

5 EFFICIENCY IN THE USE OF OFFICE ACCOMMODATION AND OTHER COMMERCIAL PROPERTIES

Efficient and Effective Use of Assets

5.1 As previously mentioned, the responsibility for ensuring the efficient and effective use of assets (including property) under their control rests with secretaries of departments and their equivalents in other agencies. DAS informed the Committee that these arrangements 'are intended to encourage efficiencies and economies in the management of commercial property' by balancing:

- . freedom of choice for individual agencies, through untying, which provides agencies with increased control of total resources applied to their overall property objectives, and maintains pressure on property service providers for quality services; and
- . the aggregation of buying power and consideration of non-financial issues for those services which remain tied (particularly in relation to services provided by AEM within the ACT), or where the use of untied services represents the best value of money to agencies (as is the case with many APG services) (Submission 6 p. 13).

AEM Efficiency and Effectiveness

5.2 In its submission DAS presented a case for the efficiency and effectiveness of AEM, arguing that the centralisation of the management of a significant portion of the Commonwealth's owned property portfolio with AEM generates efficiencies such as:

- . operating costs which are one percent of the value of the estate managed, which compares favourably with the management fee applied by portfolio managers in the private sector;
- . a rate of return of 9.66% (in 1993-94), which compares favourably with the BOMA Property Index figure of 4.8% for office properties in Australian CBDs;
- . a vacancy rate of less than 2% nationally, which compares favourably with the vacancy rates of well over 20% in some major cities; and
- . a reduction in the Commonwealth's repair and maintenance bill from over \$32 million annually in 1988 to about \$19 million annually, savings which have been achieved by the application of commercial performance measures in the operation of the estate (Submission 6 pp. 13-14).

5.3 In addition, the professional management of the Commonwealth's office construction program has resulted in significant savings and generated profit of construction; while professional rationalisation of the office estate has provided some significant returns to the budget (Submission 6 p. 14).

- 5.4 DAS summarised the achievements of AEM by referring to the fact that the centralisation of the management of a significant proportion of the Commonwealth's owned property portfolio with AEM 'has enabled the Government to take advantage of rationalisation opportunities through acquisition, disposal, and construction options which would not have been achieved in a totally devolved environment' and that AEM also provides 'a highly cost effective portfolio management service to Government'. The benefits of the 'bulk buying' power of AEM and APG were also highlighted (Submission 6 pp. 7 and 16; Transcript p. 5).
- 5.5 DAS also provided a supplementary submission which summarised the performance indicators for management of AEM's National Office Estate. They are as follows:

Performance Indicators	%
Capital Growth	0.85
Net Yield	10.76
Net to Gross Income	79.86
Rate of Return (DoF)	9.66

(Source: Submission 20 Attachment C p. 1)

- 5.6 Some agencies were critical of some aspects of AEM's practices. For example, the Australian Customs Service suggested there was a need to align formal tenancy practices with commercial reality, so that the agency vacating a property is not responsible for rent and outgoings while waiting for AEM to find a new tenant; that the running costs property index should be used as the basis for AEM rent reviews; and that being tied to AEM in the ACT presented special difficulties (Submission 5 p. 3). As previously mentioned, the Real Estate Institute of Australia was also critical of AEM, but provided no evidence for its criticisms; while the Australian Institute of Valuers and Land Economists (AIVLE) referred to the need for improved coordination between AEM and APG (Transcript p. 77).

APG Efficiency and Effectiveness

- 5.7 DAS also presented a case for the efficiency and effectiveness of APG. According to DAS, APG has consistently produced profits since the introduction of commercialisation in 1989-90; returned annual dividends to the government over the same period; demonstrated productivity gains across the business; and consistently improved service delivery. APG operates on a full commercial basis and has produced successive profits and dividends on its operations since commercialisation on 1 July 1989 (Submission 6 pp. 15-16 and Submission 20 p. 7).
- 5.8 DAS also argued that APG is able to use the aggregate purchasing power represented by its market share, coupled with specialist property and project management skills, to minimise overall Commonwealth property costs. The submission emphasised that 'APG operates in an untied market' and that 'its services are used to the extent that these represent value for money to departments and agencies, which are generally free to seek services from the private sector should they so decide' (Submission 6 p. 16).

- 5.9 Very little evidence was received from departments and agencies about the services provided by APG. The Australian Customs Service told the Committee that APG is used in 99% of its transactions for leased space, although it is intending to go to public tender in the future (Transcript pp. 52-53).

Vacancy Rates and Refurbishment

- 5.10 The issue of vacancy rates and refurbishment was of particular concern to the Committee. As previously mentioned, according to DAS, the vacancy rate of AEM holdings is of the order of 2% nationally which compares favourably with the vacancy rates in the major cities (Submission 6 p. 14).
- 5.11 The AIVLE pointed out that 5% of Commonwealth office space should be left fallow at any one time, in order to undertake refurbishment and renovation (Transcript p. 84). This creates special problems for agencies, which in a devolved environment, are unlikely to voluntarily give up their property for refurbishment. Mr Peter Barrington, a life member of AIVLE, told the Committee that it was his view that the property-owning unit of the Commonwealth should pay for this (Transcript p. 85).
- 5.12 Mr Christopher Murray, Senior Planner, National Capital Planning Authority, told the Committee that vacancy rates in the ACT were lower than elsewhere because the ACT was seen as a 'very safe office environment' but that this created 'disbenefits' in terms of 'the space not being there ... to move your refurbishment cycles through' (Transcript pp. 99-100).

Heritage Buildings

- 5.13 The special arrangements for heritage buildings were also of particular interest to the Committee. Ms Catherine Argall, General Manager of AEM, told the Committee that, while one of DAS' specific responsibilities was 'managing heritage and environmentally sensitive properties in the Commonwealth estate':
- ... there are no explicit allocations for heritage properties. They are managed as part of the whole ... in accordance with the Australian Heritage Commission Act ... (although) that has to be balanced within budgetary constraints (Transcript p. 26).
- 5.14 DAS also explained that separate government funding can be and has been sought for heritage works in certain circumstances, such as the Newcastle Customs House, because of the extensive damage sustained by the property as a result of the Newcastle earthquake (Submission 14 p. 4).
- 5.15 The Department of Finance confirmed that there is a special appropriation that is provided to AEM for the costs of the non-commercial estate, and that AEM and other agencies responsible for the expenditure could approach the government in the budgetary process to seek additional funds (Transcript pp. 111-112).

- 5.16 Australian Customs Service, one of the largest, if not the largest occupier of heritage buildings, drew the Committee's attention to the problems it experienced in the management of heritage buildings, such as energy management and some occupational health and safety regulations. Ms Suzanne Pitman-Hobbs, National Manager, Budgets, explained:

I guess at times we have a tension between the heritage value of the building, accommodation standards and our ability to manage within a fixed budget. The situation with the skylight is an example of where we have had to consider carefully the impact of replacing that skylight on the energy efficiency of the building. Energy efficiency is not just something on which we will have to report and where we will have to demonstrate that we have been able to improve our performance; it is also something that affects our bottom line in terms of electricity outgoings, for example. So in looking at the heritage values we have to weigh them up against both the financial implications and the impact on staff and our operations (Transcript p. 47).

- 5.17 ACS currently occupies only five remaining heritage buildings - two customs houses in Victoria, two in Queensland and one in Launceston (Transcript p. 49).
- 5.18 Disposal of heritage buildings has also been faced by the Department of Defence. In such cases, the Department told the Committee that a caveat is placed on the buildings to be sold as to what could be done with them, and that in some cases the title is not transferred, rather a 99 year lease or 199 year lease is transferred (Transcript p. 34).

Conclusions and Recommendation

- 5.19 The Committee views the current arrangements favourably, and is impressed with the evidence provided about the effectiveness and efficiency of AEM and APG. However, the Committee notes that some of the measures of the effectiveness and efficiency provided by AEM and APG do not aid an objective assessment of their comparative performance. Comparing the return rate (of 9.66%) on Commonwealth property to the BOMA Property Index is not helpful unless the methodology behind both figures is known. Similarly, comparing a vacancy factor of the Commonwealth estate with a broad measure of vacancies in some CBDs is of little value. More effective efficiency and performance measures should be developed as part of an enhanced strategic management process as recommended at paragraph 3.25. The Committee believes it is vital that, with nearly 3.5 million square metres of office accommodation either owned or leased by the Commonwealth, a consistent assessment of the efficiency of the management and use of that space be made. The Committee is also aware that the Auditor-General is currently preparing a report on AEM's management of the Commonwealth's property leases. The outcome of the Auditor-General's report will be noted with interest.

- 5.20 As previously mentioned, the Committee believes that there is a case for improved strategic planning and coordination and that this could be achieved by improving coordination between AEM and APG and establishing a strategic planning and coordinating unit. Additionally the Committee sees merit in AEM accepting a more central role in property management in order to provide for the refurbishment of property without involving individual departments and agencies bearing the costs separately.
- 5.21 The Committee is concerned that expenditure on heritage buildings has to compete with other demands within AEM's budget. The Committee notes the commitment given by AEM officers to the importance of the maintenance of heritage buildings, but, with competing demands on a limited budget, the danger is that this important aspect of property management may not be able to be sufficiently maintained to ensure that these important part of Australia's heritage are kept within the Commonwealth estate - whether these be customs houses, post offices or other historical buildings.
- 5.22 The Committee is pleased to note the recent formation of a Committee of Review into Commonwealth Owned Heritage Properties. The Minister for Communications and the Arts, Michael Lee MP, announced that the review will 'examine the management of these properties to better ensure their conservation and the enhancement of the cultural landscape' (Submission 22 Media Release) The Committee will await the outcome of the review with interest.

5.23 The Committee recommends that:

- . a separate allocation be made for government bodies occupying heritage buildings which provides for the additional costs associated with the management and maintenance of heritage buildings.**

Robert Bell
Chair