

3 THE DECISION TO LEASE, PURCHASE OR BUILD COMMERCIAL ACCOMMODATION

Current Arrangements

- 3.1 Despite decentralisation and devolution, the Finance portfolio still has the most significant role in property management in the APS. Under the Administrative Arrangements Orders, the Minister for Administrative Services has responsibility for the Parliamentary Public Works Committee Act and the Lands Acquisition Act and is the Government's principal adviser on property matters. The Department of Administrative Services (DAS) provides property services and advice to government and government agencies through a number of its operating divisions, principally: Australian Estate Management (AEM) which provides the government with policy advice on property matters and represents the Commonwealth as owner of real property; and Australian Property Group (APG), which, for a fee, provides a wide range of real estate services to Commonwealth agencies and represents tenants' interests to property providers.
- 3.2 The Department of Finance (DoF) provides financial oversight and advice to government on the operations and proposals of AEM and APG, as well as maintaining the financial framework to accompany the government's decisions on devolved property arrangements, that is, to recommend the resources that the departments have to pay their property requests.
- 3.3 As previously mentioned, in this devolved environment, individual departments and agencies are responsible for directing the lease, purchase or construction of commercial accommodation. In so doing, they are required to act in accordance with Commonwealth purchasing guidelines and the budget. They are subject to scrutiny from the Department of Finance, the Australian National Audit Office and the Parliament. In its submission DAS reinforced the fact that: 'there is no one government body responsible for directing the lease, purchase or construction of commercial accommodation for the Commonwealth as a whole' (Submission 6 p. 3).
- 3.4 Under the current arrangements, agencies are required to base decisions to lease, purchase or construct on rigorous financial analysis and options are selected on the basis of a number of factors including the nature of the requirement, geographical issues, access to funding, timing constraints and market forces. APG offers a range of services to assist departments and agencies to make decisions on an informed basis, although agencies have the choice as to whether to use APG (Submission 6 p. 1).
- 3.5 The Department of Defence was strongly supportive of the current arrangements and believed that it had achieved considerable efficiencies through its rationalisation of property holdings and the positive outcomes it had achieved in some recent 'commercial' accommodation decisions (Transcript p. 32).

Need for Strategic Planning and Coordination

- 3.6 The Australian Institute of Valuers and Land Economists (AIVLE) presented a case to the Committee for the establishment of a strategic policy unit to develop long-term guidelines. The National Director, Dr George Webb, highlighted the need for strategic planning:

The fact that there had to be a royal commission recently into the leasing of space within Centenary House I believe illustrates the uncoordinated approach which has developed in the handling of this matter and the urgent need to have a long-term strategic policy put into place (Transcript pp. 70-71).

- 3.7 In its submission AIVLE recommended that the strategic policy unit be established within either the Department of the Prime Minister and Cabinet or the Department of Finance. However, the Institute was prepared to consider an additional option, that of strengthening AEM with regard to its range, authority and staffing, contracting out some of AEM's functions and improving coordination between AEM and APG. The Institute emphasised that 'There is a need for all government departments and agencies to respond to the guidelines established by the strategic policy unit' (Transcript p. 71).
- 3.8 The Institute was unable to quantify the actual financial gain which could be achieved for the Commonwealth by a central planning unit and more effective contracting out, but drew on the example of the NSW Property Services Group as a model. According to Dr Webb, the strategic plan adopted by the estate management division of the Property Services Group is expected to save the NSW government \$100 million over the next 12 years (Transcript p. 75).
- 3.9 According to the Institute, an additional advantage of the NSW model is that the Property Services Group maintains a centralised property register and a database which reflects any future requirements in terms of expansion and contraction. Mr Roger Green, Chairman of the NSW Land Economy Professional Board, informed the Committee that 'there is a central control through the database' and that 'there is a general directive to deal through a central property agency' (Transcript p. 77).

Proportion of Owned/Leased Accommodation

Commonwealth

- 3.10 The Commonwealth has traditionally owned and leased real estate to meet its requirements, with the ratio of owned to leased accommodation varying depending on the level of demand and locational requirements. The benefits of this approach, according to DAS, are that a mixture of owned and leased accommodation distributes the risks which arise as a result of the cyclical nature of the property market (Submission 6 p. 4 and Transcript p. 7). Currently the office accommodation portfolio managed by AEM comprises 30% of owned office space, with the remaining 70% being leased from the private sector.

- 3.11 The Committee sought evidence of the historical proportion of owned to leased space. In a supplementary submission, DAS informed the Committee that the proportion of owned space has decreased from 1976/77, while the proportion of leased space has increased. The following table refers:

Year	% Owned	% Leased
1976/77	51	49
1980/81	46	54
1989/90	28	72
1993/94	34	66
1995	30	70

(Source: Submission 6 p.5 and Submission 14 p. 1)

State

- 3.12 By contrast, in NSW the proportion of owned to leased accommodation was roughly 50:50, but, according to representatives of the AIVLE, in the large cities the ratio might well be slanted more to leased than owned. (Transcript p. 81) Mr Henry Street, a member of the AIVLE, advised the Committee that 'there are many different formulae ... I do not think there is any hidden formula' and that 'every single opportunity (should) be financially assessed' (Transcript p. 82).

International

- 3.13 In Australia, the proportion of owned accommodation is, according to DAS, 'amongst the lowest in the world' (Submission 6 p. 4). The following table shows some examples:

Country	% Owned space	% Leased space
Australia	30	70
United Kingdom	35	65
USA	53	47
Canada	59	41
Sweden	60	40

(Source: Submission 6 p. 5)

- 3.14 Unlike Australia, Canada has a relatively high proportion of owned accommodation. The Committee wrote to the Canadian High Commission seeking further information on Canada's approach to property management. The Committee was interested to learn that, while there is no overall government policy related to ownership versus leasing, it is government policy that 'departments acquire, maintain, preserve, and dispose of real property, land and accommodations, based on the maximum long term economic advantage of the government, in accordance with effective program use' (Submission 17 p.1). In Canada, special purpose space, not generally available on the open market, is more likely to be owned than is a general purpose office space which is more generally available at competitive rates. Reference was also made to the fact that 'while

each custodian is held accountable ... for managing their property holdings based on the maximum long term economic advantage of the government, it is reasonable to say that in a time of downsizing the government is seeking creative ways to finance property operations to minimise current cash flow' (Submission 17 pp. 1-2).

Property Resource Agreements

- 3.15 Like responsibility for decision-making, funding for property services has also been devolved, with property users being required to pay full property costs, including rental and associated payments for government owned accommodation. Departments and agencies are funded for these services through their Property Operating Expenses appropriations which are based on Property Resource Agreements (PRAs) negotiated with the Department of Finance. The first stage of the implementation of the property reforms, of which the PRAs are an integral component, occurred in 1989 when funds from the central property provider were devolved to user agencies. The second stage of this process - developing PRAs, including a detailed scrutiny process - was to have been completed by the 1993-94 Budget, but with the requirement for further clarification, this process is only now coming to a conclusion. Since the 1992 budget, property budgets have been incorporated within the individual agencies' running costs.
- 3.16 Property Operating Expenses are specifically identified in departmental budgets as a separate line item to cover rent, and other property costs valued at less than \$6 million. Such funding is quarantined and may not be applied to other uses. Property Resource Agreements provide some flexibility for departments and agencies to determine how they will address their property needs over the medium term against an agreed level of funding.
- 3.17 The Department of Finance provided the Committee with four Estimates Memoranda issued to all departments and agencies. These memoranda refer to incentives, tenant responsibilities, property scrutiny, PRAs and other related matters. The Memoranda are attached at Appendix 6.
- 3.18 The Australian Customs Service (ACS) informed the Committee that, in order to equip itself to negotiate the PRA, it contracted a private advisory service to assist Customs in both the property scrutiny and the PRA negotiations. ACS's special requirements in relation to the management and disposal of special purpose buildings and heritage buildings pose special challenges. These matters are discussed further in section 5, dealing with the Committee's third term of reference.

ACT Town Planning

- 3.19 The special needs of the ACT were drawn to the Committee's attention by the National Capital Planning Authority (NCPA) and the ACT Planning Authority (ACTPA). Land in the ACT is controlled by AEM, the NCPA and the ACT Government, with the majority of land in the Territory under the control of the ACT Government (Submission 14 p. 5). Commonwealth offices make a significant contribution to the ACT economy, particularly in terms of building floorspace and employment location. The significance of government offices is reflected in the legislation dealing with National Land and planning policies in both the National Capital Plan and Territory

Plan. The National Capital Plan requires Commonwealth departments to refer their development proposals to the NCPA. If the proposal is within a Designated Area, NCPA assesses consistency with the National Capital Plan. For National Land outside the Designated Area, the National Capital Plan requires the NCPA to prepare Development Controls Plans reflecting the provisions of the Territory Plan (Submission 4 pp. 2-5).

- 3.20 As outlined in Estimates Memorandum 1993/2, agencies remain tied to AEM and APG for property services in the ACT. Mr Keith Burnham, Acting Director of the National Capital Plan Unit, NCPA, elaborated:

... agencies are ... required to demonstrate that any accommodation proposal complies with the National Capital Plan as applicable to developments or leasings upon either territory or national land and to obtain from APG advice on the controlled office environment set by AEM relating to the owned estates and new leases in the ACT. Before any accommodation proposal is adopted, APG will certify that all these requirements have been met. So departments have to work through APG and notify APG of their accommodation proposals (Transcript p. 93).

- 3.21 In its submission, the ACT Planning Authority pointed out that information about Commonwealth government office strategies, and data about employment and floorspace by location is no longer available, and that that information which is available is out of date:

Until 1989, data were available on employment, floorspace and government/private occupancy from the National Capital Development Commission office inventory. This data base is now compiled and updated by the Building Owners and Managers Association, but it no longer includes type of occupancy.

The Department of Administrative Services produced an annual survey of Commonwealth office holdings by department, location, employment numbers and floorspace. The last year for which this information was obtained was 1988.

The Department of Finance publishes annual Australian Public Service employment by department, but this does not include location or floorspace (Submission 4 p. 6).

- 3.22 The ACTPA also pointed out that it is unclear 'which Commonwealth authority is responsible for coordinating office accommodation and providing information about Commonwealth office accommodation needs and strategies to NCPA and ACTPA' and that it would welcome 'liaison with the ... agency responsible for Commonwealth government office accommodation in the ACT to obtain information about Commonwealth government office strategies, and data about employment and floorspace by location in the ACT' (Submission 4 p. 6).

Conclusions and Recommendations

3.23 As previously stated, the impact of decentralisation of property management functions and the devolution of responsibility for decision making to individual departments and agencies has created a situation where it is extremely difficult to gather a comprehensive picture of property management in the Australian Public Service. The Committee is concerned that the current devolved arrangements, whereby agencies make their own decisions about building, leasing or purchasing, may not necessarily be in the best interests of the Commonwealth as a whole, since agencies are operating independently of each other, without access to the full range of Commonwealth assets and without guidance from a central source of coordination and planning. The Committee is concerned about the lack of a coordinated strategic plan in the management of Commonwealth property.

3.24 The Committee is sympathetic to the view of the AIVLE that a central strategic planning unit would provide better coordination, and notes the suggestion that this could be achieved by strengthening the role of AEM and ensuring better coordination between that body and APG. The Committee recognises that, in this climate of decentralisation and devolution, it is not appropriate to restore the full extent of the former centralised DAS arrangements described in paragraph 2.1. At the same time the Committee recognises the benefits to individual departments and agencies of the flexibility provided by the Property Resource Agreements. However, the Committee is also sympathetic to the arguments submitted by the ACT Planning Authority on its need for data to assist planning in the Territory. Such data are likely to be able to be provided by a central coordinating strategic planning unit, which could be accomplished by creating such a unit within the Department of Administrative Services or the Department of Finance.

3.25 **The Committee recommends that:**

- **a strategic planning and coordinating unit on Commonwealth property be established; the unit could be established within the Department of Administrative Services or the Department of Finance.**

3.26 The Committee also notes the long-term trend to leasing over ownership, as distinct from the higher ownership rates in the USA, Canada and Sweden. While some members of the Committee prefer on principle a higher proportion of ownership, the Committee emphasises that it is not in a position to make a recommendation in relation to the proportion of property which should be owned or leased. However, the Committee believes that a retrospective review of the costs and benefits of leasing versus ownership on a number of properties would be of assistance in determining whether the Property Resource Agreement process achieves optimum outcomes.

3.27 **The Committee recommends that:**

- **a retrospective review of the costs and benefits of leasing versus ownership on a number of properties be undertaken to determine whether the Property Resource Agreement process achieves optimum outcomes.**