

## CHAPTER 2

### THE DEFENCE ESTATE

#### Introduction

2.1 In this chapter, the Committee describes the extent and scope of the Defence estate within the context of the overall Commonwealth estate. It also describes the establishment and structure of the Defence Estate Organisation (DEO) and its management of surplus properties in the Defence estate.

#### The Commonwealth Estate

2.2 The Defence estate needs to be considered in the context of the Commonwealth's overall property portfolio. This enables the size and scope of Defence's land holdings to be fully appreciated.

#### *Scope of the Commonwealth Estate*

2.3 The Commonwealth is one of the nation's major property owners. The Commonwealth's non-Defence property portfolio comprises approximately 400 properties in 50 countries valued at \$2.4 billion. The portfolio includes Australian embassies and residences overseas, and commercial office buildings, law courts, laboratories and heritage properties within Australia.

2.4 During 1999–2000, 90 properties were divested, which realised revenue of some \$295 million. Over the past three years, the divestment program has returned equity of more than \$1.3 billion.<sup>1</sup> In addition, the Department of Finance and Administration (DoFA) Property Group has a 2000–2001 Key Performance Indicator of returning equity of \$257 million to Government from the proceeds of its ongoing divestment program.<sup>2</sup>

#### *Management of the Commonwealth Estate*

2.5 The Property Group within DoFA manages the bulk of the non-Defence component of the Commonwealth estate. Other agencies, such as CSIRO, also manage minor property holdings. In 2000, DoFA contracted out the management of the estate to Price Waterhouse Coopers Pty Ltd while retaining responsibility and accountability for assets within the portfolio.<sup>3</sup>

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1 Department of Finance and Administration website, 'Divestment program'  
[www.DoFA.gov.au/property/divestment.html](http://www.DoFA.gov.au/property/divestment.html)

2 Department of Finance and Administration website, 'Introduction to Property Group'  
[www.DoFA.gov.au/property/](http://www.DoFA.gov.au/property/)

3 see the Department of Finance and Administration website at  
[www.DoFA.gov.au/property/introduction.html](http://www.DoFA.gov.au/property/introduction.html)

2.6 Owing to a greater expertise in the conduct of the ‘sale and lease back’ process, DoFA has assumed responsibility for conducting divestments using this method across the entire Commonwealth estate, including most of the Defence properties subject to ‘sale and lease back’.<sup>4</sup>

### **The Defence Estate**

2.7 The Defence estate can be considered as a subset of the Commonwealth estate but, by itself, is a very large property portfolio amounting to a high percentage of the overall Commonwealth estate.

#### *Scope of the Defence Estate*

2.8 Unlike most Commonwealth departments, the Department of Defence is responsible for management of its own properties and is a major contributor to the management of the Commonwealth’s infrastructure investment. The Defence estate comprises approximately 380 directly-owned properties covering some three million hectares and with a gross replacement value of over \$14.5 billion.<sup>5</sup> In addition, the Defence estate includes approximately 300 leased properties and also a further 500 revenue-generating leases, which are managed by DEO.<sup>6</sup> The estate includes training areas, command headquarters, airfields, ship repair facilities, office and living accommodation, warehouses and explosive ordnance storehouses spread across the country.<sup>7</sup> This includes significant properties in capital cities as well as large bases and training areas in the outback and regional Australia.

2.9 Although it is beyond the scope of this inquiry, the Committee also notes the close relationship between the Defence Organisation and the Defence Housing Authority (DHA). DHA provides approximately 20,500 residences in 50 locations across Australia for Defence personnel, of which DHA owns 60 per cent.<sup>8</sup>

### **The Defence Estate Organisation**

#### *Formation of the Defence Estate Organisation*

2.10 The way in which Defence has managed its property portfolio has seen considerable change during the past decade. This has been driven in part by changes in the wider Defence environment.

2.11 Prior to 1997, the management and control of the Defence estate was fragmented throughout Defence. While many of the functions in the management of

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4 Ms Kathryn Campbell, First Assistant Secretary, Department of Finance and Administration, *Committee Hansard*, 26 February 2001, p. 488

5 Department of Defence, submission no. 37, p. 259

6 Mr Rod Corey, Head, Defence Estate, Department of Defence, *Committee Hansard*, 16 March 2001, p. 556

7 Defence Estate Organisation homepage, [www.defence.gov.au/deo/](http://www.defence.gov.au/deo/)

8 For details see the Defence Housing Authority Website at <http://www.dha.gov.au>

the Defence estate were managed centrally within the Facilities and Property Division of the Budget and Management Program, the facilities operations functions were largely devolved to various elements in the three services (ie Army, Navy and Air Force).<sup>9</sup> The Report on Defence Efficiency Review, which was handed to the Minister for Defence on 10 March 1997, noted that managing the Defence estate is ‘unambiguously a single coordinated task, which should not be devolved other than for tenant responsibilities such as minor fit out and housekeeping’.<sup>10</sup> The report then went on to recommend the establishment of DEO as follows:

The present central and devolved functions should be combined in a Defence Estate Organisation responsible for all ‘building owner’ functions and managed on a national basis. The focus should be on corporate management (based on economic utilisation of assets) regulated by a user pays regime of internal rents. An owner tenant relationship should be established with funding of tenant responsibilities devolved to programs.<sup>11</sup>

2.12 As a consequence of the Defence Efficiency Review and the subsequent restructure of the Defence portfolio, the DEO was formed in July 1997, in order to centralise all planning and management functions of Defence’s property portfolio.

#### *Function and focus*

2.13 DEO was established to provide Defence with a centralised estate management function. In reality, this is a wide-ranging and extensive brief:

The DEO manages on a national basis, on behalf of the Defence portfolio, all buildings, infrastructure, and property as corporate assets. It is responsible for all building owner and landlord functions. The DEO manages the estate functions of investment, reinvestment, repair and maintenance, acquisition, leasing and divestment. It develops strategic planning and business policy on estate functions, manages the development and delivery of capital facilities projects, undertakes corporate estate management, provides environmental policy development and monitoring of Defence activities, and provides planning and facilities operation and maintenance support to bases and establishments throughout Australia.<sup>12</sup>

2.14 Mr Corey went on to explain that:

The business of the estate organisation is an integral element of Defence capability, and is inseparable from key Defence outputs and government requirements. The need to respond to the evolving capability of Defence requires a focus on the following major goals:

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9 Addendum to the Report of the Defence Efficiency Review—Secretariat papers, 1997, p. 221

10 The Report of the Defence Efficiency Review, 1997, p. 40

11 Addendum to the Report of the Defence Efficiency Review—Secretariat papers, 1997, p. 235

12 Mr Rod Corey, Head, Defence Estate, Department of Defence, *Committee Hansard*, 16 March 2001, p. 555

- To optimise Defence Estate outcomes for the government and the portfolio.
- To effectively manage the Defence Estate to meet the capability needs of Defence groups.
- To add value to, and be innovative in the management of the Defence Estate.
- To effectively manage the relationship between DEO, industry and the community.<sup>13</sup>

### *Structure, staffing and budget*

2.15 DEO consists of a central office in Canberra and nine supporting regional offices throughout Australia.

2.16 The central office component has four branches covering the following functions:

- a) Resources and policy
- b) Project delivery
- c) Property management (including disposals), and
- d) Estate operations and planning.<sup>14</sup>

2.17 DEO's regional offices administer varying-sized regions, focussing on delivery of the facilities operations program. This includes repairs and maintenance, minor new works, property and environment management, and ensuring a link between the end user/tenants to DEO.

2.18 Capital works are normally developed and managed from the Canberra office.

2.19 DEO has a staff of 355 military and civilian personnel, with approximately 215 located in the nine regional offices. DEO's budget for 2000–01 is approximately \$600 million.<sup>15</sup> During 1999–2000, more than 95 per cent of the total cost of managing the Defence estate was provided commercially on a competitively-tendered basis.<sup>16</sup>

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13 Mr Rod Corey, Head, Defence Estate, Department of Defence, *Committee Hansard*, 16 March 2001, p. 556

14 For further detail on these areas see the DEO website at [www.defence.gov.au/deo/documents/background.htm](http://www.defence.gov.au/deo/documents/background.htm)

15 Mr Rod Corey, Head, Defence Estate, Department of Defence, *Committee Hansard*, 16 March 2001, p. 556

16 Mr Rod Corey, Head, Defence Estate, Department of Defence, *Committee Hansard*, 16 March 2001, p. 556

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*The disposal function*

2.20 The function of disposing of surplus Defence properties is the responsibility of the two disposal units located within DEO's Property Management Group. They are:

- a) The Canberra Disposal Unit is responsible for the disposal of all surplus Defence property outside the Sydney area, currently managing the disposal of 120 properties.<sup>17</sup> It has a staff of seven personnel, headed by a Director.
- b) The Sydney Disposal Unit is responsible for the disposal of all surplus Defence property within the Sydney region, currently managing the disposal of 19 properties.<sup>18</sup> It is staffed with five personnel, comprising a Director, two Assistant Directors, a Financial Controller and an Executive Assistant.

2.21 At the request of the Committee, DEO supplied details of academic qualifications of staff in the two disposal sections. The Committee noted that few staff had qualifications specific to the disposal functions although some qualifications (eg administration and civil engineering) were not inconsistent with such functions. Throughout both areas, staff were studying for various qualifications, mainly related to the commerce/management disciplines.

2.22 DEO emphasised that most of the disposal work of the two sections has been done by consultants, which, in 1999–2000, cost \$30 million.

2.23 In response to a question whether DEO had enough expertise among its staff in order to supervise consultants, Mr Corey told the Committee:

We have established panel arrangements with the consulting industry generally and, in particular, the property consulting industry, and it is based largely on performance. We continue to employ people who perform well and whose performance is proven. That gives us more confidence in the outcome we are getting. We have had pretty much consistency with retaining our people. The jobs are quite interesting and quite challenging.<sup>19</sup>

2.24 Mr Nigel Macdonald, a consultant engaged by the Sydney Disposal Unit, told the Committee about the work of consultants:

In terms of the freedom of action, looking at sites and the constraints and opportunities, looking at the technical issues that are part of looking at the

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17 Mr Rod Corey, Head, Defence Estate, Department of Defence, *Committee Hansard*, 16 March 2001, p. 673

18 Mr Rod Corey, Head, Defence Estate, Department of Defence, *Committee Hansard*, 16 March 2001, p. 673

19 *Committee Hansard*, 2 April 2001, p. 669

disposal of a site and looking at the community issues and consultation issues is done in a collaborative manner between the consultant team and the relevant manager within the Defence Estate Organisation who manages that team. So the objectives are usually set down quite early in the piece, going through each of those categories of engineering, consultation, planning constraints, opportunities. All of those objectives are laid down quite early.

Briefs are put in place for the various consultants in terms of what they must achieve and what they must do. Then those briefs are then undertaken. Then they come back to the relevant manager in the way of a review, typically in a report. One of the methods that the Defence Estate Organisation use—quite successfully, I think—is that on things that are controversial, tricky, high risk, they tend to get them peer reviewed. So then they will get someone quite separate—a separate consultant who has not been involved in it—to come along and review the results of those reviews. That seems to be quite a powerful process in minimising risk and making sure all the issues are properly dealt with on the table. There is a degree of flexibility for the consultants in doing the role, but it is strictly within the briefs that are laid down by the relevant manager within the Defence Estate Organisation.<sup>20</sup>

2.25 Mr Corey made an additional comment:

Just to add to Nigel's view of that, we also have a periodic—three-monthly or six-monthly, in some cases—review of all the major properties as to where they are at. I will sit on that. I will chair a review. Bernard and others will sit on it. We will go through each of the properties, understand what the issues are and give some directions as to the way ahead. We continually manage the consultants that are engaged in the process; so we know where they are at, they know where they are at, and we know who is carrying what risk.<sup>21</sup>

2.26 The Committee understands the need to engage a range of consultants to cover the many disciplines required in the disposal of properties, especially those properties with contamination or with heritage or environmental values to be evaluated and, where necessary, protected. It would be impracticable to employ them within DEO. The Committee questioned DEO whether it had expertise within the organisation to supervise fully the work of consultants. Despite DEO's confidence that it had the expertise and experience necessary to supervise consultants, the Committee does not completely share that confidence. The decision in the NSW Land and Environment Court to withhold consent from two development applications in relation to the Bundock Street Defence property only serves to deepen the Committee's concern.

2.27 The question was raised in the inquiry whether DEO should be redeveloping properties to the point of seeking approval for roads and sub-divisions down to

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20 *Committee Hansard*, 2 April 2001, p. 670

21 *Committee Hansard*, 2 April 2001, p. 671

individual blocks of land. The Committee discusses this question later in the report. Suffice to say here, that, if DEO proceeds down the path of redevelopment, it needs some commercial development expertise in-house to ensure that consultant recommendations for redevelopment are, indeed, appropriate. The Committee does not believe that experience alone can compensate for lack of expertise. Moreover, if two or three experienced officers were to leave DEO, it could be left floundering without expertise or experience.

### **Recommendation**

**The Committee recommends that the Department of Defence ensure that DEO staff's personal and business skills/credentials be of the highest order to enable DEO to operate effectively with the business and broader community in this often sensitive area.**

