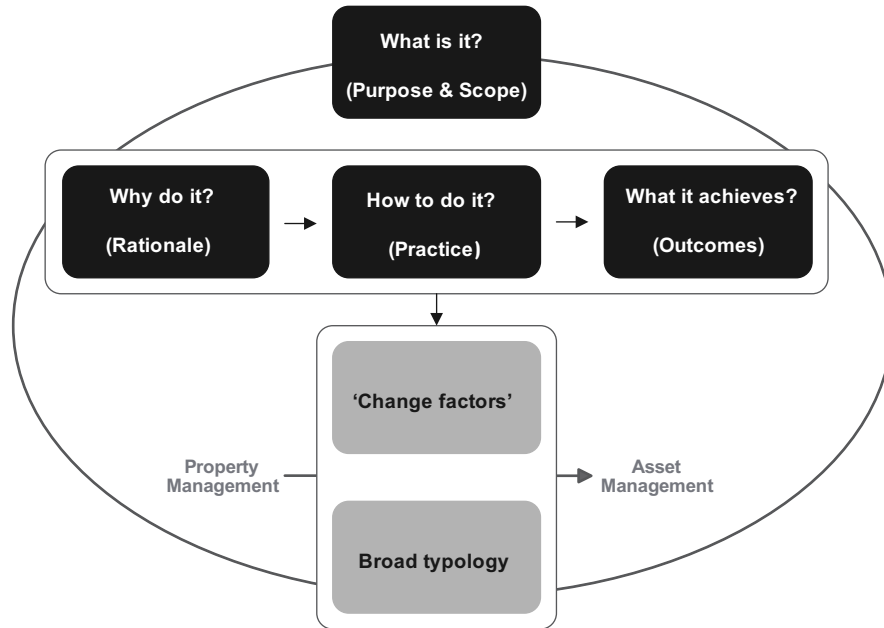


**Figure 1.** Asset management as a transformation from property management

The research was organised in four phases. The first phase was the development of an analytical framework with a series of models to identify why councils did asset management (rationale), how they did it (practice) and what they achieved (outcomes). The framework was developed through an iterative process drawing on views of practitioners, experts and from a review of published guidance. The second phase, in 2006 and 2007, was an extensive survey of eighteen case studies (twelve from the UK and six from Russia) chosen to provide a mix of councils in terms of population size, range of functions and perceived status in asset management. From the extensive survey a small number of councils were identified to examine in more detail through an intensive survey as the third phase; and finally one council was re-visited after an elapsed period of 18 months to examine changes over time.

The finding presented through this article focus on the extensive survey phase.

The extensive surveys were based on visits to each of the cases. Typically interviews with the person responsible for asset management lasted up to three hours, including application of the models with supplementary questions to amplify responses and to provide specific local context. Relevant published documents, such as property strategies and reports on property matters were reviewed where available to provide additional context. The rationale for asset management was explored by asking interviewees to score the relative strength of 6 factors on its adoption and then to examine their response more fully through questioning. The adoption of best practice was identified through direct questioning against 48 elements of practice to ascertain whether cases prescribed to the practice, fully, partially or not at all.



**Figure 2.** The analytical framework

The data for outcome measures was identified in advance of field work, collated at interview, with an allowance made for provision of outstanding data afterwards. No attempt was made to chase missing data but rather the ability to provide data was in itself viewed as an indicator of the effectiveness of asset management. The measurement of outcomes was based on 8 indicators chosen to give a composite perspective on the portfolio plus a single outcome measure adopted as a backup strategy in anticipation of data not being fully available. Amplification of the analytical framework and its components is given in Appendixes at the end of this article.

## 4. SUMMARY OF FINDINGS

### 4.1. The rationale for asset management

In all cases there was no single driver acting in isolation as a stimulus to asset management; but rather several acting in conjunction; with one tending to exert a more dominant in-

fluence. A single driver was identified through interview and used to categorise cases, but it is recognised that this presents a simplistic view of why organisations undertake asset management. Financial imperatives, with the need to support revenue budgets, or generate capital receipts to bridge capital funding gaps, along with a stringent external inspection regime were key drivers for asset management in the UK. In contrast all Russian cases identified statutory requirements as being of most influence in their adoption of asset management, with the exception of one case, which identified financial imperatives as being the primary driver. Client expectations were not considered an important factor in either the UK or Russia. In all cases the influence of clients, either internal service managers or external users of council services, was identified as marginal. In no single case were client expectations identified as a primary driver for asset management, although there was also acknowledgement by most cases that ultimately council's buildings were there to support service delivery.



The adoption of asset management as a result of external advocacy was regarded as a weak influence in both UK and Russia. In the UK interviewees acknowledged that conforming to 'best practice' was relevant; but in Russia there was a coincidence of views from all cases that they did not see the need to do what *was simply encouraged rather than required*. Further questioning revealed that peer pressure from other organisations was a weak influence and that asset management as a discipline was not widely promoted in Russia either as national policy or from within local government. There was conformity of views by the Russian cases that the over-riding influence for adopting asset management was need for compliance with statutory obligations, although leadership was also important. The influence of external advocacy to embrace best practice was deemed insignificant and that financial considerations, whilst important, were not critical. This last conclusion seemed at odds with comments made by all Russian cases that municipalities in Russia were poorly funded in relation to their mandated functions.

#### 4.2. The adoption of 'Best practice'

A summary of the extent to which each case adopted practice and their relative strengths and weaknesses in the main components of practice is given in Figure 3. This shows the adoption of practice at each case using a simple count of adopted practice elements out of a possible 48 elements in total. Whilst there was a divergence in the extent to which cases had adopted practice, no councils were considered as operating at the extremes, either as 'a non-starter', or 'comprehensively embracing all'. Rather, all were in a middle band of practice, suggesting all were operating above an initial embryonic threshold of practice and whilst some were further advanced all had progress to make to embrace practice fully. There was a distinctive feel about those cases that were more progressive in adopting practice than

those that were lagging. This 'feel' coalesced around the culture of the organisation which was considered more corporate, innovative, and entrepreneurial. The pattern in Russia was similar to that of the UK in that cases were operating in a narrow band of practice with no single organisation operating at an extreme. In general, practice in Russia seemed to lag behind that in the UK. Within the UK there was a greater variation in practice and although 7 out of the 12 cases were close to the Russian 'low-intermediate' level; 2 were more advanced and 3 were at a 'high intermediate' level.

#### 4.3. The outcomes from asset management

In all cases it was relatively easy to identify the rationale for undertaking asset management and to assess the extent to which best practice had been adopted, but more difficult to evaluate outcomes through use of the defined portfolio measures. All cases had difficulty in providing even the basic data required to measure their portfolios using these indicators. The missing data in UK cases tended to be qualitative data, such as client satisfaction with buildings, and the reason for the data not being available was because despite its collection being recommended as best practice these organisations had not collected it. In Russian cases there was missing data across all variables. The reasons for this seemed to be a combination of unwillingness to provide it, not being readily available, or the difficulty of obtaining it easily through research. This inability of cases to provide outcome data reinforced the view revealed through the literature that measuring asset management outcomes was problematic. The literature implied that the adoption of best practice was used as a proxy indicator for effective asset management because of this difficulty. The missing data inevitably means that there is a degree of ambiguity in the analysis presented through the following paragraphs.

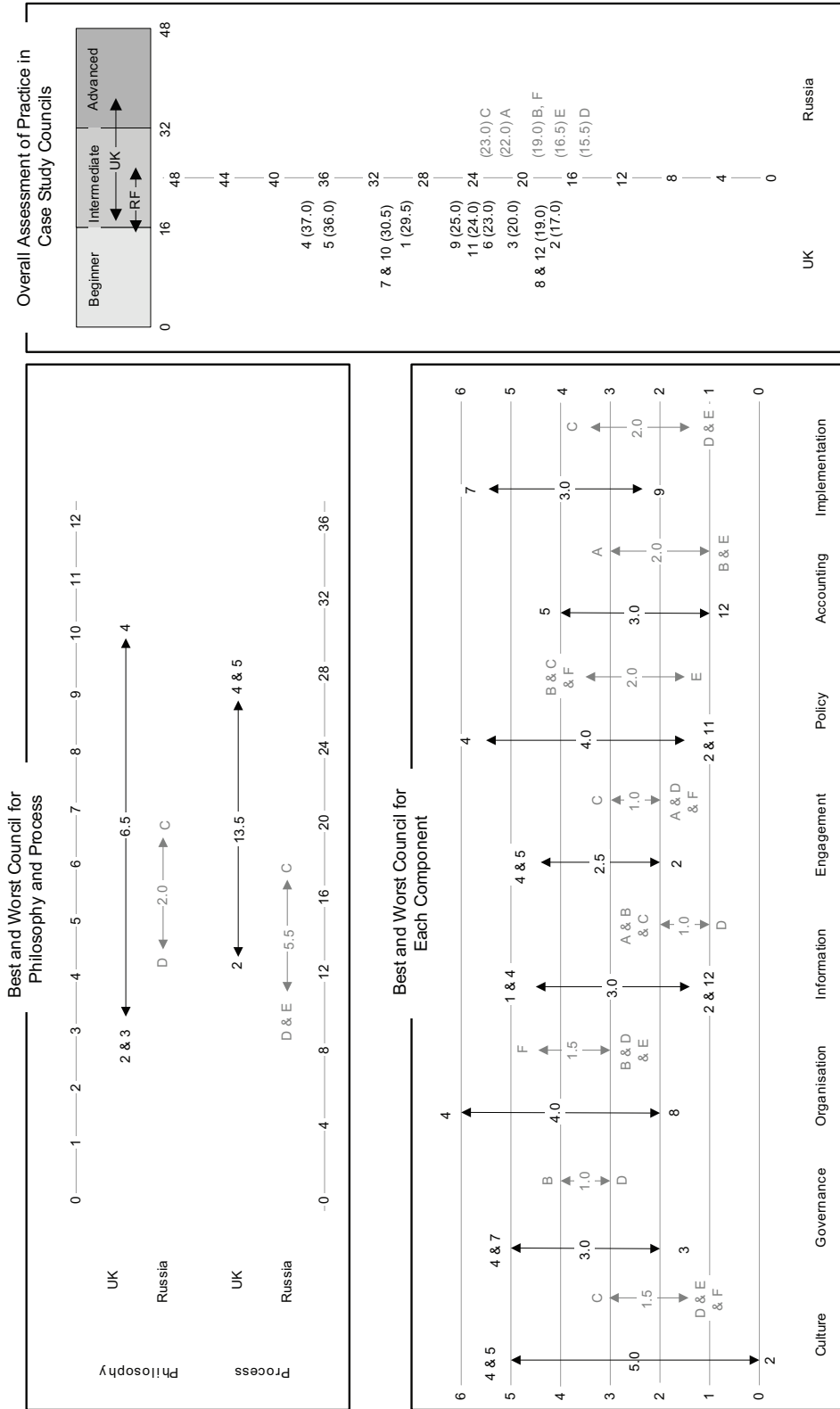


Figure 3. Adoption of 'best practice'

It was impossible to collect the full range of data required for the composite measure for an optimised portfolio for all cases and so reliance was placed on the back-up strategy identified through the research design of a single measure. Whilst this gave an incomplete view of outcomes it nevertheless provided a simple measure which could be used to make comparisons over different council sizes and types, and for different institutional settings. It was difficult to measure outcomes at the Russian cases because base data for both composite and single outcome measure was not forthcoming. This specific issue was explored through the interview and there was, in contrast to the UK, a marked reluctance to reveal data. This appeared to be due to sensitivity over its potential use, but also concerns over its accuracy and whether this would reflect poorly on the council.

#### **4.4. The relationship between rationale, practice and outcomes**

Whilst not conclusive because of the limited number of cases, there was a discernable link through the extensive survey cases between the rationale for asset management, and the extent to which best practice had been embraced. In Figure 4a the major single influence on the adoption of asset management for each case is plotted against the vertical axis whilst a count of the elements of practice adopted, out of a maximum of 48, is plotted against the horizontal axis. Externally driven factors tended to greater adoption of practice, but a link between financial imperatives and the adoption of asset management practice was also evident.

A clear linkage between practice and outcomes was not established. This was in part due to the absence of data for the defined outcome measures. The difficulty of measuring asset management outcomes was implied in the literature review and the field work confirmed this difficulty. Where there was data, the link

between practice and outcomes was not evident and there were some contra indications, such as a case which whilst demonstrating slow practice take-up had generally good outcome measures. From the research no relationship between practice and outcomes was evident. Figures 4b and 4c show the relationship between practice and outcomes for those cases where adequate data was provided. Figure 4b plots practice and outcomes using the composite measure for an optimised portfolio, whereas Figure 4c plots practice against a single measure for an optimised portfolio. In both figures the number of elements of practice adopted by the cases, out of a maximum of 48 elements, is plotted against the vertical axis with outcomes plotted against the horizontal axis. In the case of Figure 4b, the composite outcome measures, the 8 performance indicators were converted using a graded scale to produce a score out of a maximum of 48.

#### **4.5. Commonality and differences between the UK and Russia**

The research revealed some areas of commonality and difference between the UK and Russia. A common pattern of influences for undertaking asset management were revealed in both countries. These were that a combination of factors rather than a single factor was instrumental in shaping the adoption of asset management. Whilst cases in both UK and Russia acknowledged the ultimate beneficiaries of asset management as being their own citizens, in both countries client expectations, either directly or indirectly were considered a weak influence on adoption of asset management.

All cases seemed to work in a relatively narrow range of practice, although in Russia this was narrower than the UK and also lagged it. The conclusion from the research is that whilst some municipalities were more advanced in asset management than others, such advances were not sufficiently significant as to suggest there were real exemplars for others to follow.

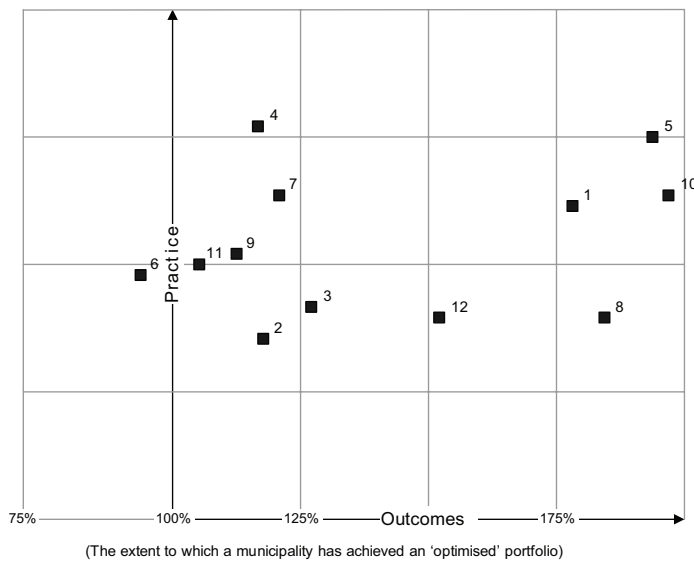
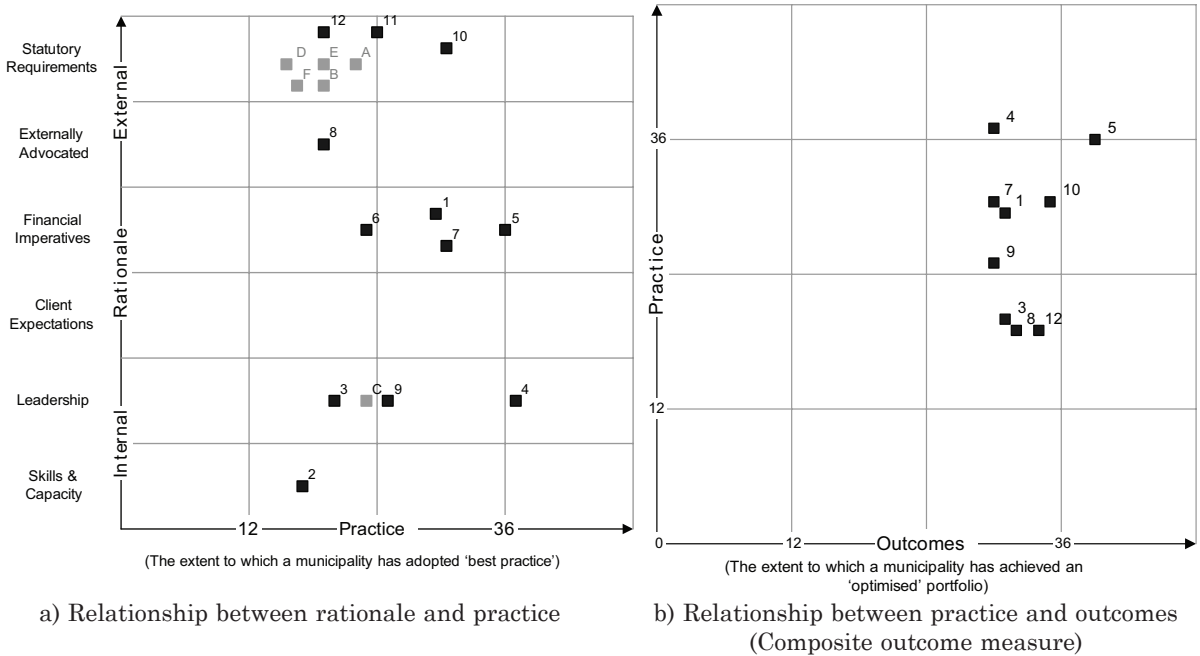


Figure 4. Relationship between rationale and practice / practice and outcomes

The suggestion from the research is that the ‘practice gap’ between best and worst is relatively narrow in both UK and Russia. In the UK it can be inferred that councils are operating at an ‘intermediate stage’ of development

having passed an entry level threshold. Russian cases could be characterised as still being at an ‘entry level stage’ or maturing into an intermediate level of practice.

The measurement of outcomes from asset management was problematic in both countries. All cases struggled to provide the basic data required to derive simple outcome measures related to the portfolio. This was despite a uniform awareness of the importance of comprehensive portfolio information for effective asset management. None of the cases had a set of defined outcome measures with which to measure the implementation of asset management.

The linkage between rationale and practice, and practice and outcomes in as much as they could be determined followed a similar pattern in both countries. That is, there was a discernable link between rationale and practice but an unproven link between practice and outcomes. Where asset management was driven by leadership, financial pressures and external compulsion then there was greater adoption of best practice, where it was driven by other factors there was weaker adoption of practice. The linkage between adoption of practice and outcomes achieved was inconclusive, in part because of the difficulty in obtaining data to measure outcomes. The implication revealed through the research was that in both the UK and Russia asset management is generally more 'practice focussed' than 'outcome focussed' and that the adoption of practice is influenced by the underlying rationale and motivation for its adoption.

Understanding of the term asset management was problematic in Russia. In the UK there was familiarity with the term and an intuitive understanding of it because of its common use. In Russia the term was not recognised so widely and, where it was recognised, its subtle distinction from property management was not necessarily understood. Even the term property management revealed differences between the UK and Russia. In the UK it embraced a broader range of activities in comparison with Russia where it tended to be associated with buying, selling and leasing of property. Perhaps as a result of this defini-

tional problem some of the practice concepts underlying asset management were less well developed in Russia in comparison with the UK.

Rather than embracing wider asset management practice, Russian cases put greater emphasis on privatisation and local government reform with the transfer of assets between federal, regional and municipal levels an area of specific priority. This can be explained as part of a natural focus given the broader reform process happening as part of Russia's move to a market economy, but in the longer term it would be interesting to examine whether Russia's development of municipal asset management widened along the lines evident in the UK or take a divergent path.

The concentration on privatisation and income generation from property meant that property itself was more integral to budget matters in Russia and as a consequence closer to the 'top-table' in decision-making. This was in contrast to the UK, where the majority of cases identified a lack of profile for property and its position in the organisational hierarchy, as a constraint to asset management. The emphasis on income generation within Russian cases whilst seemingly consistent with the philosophy of property as a productive asset was based around the need to retain ownership of assets as rental income was a significant contributing element to municipal budgets, rather than any wider exploitation of latent value of the asset base.

The organisational environment within the UK seemed more pre-disposed to supporting asset management than in Russia. There was an apparent willingness expressed by UK cases to embrace innovation, to share practice, to learn from others and to take risks. This was in contrast to Russia where compliance with procedural standards seemed to act to stifle innovation and there was a view that *it was not appropriate do things any other way*. Within the UK property management is supported by



a recognised professional qualification which is not the case in Russia. Similarly in the UK the emerging activity of asset management is being increasingly recognised as a discipline through degree courses, training and defined job roles and competencies. In Russia there is no comparable professional qualification and training is *through learning on the job*. The issue of training and availability of expertise were recognised as a constraint to effective asset management by many cases in both countries.

In the UK there was a tendency to view the portfolio's management over the longer term. Although UK cases acknowledged that this strategic perspective was poorly developed it was perhaps further advanced in the UK than in Russia. Whilst poorly developed in both countries, strategic focus was recognised as being of critical importance, with several cases acknowledging that a lack of a strategic vision for the management of their assets acted as a constraint to asset management.

The concept of corporate ownership of property was in Russia embedded as a given; perhaps as a legacy from an era without private property ownership and historical circumstances associated with municipal formation. This contrasts with the UK, where there was a tension between the asset management function trying to assert corporate ownership with service users perceiving that they were 'owners' of assets they used. This may make taking decisions on assets on a corporate rather than service basis easier in Russia than in the UK. Much of the literature asserts corporate ownership as a requirement for effective asset management and whilst the UK cases were struggling to assert this 'corporate ownership' it was in place in Russia.

#### **4.6. Key change factors for asset management**

A key theme to emerge was the view expressed across all cases that a few factors were critical to asset management and that these

could be identified. The cases revealed a high degree of conformity around what these were.

The importance of commitment through leadership as a stimulus to adopting asset management was identified by most cases. This focussed around the need for a *champion*, who can act as an advocate for asset management at senior decision making forums and secure the political will to embrace the change of attitude required to support it. It was felt that leadership was required at both an officer and political level, but most cases felt that the commitment of a Chief Executive (or Head of Administration in a Russian municipality) was of over riding importance; being best placed to secure resources and raise the profile of asset management. Although leadership was identified as important there was also a view that more than simply leadership was required; more a sense of organisational-wide commitment. This is perhaps, best summarised through the words of those interviewed as the *organisational will* of the municipality to embrace asset management.

Despite limited evidence of a long term vision for the portfolio in any of the cases, where it was evident then asset management practice was further advanced. In the UK all cases had a Corporate Asset Management Plan, as a requirement of UK best practice. In a few cases a separate document had been produced which attempted to articulate a shared long term strategy. Within Russia the planning focus for property was restricted in all cases to a single year, tending to focus on detailed programmes associated with immediate work, such as privatisation, in line with annual budgeting cycles. Indications were given that such a planning horizon would stretch to three years when Russia-wide reforms would see the introduction of three year budgeting cycles for municipalities.

There was a tangible feel to councils where asset management was furthest advanced, in contrast to those where it was less developed.

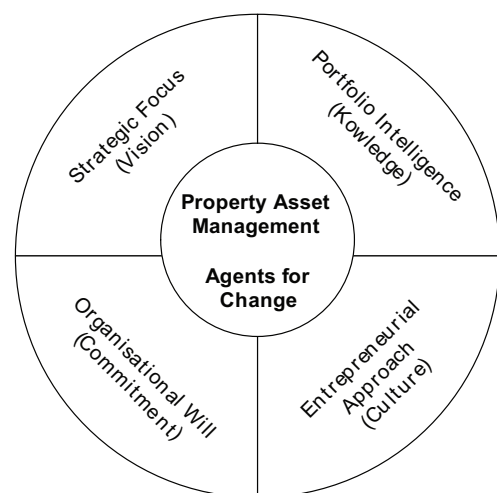
This manifested itself most notably in the motivation of the staff involved in asset management. In those organisations most supportive of asset management, staff had a high degree of self-worth as they felt the importance of property was recognised by the organisation. This was in contrast to cases where asset management was lagging. Here, there was an almost resigned weariness to asset management by practitioners themselves who were struggling to influence the organisation of its value, to secure engagement, and where progress was made *despite the organisation rather than because of it*. Whilst the existence of a supportive organisational culture as a facilitator to asset management was identified, it was not possible to define its characteristics. As well as a high degree of staff morale in more advanced cases there was an environment which seemed more open to innovation and with a more commercial attitude to its assets.

All cases emphasised the need for adequate data about the portfolio, either as a pre-requisite for asset management, or in cases where data was lacking, as a constraint. Although the extent and range of data held was different between cases, all understood what data was required and had aspirations over time to improve their data. What seemed different in cases where asset management was more developed was the level of 'portfolio intelligence'. This may link to organisational size as those councils with large portfolios may have trouble maintaining a broad range of data about property or may suffer from *much data but little intelligence*. This difference between knowledge of the portfolio rather than simple data seemed a distinguishing feature in the more developed cases and this provided a more effective basis for decision making both about individual assets and all assets collectively.

The findings from the field work were that the transformation from property management to asset management was influenced by four change factors. These are illustrated

below and echo the idea of critical success factors in asset management (Pitt, 2005; Mason, 2006). Within the UK strategic vision, senior officer and member buy-in, corporate culture and leadership are seen as the critical factors for effective asset management (Mason, 2006). Whilst echoing Mason's findings this research also suggests some differences. In common with Mason (2006) strategic vision is acknowledged as being a critical factor. Whilst senior officer and member engagement is considered important, this research points to a wider organisational commitment as being a requirement, one which can be recognised as a kind of collective commitment. Mason (2006) emphasises the importance of a prevalent working culture, which he identifies as corporate working whereas this research points to a more entrepreneurial culture as the one which is required to drive asset management. Finally, in contrast to Mason (2006), this research identifies portfolio intelligence as a key change factor with the more innovative and effective asset management decisions being made possible through more effective knowledge of the asset base which municipalities own.

**Key 'Change Factor' Identified through Extensive Survey Phase**



**Figure 5.** Asset management key change factors

### 4.7. A simple typology for asset management

Using the analysis of rationale, practice and outcomes with an assessment of the strength of the change factors it was possible to classify cases according to their maturity in asset management. This typology was developed from Lloyd’s (2007) visual definition of asset management as a transformation from property management. The four quadrants of the typology have been given a descriptive label. Each case was classified into a single typology and within each quadrant positioned to represent a point in time view of its approach to asset management. The positioning of each case in the typology was based on the relative the strength of each of the change factors at each organisation along with the measurement of rationale, practice and outcomes. The origin can be viewed as a time prior to the inception of asset management. Figure 6 then illustrates the direction and distance of travel for each case relative to this point in development of asset management.

It can be seen that the cases are clustered into three groups. The largest group, which includes four of the Russian cases are at the lowest point of the paternal stewardship quadrant; as if they have yet to really embrace asset management at all. There is a second group which has developed away from this low base of paternal stewardship into asset management but taking divergent paths in terms of development; with some positioned in the managerial efficiency quadrant, some into the visionary ambition quadrant and others advancing more directly towards, but not yet reaching, the public entrepreneurialism quadrant. There is also a final group of the three UK cases which have advanced more fully into the public entrepreneurialism quadrant. Whilst the typology presented is simplistic and the positioning of cases subjective and imprecise it does illustrate that different cases are at different stages of maturity in asset management and that there may be divergent paths in moving from property management to asset management.

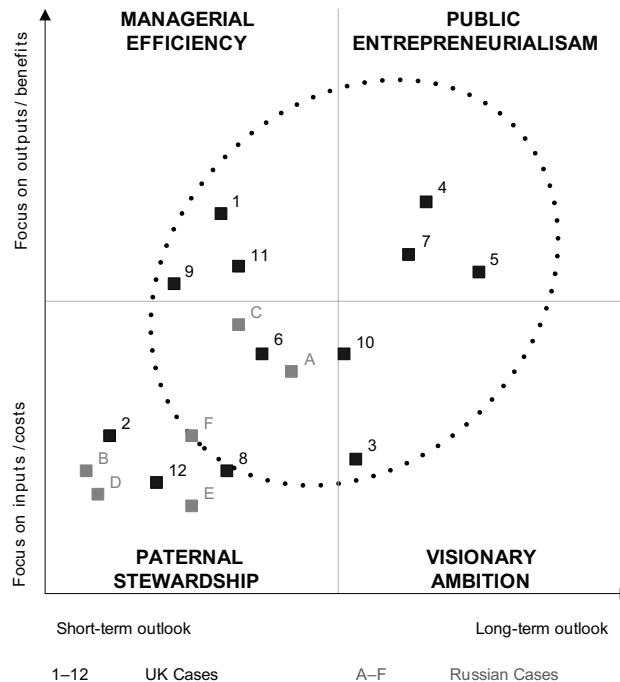


Figure 6. Positioning of case studies in the asset management typology

## 5. CONCLUSIONS

This research has examined the relationship between rationale, practice and outcomes through a comparative study of municipal property asset management in UK and Russia. Whilst there was a discernable link between rationale and practice the link between practice and outcomes was unproven.

The combination of several drivers including external compulsion and financial pressures, allied with strong internal leadership seemed to provide the strongest catalyst for adopting asset management. There were differences in the adoption of practice between cases but all were working within a 'middle band' of practice. This band of practice was relatively narrow both countries, but in Russia practice lags behind that of the UK. Both UK and Russian cases had difficulty in providing data about their portfolios in order to derive even basic output measures. This made it difficult to examine the relationship between practice and outcomes and reinforced the impression given through the literature that adoption of best practice is used as a proxy indicator for good asset management.

The research also identified a small number of critical change factors in the development of asset management from property management. These were described as organisational will, strategic focus, commercial ethos and portfolio intelligence. There was an implied dependency or sequence in these change factors. The perceived orthodoxy of transient countries lagging behind developed countries in asset management has in part been confirmed by this study with Russia seeming to lag the UK in the adoption of practice. However adoption of practice itself is not a reliable indicator of the effectiveness of asset management and this study confirms the difficulty in measuring this.

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## SANTRAUKA

### SAVIVALDYBĖS TURTO VALDYMAS: LYGINAMASIS JK IR RUSIJOS TYRIMAS

Alan PHELPS

Visame pasaulyje turto valdymas įgyja vis didesnę svarbą vietos valdžiai. Paplitęs požiūris, kad besivystančios šalys pagal turto valdymo brandą nuo išsivysčiusių atsilieka, pagal empirinius duomenis patikrintas dar nebuvo. Siekiant įvertinti, kodėl ir kaip tarybos valdo turta ir ką tuo pasiekia, iš modelių buvo sudaryta analitinė sistema ir pritaikyta atliekant lyginamąjį JK ir Rusijos savivaldybių tyrimą. Nustatytas silpnas, bet pastebimas ryšys tarp loginio pagrindo ir praktikos, tačiau ryšys tarp praktikos ir rezultatų įrodytas nebuvo. Paaiškėjo, kad Rusijoje turto valdymas pažengęs mažiau nei JK, o abiejų šalių atvejo tyrimai rodo vienodus svarbiausius sėkmės veiksnius, kurie lemia veiksmingą turto valdymą. Veiksniai apima koncentruotą strategiją, organizacijos valią, protingą portfelio sudarymą ir verslumo kultūrą. Atsižvelgiant į šių veiksmių reikšmę ir pasitelkus loginio pagrindo, praktikos ir rezultatų analizę, iš atvejų sudaryta tipologija, kuri panaudota kaip paprasta matų sistema, leidžianti organizacijas suskirstyti tiek pagal jų brandą, tiek pagal turto valdymo raidos kursą.

APPENDIX 1. Amplification of the components of the analytical framework

ANALYTICAL FRAMEWORK		
Rationale	Practice	Outcomes
<p>Statutory requirements</p> <p>External advocacy</p> <p>Financial imperatives</p> <p>Client expectations</p> <p>Leadership</p> <p>Skills &amp; capacity</p>	<p>Culture</p> <p>Governance</p> <p>Organisation</p> <p>Information</p> <p>Engagement</p> <p>Policy</p> <p>Accounting</p> <p>Implementation</p>	<p>Cost</p> <p>Condition</p> <p>Value</p> <p>Income</p> <p>Sufficiency</p> <p>Utilisation</p> <p>Functional suitability</p> <p>Client satisfaction</p>
<p>Municipalities were asked to assess the strength of influence of each driver (on a scale of 1 to 6) to give a simple understanding of the motives for introducing asset management with more specific factors under each driver examined further through interview</p>	<p>6 elements of 'graded' practice were identified for each of eight components: making a total of 48 elements of asset management practice. The adoption of 'best' each element of practice (in full or in part) was counted for each case study to provide a simple metric to position a case's implementation of asset management as a whole and also for each component. No attempt was made to weight the individual elements of practice but the relative strength of elements of practice was explored through interview</p>	<p>A single PI was identified for each of 8 perspectives of a portfolio to provide a rounded view of asset management outcomes. The specific PIs identified for each perspective tended to draw on available data (such as that in published documents) and were developed as a six point graded scale. These in combination provided a composite outcome measure. As an alternative data back-up strategy a single outcome measure was identified based on asset value less backlog maintenance as a % of net annual municipal spend</p>

APPENDIX 2. Amplification of the graded practice framework used to assess the extent of adoption of practice

<b>Asset Management Component</b>		<b>Graded Practice</b>					
<b>Philosophy</b>	<b>Culture</b>	Committed to Change <input type="checkbox"/>	Actively seeking Engagement <input type="checkbox"/>	Questioning Convention <input type="checkbox"/>	Open to Innovation <input type="checkbox"/>	Entrepreneurial Approach <input type="checkbox"/>	Improving by Reflection <input type="checkbox"/>
	<b>Governance</b>	Clarity of Responsibilities <input type="checkbox"/>	Clear Operating Protocol <input type="checkbox"/>	Effective communication <input type="checkbox"/>	Transparency in Decisions <input type="checkbox"/>	Internal Scrutiny <input type="checkbox"/>	External Scrutiny <input type="checkbox"/>
<b>Process</b>	<b>Organisation</b>	Identified Role <input type="checkbox"/>	Strategic Focus <input type="checkbox"/>	Expertise and Capacity <input type="checkbox"/>	Cross-service Approach <input type="checkbox"/>	Corporate Ownership <input type="checkbox"/>	Board-level Accountability <input type="checkbox"/>
	<b>Information</b>	Asset Inventory <input type="checkbox"/>	Categorisation of Assets <input type="checkbox"/>	Core Data <input type="checkbox"/>	Performance Data <input type="checkbox"/>	Trend Analysis <input type="checkbox"/>	Property 'Intelligence' <input type="checkbox"/>
	<b>Engagement</b>	Understand User Needs <input type="checkbox"/>	Involving Decision Makers <input type="checkbox"/>	Engaging External Stakeholders <input type="checkbox"/>	Engagement with Citizens <input type="checkbox"/>	Assess User Satisfaction <input type="checkbox"/>	Partnership Working <input type="checkbox"/>
	<b>Policy</b>	Management Objectives <input type="checkbox"/>	Short Term Action Plan <input type="checkbox"/>	Integration with Corporate Plan <input type="checkbox"/>	Service Plan Integration <input type="checkbox"/>	Individual Premises Plans <input type="checkbox"/>	Strategic Vision for Assets <input type="checkbox"/>
	<b>Accounting</b>	Asset Valuations <input type="checkbox"/>	Known Operating Costs <input type="checkbox"/>	Cost Centre Approach <input type="checkbox"/>	Opportunity Cost Known <input type="checkbox"/>	Charging Regime <input type="checkbox"/>	Depreciation Provision <input type="checkbox"/>
	<b>Implementation</b>	Work Programmes <input type="checkbox"/>	Asset Rationalisation <input type="checkbox"/>	Option Appraisal <input type="checkbox"/>	Project Prioritisation <input type="checkbox"/>	Effective Procurement <input type="checkbox"/>	Sustainable Approach <input type="checkbox"/>
		<b>Operational Focus - non-existent or ineffective asset management</b>			<b>Strategic focus - full or effective asset management</b>		

APPENDIX 3. Amplification of measures used to assess the outcomes from adoption of asset management practices

Asset Management Outcome Indicator		Asset Management Outcomes					
		<b>Good performing portfolio</b>					
		> 14 %	12 to 14 %	10 to 12 %	8 to 10 %	6 to 8 %	< 6 %
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		> 25 %	20 to 25 %	15 to 20 %	10 to 15 %	5 to 10 %	< 5 %
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		< 100 %	100 to 125 %	125 to 150 %	150 to 175 %	175 to 200 %	> 200 %
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		< 0.1 %	0.1% to 0.5%	0.5% to 1.0%	1% to 2%	2% to 5%	>5%
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		< 0.2	0.2 to 0.4	0.4 to 0.6	0.6 to 0.8	0.8 to 1.0	> 1.0
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		> 10 %	8 to 10 %	6 to 8 %	4 to 6 %	2 to 4 %	< 2 %
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		Completely unsatisfactory	Very poor	Poor	Fair	Good	Very Good
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		Completely unsatisfactory	Very poor	Poor	Fair	Good	Very Good
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		<b>Poor performing portfolio</b>					
Cost	Running Cost as % of Net annual spend						
Liabilities	Backlog as % of Net annual spend						
Value	Asset value as % of Net annual spend						
Income	Annual income as % of Net annual spend						
Sufficiency	Space per head of population (M <sup>2</sup> )						
Utilisation	Surplus property as % of total portfolio						
Functional suitability	Assessment of portfolio 'fit for purpose'						
User satisfaction	Assessment of users view of portfolio						
Quantitative							
Qualitative							