



**Australian Government**  
**National Capital Authority**

Joint Standing Committee on the  
National Capital and External Territories

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Michael J Ball AM  
Chairman

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Senator Kate Lundy  
Chair  
Joint Standing Committee on the National Capital  
and External Territories  
Parliament House  
CANBERRA ACT 2600

Dear Senator Lundy

Please find the attached Supplementary Submission by the National Capital Authority to the Joint Standing Committee on the National Capital and External Territories inquiry into the role of the National Capital Authority.

The submission addresses the Australian National Audit Office report No. 33 of 2007-08 '*The National Capital Authority's Management of National Assets*'.

Yours sincerely

**Michael J. Ball AM**  
**Chairman**  
30 May 2008

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**Supplementary Submission by the National Capital Authority**

**to the Joint Standing Committee on the National Capital and  
External Territories**

**for the Inquiry into the Role of the National Capital Authority**

**addressing the Australian National Audit Office Report No.33 of  
2007-08 *'The National Capital Authority's Management of National  
Assets'***

**30 May 2008**

1. The National Capital Authority (the Authority) met on 28 May 2008 for the first time since the conclusion (on 14 May 2008) of the public evidence to the Joint Standing Committee on the National Capital and External Territories (the Committee) inquiry into the role of the National Capital Authority.
2. The Australian National Audit Office (ANAO) Performance Audit Report (the Report) on the Authority's Management of National Assets was tabled in Parliament on Thursday 15 May 2008. The Minister for Home Affairs has announced that he has referred the Report to the Committee for consideration in relation to the current inquiry.
3. The Authority considers that the Report has been misrepresented in public comments in the media. The Authority, therefore, believes that it is imperative that it be allowed to clarify its position on the Report and correct the record. Accordingly the Authority seeks your agreement that this supplementary submission be accepted as part of the inquiry.
4. **The Authority has made it clear that it:**
  - **has welcomed the audit Report**
  - **agrees with the five recommendations as a constructive basis for improvement**
  - **and has already begun implementing the recommendations within the availability of financial and management resources.**
5. Throughout the audit process the NCA and the ANAO have been working closely and co-operatively.
6. **The Authority recognises that performance audits such as these are fundamental to constant improvement.**
7. The Authority notes that this performance audit, conducted over 15 months, was not initiated as a result of or for the current inquiry.

#### Background to the Audit

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8. The ANAO wrote to the Chief Executive of the National Capital Authority (NCA) on 29 January 2007 to advise that the Auditor-General had decided to conduct a Performance Audit of the NCA's Development, Management and Maintenance of National Assets. The audit was included in the ANAO 2006-07 Planned Audit Program.
9. The audit of the *'administration, efficiency and effectiveness of the operation of the NCA'* had been suggested to the ANAO by the Joint Standing Committee on the National Capital and External Territories. The NCA's management of national assets was selected as the subject in order to contain the focus of the audit and to produce a timely report.
10. The ANAO commenced the audit in February 2007. The objective of the audit was to assess the effectiveness of the NCA's management of its asset portfolio. This included examining the NCA's asset management systems and the management of selected contracts that the NCA has in place to maintain specific assets.
11. The NCA provided the ANAO with its response to the proposed report on 29 April 2008. In its response, the NCA agreed with all five recommendations in the report as they provide a constructive basis for improving the NCA's overall asset management framework, particularly in relation to its asset management system, internal controls and contract management procedures.
12. The ANAO Report was tabled in the Parliament on 15 May 2008.



13. **The ANAO conclusions** at page 10 of the Report state:

*The value of the national assets as at June 2007 was \$456 million. Although requiring review and update, the NCA has generally appropriate asset management policies and a documented asset management framework.*

*The ANAO examination of the NCA's recent development of a major memorial, the National Police Memorial, indicated that the NCA delivered the required outcome on time and within budget, indicating that its asset development practices are to an appropriate standard.*

*..... there would be benefit in the NCA, in conjunction with other relevant agencies, reviewing the current approach with a view to allowing the government to establish its preferred position with respect to any new diplomatic leases which balances achieving a return on diplomatic leases with its broader foreign policy objectives.*

*There is the need for ..stronger governance arrangements in relation to both asset maintenance and contract management.*

The NCA has already addressed its governance arrangements, including further education of staff delegates, to further strengthen those arrangements. This is documented in the audit Report (p. 51-52).

## Authority Comments

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14. The Authority draws to the attention of the Committee that the Chief Executive's response to the Report (included at Appendix 1 of the Report p. 81-85) included the following comments:

***One of the key challenges facing the NCA is its financial sustainability.** Accordingly, in the attached summary, I have included comments on the appropriateness of current and future funding levels for the NCA to manage the increases in the number of assets for which it is responsible and for ageing assets. This issue is particularly relevant in the context of your audit findings.*

*The full and timely implementation of the recommendations will be subject to the availability of financial and management resources, prioritisation of maintenance needs throughout the estate and the overall level of risk. Public safety and asset protection will continue to be the primary considerations in NCA decisions related to the management of administered assets.*

15. **The Authority draws to the Committee's attention the extreme concerns expressed by the Authority members at the meeting held on Thursday May 29<sup>th</sup> 2008 in reviewing the forthcoming budget for 2008-09 for the management of national assets.**

16. The Authority also draws the Committee's attention to our earlier submission to this inquiry (Part 6), and supplementary advice responding to requests from the Committee on details associated with assets and funding (together with the evidence provided at the public hearings regarding the increase in the number of assets managed), the erosion of maintenance funds (over many years), and the significant increases in utility costs.

17. **The Authority position (as set out in Part 6 of our submission to this inquiry) is that 'The current funding provided to the Authority for the maintenance of land and assets is not sufficient to care for them to the standard that their status and use warrant'.**

*The new arrangements proposed by the Authority are for 'a one-off review of the base-funding for the maintenance of land and assets managed by the Authority (and) ...supplementary funding ...for the maintenance of new assets as they are completed'.*

18. **The Authority view is that this needs to happen regardless of which agency the Government requires to manage and maintain these assets and whether or not maintenance is outsourced or in-house.**



19. The Authority comments on specific aspects of the Report are:

### Asset management framework

20. The ANAO concludes that:

*The value of the national assets as at June 2007 was \$456 million. Although requiring review and update, the NCA has generally appropriate asset management policies and a documented asset management framework.*

21. The Authority agrees with the ANAO recommendation for improvement and has commenced bringing the framework up to date.

### Asset Management System

22. The NCA has spent \$1.4 million over 10 years on its asset management system (AMS) to manage \$456 million of assets (at June 2007). This included acquisition, licences and data input (that still has integrity). This equates to an annual usage cost of less than \$180,000 per annum for an AMS that enables financial management and accountability in respect of administered assets worth \$456m (June 2007).

23. The Audit makes it very clear that the system is used specifically for asset data and to calculate depreciation. The room for improvement identified in the Report is that the current system is not fully utilised.

24. The current AMS was implemented in September 1999.

25. The total cost of the AMS is identified in the report as \$1.421m. It should be noted that these costs were incurred over a ten year period, including 8 years whilst the system was in active use.

26. Of the total \$1.421m:

- approximately \$0.830m related to the acquisition of the system. The NCA engaged independent external expert advice to assist with the scoping, procurement and implementation of the AMS. The cost of that advice is included in the acquisition cost;
- \$0.280m relates to the annual software licence fees for the use of the system;
- The AMS serves as the NCA's administered asset register and fulfils all asset accounting obligations. The NCA manages more than \$456m of administered assets and the AMS is the principal means for recording the acquisition, improvement, depreciation, revaluation and disposal of those assets. The AMS enables the NCA to meet all financial reporting requirements under the FMA Act. In these regards it is very functional.

27. The Report documents the considerable efforts made by the Authority to address the difficulties the agency was having in fully implementing the system. The audit also breaks down the \$1.4million costs (over the 10 years) clearly showing that some of these costs relate to licenses and others to data input (which continues to have integrity). The audit published the NCA response that *'The majority of the costs ...relate to the acquisition and implementation of the system up until 1999. From 2000 – 2007 the majority of the costs relate to annual licence fees. Both these costs would be attributable to any system operated by the NCA'* (p. 37).

28. The elements of functionality which are underutilised, referred to in the Report, are those which require a larger investment of human resources than the NCA budget allows. An example of such unused functionality is asset-by-asset lifecycle modelling and cost evaluation. To utilise such functionality would require the collection, entry and continual update of a large amount of additional information in relation to each of more than three thousand assets. One of the main benefits of this capability is to help asset managers determine the appropriate disposal or decommissioning date for individual assets. However, given their national significance, disposal or decommissioning is not an option for the majority of assets managed by the NCA. In this regard, investment in the use of such capability would not be an efficient or effective use of Commonwealth resources.



29. The NCA's financial statements are audited annually by the ANAO. Part of the audit process involves a review of selected business processes, key financial systems and the internal controls that support these processes and systems. The objective is to determine whether the business processes, systems and internal controls are operating effectively and can be relied upon for the production of accurate, complete and valid information for the financial statements.
30. The AMS is tested as part of every audit of the financial statements, as it is the key business system in the management of administered assets.
31. None of the ANAO financial statement audits have identified any adverse findings in regard to the integrity of the AMS for the purposes of the preparation of the annual financial statements.
32. Continuous improvement is important for the NCA.
33. The current NCA system is 10 years old and the NCA is replacing it with a contemporary AMS that is a fully integrated and less labour intensive system.

### Contract management

34. One of the key findings in the audit concerns the Open Space maintenance contract for Commonwealth and Kings Park where the NCA had overpaid the previous contractor for the provision of services and did not collect rent for a depot in Commonwealth Park used by the contractor which was owned by the NCA. The financial consequences of these deficiencies are approximately \$300,000. The NCA is taking action to recover these monies.
35. The \$300,000 identified equates to approximately 3% of the total expenditure on outsourced contracts and the contractor is no longer engaged by the Authority.
36. Importantly, the ANAO did not identify any shortfalls with the current Open Space maintenance contract.
37. The audit Report has also published that the NCA has implemented new administrative arrangements and additional purchasing and procurement training for staff that are contract managers and hold financial delegations.
38. With respect to the comments in the Report related to Scrivener Dam: the maintenance and operation of the dam are independently inspected on a regular basis by ActewAGL. The most recent (April 2008) independent Dam inspection report by ActewAGL states that the Dam ***'has been maintained and operated satisfactorily'*** and ***'the NCA's Forward works program has been reviewed and considered appropriate and satisfactory for ensuring on-going improvements and safety necessary for the dam'***.
39. The planning of maintenance and upgrade works for Scrivener Dam is documented in the 2002-2011 Works Program Schedule. This document establishes the proactive actions the NCA intends to undertake based on the condition of the dam as known at the time of preparation of the Schedule.
40. Scrivener Dam is a large and complex asset which is in active use. Accordingly, there will always be a need to undertake a range of unplanned works as part of the day to day management of the asset. In the context of financial and management resources, the NCA assesses the priority of unplanned works against the priority of the previously scheduled planned works. **High priority unplanned works must take precedence over lower priority planned works** and this has resulted in the deferral of planned works to a later period.
41. The incomplete maintenance works identified in the report were deferred because they were either rescheduled to occur in conjunction with a larger package of related works or were (at the time) of a lower priority than unplanned works recommended by the external expert dam managers. **At no time was there any danger to the dam.**



42. Public safety and asset protection are foremost in the assessment of priority for the completion of works on Scrivener Dam. Since 1 July 2003, the NCA has completed sixty-three unplanned works which were of a higher priority than some of the planned works that were originally scheduled to have occurred in that period.

43. The Authority also reiterates our view as set out in the audit Report (p. 84) that the depreciation funding model for assets has 'a fundamental flaw' because when it commenced in 1999 it did not recognise the age of individual assets. There was no back payment to provide for the expired portion of useful life of the assets. Scrivener Dam is a typical example. When depreciation funding started for the Dam it was already 35 years old. There was no back payment to provide for the expired portion of its useful life – as a result the NCA will always be behind schedule on the replacement of components of older assets, such as Scrivener Dam (p 84). Using depreciation funds (provided on this funding model) for many old, complex and significant assets (such as those managed by the NCA) means that one must constantly risk manage competing works.

### Diplomatic leases

44. **The Authority notes that any Policy in relation to rents and sales of diplomatic leases is a matter for Government – not for the NCA.**

45. The comment by the ANAO that the Commonwealth would have received \$385m over the 99 year terms of the leases compared to what it received in 'premiums' is purely hypothetical (para 3.17 page 73).

46. Comments in the media about this issue gave the impression that these losses were real and they were entirely attributable to the NCA. This is not the case. There has been no failure to collect rent and no lost actual revenue.

47. Since 1992 (when the NCA, then called the NCPA, was given this responsibility), diplomatic leases have been administered and offered by the NCA in accordance with the relevant statute and established practices in liaison with DFAT and Finance.

48. DFAT's response to Recommendation 5 (Diplomatic Leases) states that 'options be developed for government consideration with a view to establishing policy guidelines for the management of the diplomatic estate...taking into account issues of reciprocity and noting possible implications for the Commonwealth's overseas estate arising from any restrictions imposed in regard to diplomatic leasing and the absence of freehold acquisition options' (p. 77). These are issues outside the role of the NCA.

49. DFAT also states 'Australia faces...challenges in identifying accommodation options for its diplomatic missions overseas....the Commonwealth could face prohibitive costs arising from reciprocal treatment being imposed by foreign governments on leasing arrangements for Australia's diplomatic missions overseas' (p. 86).

50. The audit report speculated that, had all diplomatic leases been issued on a rental basis at 10 per cent of the unimproved capital value of the site, reviewed every two years, then the Commonwealth would have received an extra \$385m in revenue over the 99 year terms of all the diplomatic leases in Canberra. (Hypothetically, had the rental basis been 8 per cent, then the extra revenue would have amounted to \$100m. Had it been some other percentage then the figure would be different again).

51. This scenario was based on a 15 year old draft report that neither the NCA, DFAT or Finance (appear) to have put to the Government of the day and which has not been raised with the Authority (to our very best knowledge) at any time in the last ten years (until the audit found it in files) by any of these agencies or the one officer in the NCA (who had knowledge of the report).

52. Diplomatic leases are issued under the *Leases (Special Purposes) Ordinance 1925*. Leases issued under this Ordinance are concessional leases. Diplomatic leases are country specific and have a very limited lease purpose clause.
53. Diplomatic leases cannot be bought or sold on the open market. The rate at which rent is paid, currently 5 per cent of unimproved capital value, reflects the spirit of the Ordinance and is incorporated into each lease. Once a lease is executed, the rate cannot be changed. The rent review period (every 20 years) is enshrined in the Ordinance.
54. Some diplomatic leases are revenue neutral. They are the result of reciprocal agreements with other countries. It's important to note that reciprocal agreements are handled by DFAT not the NCA.
55. Two-thirds of all diplomatic leases were issued before the NCA assumed responsibility for administering diplomatic leases in 1992. Many of these had rent rates set at 2 per cent or less. Due to the requirements set out in the Ordinance, these could not be revisited.
56. As a result of this audit Report the NCA has sought the establishment of an inter-agency committee to examine diplomatic leasing policy.
57. Proposed representatives of the Inter-agency committee are:
- Attorney-General's Department
  - Department of the Prime Minister and Cabinet
  - Department of Foreign Affairs and Trade
  - Department of Finance and Deregulation
  - National Capital Authority