

4 COMMONWEALTH MANAGEMENT OF COMMERCIAL PROPERTY

Role of the Commonwealth

Management of Commonwealth Owned Estate

- 4.1 As mentioned in the previous section, Australian Estate Management's (AEM's) role in the management of Commonwealth property is to provide the government with policy advice on property matters and to represent the Commonwealth as owner of real property. The properties in the Commonwealth owned estate range from major capital city office buildings to vacant rural lands.
- 4.2 AEM currently has quite specific responsibilities which include:
- . administering the *Lands Acquisition Act 1989* on behalf of the Minister;
 - . providing advice to Government on Community Service Obligations and the Non-Commercial Estate;
 - . managing the commercialised Office Estate (involving some 170 properties worth about \$1.5 billion);
 - . managing the Non-Commercial Estate (comprising about 280 properties, valued at almost \$329 million);
 - . administering the Industrial and Special Purpose Estate (about 189 properties valued at about \$728 million);
 - . managing the disposal of civil surplus land on behalf of government;
 - . sponsoring and managing major office construction projects;
 - . overseeing mining and exploration activities on Commonwealth land; and
 - . managing heritage and environmentally sensitive properties in the Commonwealth estate (Submission 6 pp. 7-8).
- 4.3 In managing the commercial estate, DAS emphasised that this is taken to mean 'all property of a non-residential nature within Australia' (Submission 6 p. 3). The commercial **Office estate** comprises nearly one million square metres and ranges in size from 49 square metres in Bowen to 53,000 square metres in Melbourne. Some 46% of the total is located in the ACT. AEM manages fully the investment in the office estate, including investment, acquisition, construction, management and divestment of office properties. AEM charges market rentals to its tenants and recovers its operating costs. The office estate is managed on a fully commercial basis.
- 4.4 In managing the **Industrial estate and the Special Purpose estate**, AEM collects on behalf of the budget a capital use charge based on 'Highest and Best Use' which is,

without deductions, returned to consolidated revenue. Agencies using this estate have full management responsibility for the properties they occupy and are required to meet the associated costs. The industrial and special purpose estate properties are managed on a quasi-commercial basis.

- 4.5 By contrast, the **non-commercial estate** is made up of properties which are in part surplus to requirements, have no identified user or are leased by non-Commonwealth tenants. This estate provides limited recurrent revenue and usually involves strategically and/or publicly sensitive properties requiring complex management. Property in the non-commercial estate does not lend itself to commercial property management, but is managed, according to AEM, as efficiently and effectively as possible in the public interest (Submission 6 pp. 8-9 and Transcript p. 13).
- 4.6 AEM fulfils its property management functions through the activities of three functional groups - Investment, Development and Property Management. Details are as follows:

The **Investment group** is responsible for considering new investments on the basis of potential financial performance. This involves the analysis of potential performance using an AEM developed and Department of Finance approved financial analysis model based on Discounted Cash Flows. Investments are expected to provide an Internal Rate of Return which exceeds the Government's long term borrowing rate plus a risk margin. Investment proposals are judged solely on the merit of the investment. The assessment methodology is the same for acquisition and construction proposals.

The **Development group** is responsible for all new office construction and is expected to deliver projects on time and ahead of budget. Its principal measure of performance is the equivalent of 'developers profit', the difference in percentage terms between cost and value at practical completion. In the management of the construction program, which currently exceeds \$700 million of work in progress, the organisation has adopted reforms flowing from the Construction Development Authority and uses such techniques as partnering and Value Management studies to seek efficiencies in the development process. The quality of construction meets the Building Code of Australia.

The **Property Management group** is responsible for the day to day management of the office estate and the non-commercial estate. The majority of people in the organisation work in this area. The office estate is diverse in terms of location, quality, size and age. Overall the performance of the estate is judged on the basis of Return on Investment (Submission 6 pp. 9-10).

Property Management Services

- 4.7 The Australian Property Group (APG), provides real estate services to Commonwealth agencies. According to DAS, APG is 'the only national property service business in Australia that exclusively represents the interest of tenants in all lease and lease management matters' (Submission 6 p.11). The services which APG provides are as follows:
- . day-to-day management of utilities, comfort and occupational health and safety issues such as cleaning, operation of building services and the like;
 - . recurrent management of landlord relations in matters such as insurance, repairs and maintenance, rent reviews and lease renewals;
 - . management of repairs and maintenance where those are tenant responsibilities; and
 - . management of inter-agency relationships and finances where several agencies occupy the same premises (Submission 6 pp. 11-12).

Private Sector Proposals

- 4.8 The Real Estate Institute of Australia (REIA) made claims in the evidence provided to the Committee that the private sector could manage Commonwealth property more efficiently and effectively than AEM and APG. In its submission REIA stated that 'the costs of managing the Commonwealth's property can be reduced' and that 'returns on property assets can be substantially improved' (Submission 9 p.1). When asked if the Institute would be able to quantify some of the cost savings, Mr Keith Conley, Policy Adviser told the Committee:

We would certainly like to do that. One of the constraints on our ability to do so is that we cannot get our hands on a comprehensive list of Commonwealth properties. We have put in requests, but so far nothing has been forthcoming (Transcript p.63).

- 4.9 The Committee provided the REIA with various AEM property registers, including a list of property administered by AEM (as provided to the Senate Finance and Public Administration Legislation Committee at its Additional Estimates hearings in December 1994) and the register provided by DAS to this Committee's inquiry. The Institute has not qualified its claims with any concrete evidence.
- 4.10 The Institute made a number of proposals and recommendations, including giving local real estate agents responsibility for managing the property needs of the Commonwealth in rural areas of Australia; reviewing the management of the Commonwealth's portfolio of properties in the major cities with the aim of realising pent-up values; and paring back the size of AEM and APG leaving them with a coordinating role only.

Rural Properties

- 4.11 The main argument advanced by REIA for transferring responsibility for managing the property needs of the Commonwealth in rural areas of Australia was that local knowledge, continual presence and the opportunity to continually monitor the local market opportunities would produce a better result than that currently achieved by AEM and APG.

City properties

- 4.12 In relation to the management of city properties, the REIA expressed the view that departments and agencies should be relocated to less expensive, regional accommodation and lease out their CBD properties at a higher rate thereby maximising profit. The Institute summed up this proposal by stating that, 'Unlocking the pent-up capital within these assets could also substantially help the government reduce its deficit' (Submission 9 p.5).

AEM/APG Downsizing

- 4.13 In relation to the proposal to pare back the size of AEM and APG, REIA questioned the need for the government to run its own property management business (APG) at all, particularly since APG's monopoly right to servicing Commonwealth departments no longer exists. At the same time the Institute saw little rationale in AEM collecting rents from other parts of government, a function which it maintained could be performed by the private sector. The downsizing proposal envisaged that AEM/APG would be limited to a coordinating role only. REIA's proposal suggested that the Commonwealth should only maintain core competencies in areas in which the private sector would not have interest. Mr Philip Eliason, Chief Executive Officer, summed up the Institute's opinion in this regard:

We are not here today to say, 'Let's close down both areas of DAS.'
We are here to say, 'Reduce both areas of DAS to core public interest competencies; open a revolving door between those organisations and the private sector where competencies and quality assured business practices exist; trim down operating costs; and pass back, particularly to regional and rural Australia in the first instance, a range of work in either property management, property location or other property services (Transcript p.60).

DAS Response to Private Sector Proposals

- 4.14 The Department of Administrative Services (DAS) responded to the claims and proposals presented by the REIA in its supplementary submission. Dismissing as 'wild suggestions' that a fully commercial model was not being applied (Transcript p. 123), DAS argued that the Institute had provided little or no evidence to support its claims. The Department pointed out that:

The Commonwealth Government has opened its property service and delivery functions to competition from the private sector, eg. tenant departments are free to lease office space from the private sector. The private sector will win business where it can demonstrate better value for money to the Commonwealth (Submission 14 p.6).

4.15 In addition the Department also stated that:

AEM's performance is measured against commercial benchmarks and is subject to ongoing scrutiny by the Parliament. Its office provision activities produce demonstrable savings to the government and taxpayer;

(and that)

APG actually operates on a full commercial basis and has produced successive profits and dividends on its operations since commercialisation on 1 July 1989 (Submission 14 p.7).

- 4.16 While further detail about AEM's and APG's effectiveness and efficiency, together with some useful performance indicators are included in section 5 of this report, DAS also provided a report from the United States General Accounting Office (GAO) in support of its claims. The report, *Real Property Management - Reforms in Four Countries Promote Competition, 1994*, compared the performances of real property management in Australia, Canada, the United Kingdom and Sweden. Its preliminary findings confirm that improved economic performance has been achieved in Australia as well customer needs being satisfied (GAO Report, p. 4 - Attachment to Submission 14).
- 4.17 In relation to REIA proposals for rural properties, DAS advised that property management is already outsourced to the private sector in remote localities where it is financially prohibitive to provide the service. DAS also pointed out that there are also particular circumstances in which DAS provides services in these areas where the private sector is unwilling to do so or where the tenant department has specifically asked DAS to undertake the service (Submission 20 p. 7).
- 4.18 The DAS response to the REIA proposal regarding management of city properties can be inferred from paragraphs 4.14 - 4.16 above, where DAS emphasises that it is operating on a commercial basis which is profitable and meets the needs of its customers.
- 4.19 In relation to the proposal to downsize AEM/APG, DAS responded that the majority of AEM's work is already outsourced in the areas of valuation, survey, legal, architecture, construction and asset management and that there is also significant outsourcing of acquisition, and sales activity and some property management. Further, DAS argued that the Commonwealth government's property operations are already open to competition and that this competitive environment ensures that staffing levels in government property organisations are set at a level which supports the long term viability of the organisation (Submission 20 p. 7).

Training and Qualifications of Staff

4.20 The Australian Institute of Valuers and Land Economists (AIVLE) drew to the Committee's attention the importance of bodies such as AEM and APG being staffed by qualified staff. The Institute noted in its submission that staff not only need property management experience, but also need to have a solid understanding of government policies:

... the final decisions should be taken within government by professional staff who have the capacity to understand fully the implications of the advice received, whether from internal or external courses, and see the whole picture in the light of broader government policies (Submission 7 p.4).

4.21 DAS provided a list of the qualifications of the management staff of both AEM and APG. The lists present convincing evidence that a high degree of qualified staff make up the APG and AEM teams (Submission 20 Attachment A). The list is included at Appendix 7.

Conclusions

4.22 The Committee believes that the Commonwealth should have the responsibility to ensure that its estate is managed efficiently and effectively. Although it is discussed more fully in the next section, DAS provided evidence of the effectiveness and efficiency of AEM and APG. DAS also provided convincing evidence that staff employed by AEM and APG are well equipped in terms of training and qualifications to manage that portion of the Commonwealth estate for which they are responsible.

4.23 While some members of the Committee would prefer on principle that the private sector be more involved in managing Commonwealth property, other members take the opposite point of view and are not convinced that the proposal advanced by the private sector, namely that it could manage Commonwealth property more effectively and efficiently than AEM and APG is credible. The Committee notes that it is government policy for AEM and APG to operate in a competitively neutral and commercial way and it is argued that effective competition enhances the efficiency of Commonwealth property management. The Committee supports the efforts made by AEM and APG to operate efficiently, and at the same time to ensure the highest quality of management of government property. It is also desirable that the comparative performance of property in terms of investment criteria and management efficiency are under constant review to encourage improvement.