

Administration of the Commonwealth's Property Functions

Report

272

Joint Committee of
Public Accounts

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

REPORT 272

ADMINISTRATION OF THE COMMONWEALTH'S
PROPERTY FUNCTIONS

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DUTIES OF THE COMMITTEE

Section 8.(1) of the Public Accounts Committee Act 1951 reads as follows:

Subject to sub-section (2), the duties of the Committee are:

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth including the financial statements transmitted to the Auditor-General under sub-section (4) of section 50 of the Audit Act 1901;
- (aa) to examine the financial affairs of authorities of the Commonwealth to which this Act applies and of intergovernmental bodies to which this Act applies;
- (ab) to examine all reports of the Auditor-General (including reports of the results of efficiency audits) copies of which have been laid before the House of the Parliament;
- (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in mode of receipt, control, issue or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

and include such other duties as are assigned to the Committee by Joint Standing Orders approved by both Houses of the Parliament.

PREFACE

In its 241st report, tabled in September 1985, the Public Accounts Committee concluded that many questions remained unanswered concerning the effectiveness of the Commonwealth's management of its extensive property holdings. The Committee was particularly concerned that, despite the creation of the Property Directorate in 1980, many of the problems identified in earlier reviews still existed. The Committee stated in that report that it would examine the wider issue of property management.

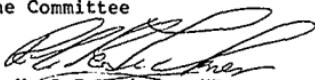
The Commonwealth currently owns and leases about 23,000 properties valued at over \$6 billion. The rent it pays amounts to approximately \$300 million a year. In view of the scale of these operations, inefficiencies in the delivery of property operations can place significant additional burdens on taxpayers.

The present Inquiry commenced in June 1986 in response to the concerns expressed in the Committee's 241st report, the problems identified in recent Audit reviews and the perception that there has been a lack of progress.

Subsequent to the commencement of the Committee's Inquiry an interdepartmental review of the property functions was announced in July 1986. The Review, to be chaired by the Public Service Board, was to report early in 1987. The Committee has programmed its activities to ensure that its recommendations are available in a timely fashion to the interdepartmental review. The early completion of this Report will enable the Board, in its deliberations, to provide an appropriate administrative framework for implementing the committee's recommendations.

The large number of organisations participating in the Inquiry and the level of their representation at the Committee's hearings suggested that there were wide-spread concerns about the delivery of the Commonwealth's property functions. The overwhelming theme of the evidence received was that the existing administrative arrangements were cumbersome, slow and inflexible and that major changes were necessary. In this Inquiry the Committee aimed to identify the causes of current problems and to identify feasible alternative arrangements, with demonstrable gains in efficiency and effectiveness.

For and on behalf of the Committee



Mr R E Tickner, MP
Chairman



M J Talberg
Secretary
Joint Committee of Public Accounts
Parliament House
Canberra
29 April 1987

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SUMMARY OF RECOMMENDATIONS

The Committee has made a number of recommendations which are listed below, cross-referenced to their locations in the text. The Committee's analysis in the text should be referred to when considering these recommendations.

The Committee recommends that:

1. a Central Property Agency be established as the central body responsible for the administration of the Commonwealth's property functions, with overall policy control; (page 47)
2. the Central Property Agency be established as an independent Ministerially accountable agency within a portfolio and within the Central Property Agency regulatory and service functions to be separated; (page 47)
3. the Central Property Agency have responsibility for the management of the Commonwealth owned estate; (page 47)
4. in order to speed up response times, the Central Property Agency have the option of using central agencies, "in-house" expertise, or private firms for selected legal, valuation, construction and fitout activities when necessary; (page 48)
5. in order to release the Departments of Local Government and Administrative Services and Housing and Construction from such routine repairs and maintenance services, that the upper limit for such works be raised from the current limit of \$1500 to the tender threshold, currently \$20 000, to enable client departments to undertake such functions on their own behalf; (page 48)
6. routine servicing functions be devolved to clients; (page 48)
7. clients have the option of using outside expertise for such services; (page 48)
8. if there exists special circumstances which necessitates repairs and maintenance work under the tender threshold to be undertaken by the Department of Housing and Construction then such work should be undertaken on a fee-for-service basis; (Page 48)

9. a Property Advisory Board be established, with Commonwealth Government, private sector and other expert representation; (page 50)
10. the Board is to advise the Minister responsible for the Central Property Agency on methods and criteria to ensure that the objectives of the property function are met; (page 50)
11. the Property Advisory Board be set up for an initial period of 2 years only, any extension of such time to be subject to review; (page 50)
12. the Public Service Board investigate the implementation of a career structure, with appropriate qualifications requirements and commensurate salary scales, for property specialists within the Australian Public Service; (page 50)
13. all revised Administrative Arrangements Orders and New Policy Proposals provide details on consequential property/accommodation requirements; (page 51)
14. Trust Account funding arrangements be instituted to allow the Central Property Agency to fulfil its stated objectives, particularly in relation to the sale, purchase and redevelopment of the Commonwealth's property portfolio; (page 51)
15. the Central Property Agency have strong reporting requirements by presenting an annual report prepared according to the Guidelines for Annual Reports of Statutory Authorities and Departments and that the financial statements therein conform to the Form and Standard of Financial Statements for Commonwealth Undertakings as issued by the Department of Finance from time to time; (page 52)
16. where revenue from disposals is to go into the Trust Account or the Consolidated Revenue Fund, responsibility for disposals is to remain with the Central Property Agency; (page 52)
17. disposals on behalf of statutory authorities be approved by the Central Property Agency; (page 52)
18. a register of core office accommodation properties be identified, such properties having the potential for sale; (page 53)

19. revenue from disposal of these properties to be credited to the Trust Account, unless the Government specifically decides otherwise; (page 53)
20. all Commonwealth departments, statutory authorities and undertakings be required to conduct annual reviews of their property holdings, maintain current assets registers which are publicly available, provide information on vacant properties in their annual reports, and advise the Central Property Agency of the result of these reviews for strategic purposes; (page 53)
21. an efficient management information system and property data base be put in place as quickly as possible; (page 54)
22. the Central Property Agency develop performance indicators, if necessary using consultants, such performance indicators to be specific, dated, testable and quantifiable. These performance indicators will necessarily be related to the Central Property Agency's corporate objectives and program budgeting; (page 54)
23. full financial responsibility be devolved to clients for their property programs; (page 55)
24. full operational responsibility be devolved to those clients, where the clients concerned have the necessary expertise and are willing to do so (this will apply particularly to the networked offices of the Departments of Employment and Industrial Relations and Social Security); (page 55)
25. operational responsibility be devolved to clients for property programs including fitout, up to the tender threshold, currently \$20 000; (page 55)
26. all construction and fitout activity above the tender threshold be the sole responsibility of the Department of Housing and Construction, so that a single organisation has responsibility for this function; (page 55)
27. significantly greater decentralisation of the Central Property Agency's authority be granted to its operational areas at regional level, particularly for the more routine functions; (page 55)

28. that the operational areas provide regular and timely reports of all aspects of their activities in line with the performance monitoring and reporting requirements of the Central Property Agency; (page 55)
29. the Central Property Agency continue to establish accommodation guidelines as part of its strategic responsibilities and that these include guidelines on staff-space ratios and locational decisions; (page 56)
30. the performance monitoring and control system currently undergoing development in the Melbourne Regional Office of the Attorney-General's Department be evaluated and finalised with the view to general adoption of the system throughout its other regional offices; (page 56)
31. the Central Property Agency and the Attorney-General's Department continue negotiations with private sector lessors to develop a standard form lease; (page 56)
32. a separate item within departmental and non-trading statutory authority appropriations be created to provide for excess maintenance and restoration costs associated with Commonwealth properties listed on the Register of the National Estate; (page 57)
33. in the case of statutory trading authorities, a separate item for excess maintenance and restoration costs be included in their accounts, in order that their contribution to the maintenance of the National Estate is not hidden, and may be compensated for by Government if deemed appropriate; (page 57)
34. the Minister responsible for the Central Property Agency delegate his authority under the Lands Acquisition Act to off-budget government business enterprises, but with the requirement that they comply with the directions of that Minister; (page 58)
35. the Australian Telecommunications Commission, the Australian Postal Commission, the Overseas Telecommunications Commission and the Housing Loans Insurance Corporation receive such delegations immediately; (page 58)
36. delegation to other statutory authorities be granted on a case-by-case basis. (page 58)

CHAPTER 1

INTRODUCTION

- Background
- Previous Reviews
- Public Service Board Review
- Scope and Purpose of the Inquiry

Background

1.1 The Commonwealth's property function is substantially the responsibility of the Property Directorate of the Department of Local Government and Administrative Services.¹ The property function has two elements - Australian Property and Overseas Property.

1.2 The objective of the Australian Property Program is to satisfy in the most cost-effective, timely and socially responsible way the property needs of Commonwealth Government departments and specified authorities so that they can carry out their functional responsibilities.² The objective for the Overseas Property Program is expressed in similar terms.³

1.3 The extent to which DOLGAS (through its Property Directorate) met this objective was the major consideration of the current Inquiry. The Inquiry focused primarily on aspects of domestic property.

Previous Reviews

1.4 A number of previous reviews over the last ten years by parliamentary committees and the Auditor-General have been critical of aspects of the administration of the property function.

1.5 The first of this series of reviews was a report by the Joint Committee of Public Accounts in 1975 on delays in occupancy of leased premises.⁴ The Committee concluded that the then

1. The Department has been through a number of name changes over the past ten years (Department of Services and Property, Department of Administrative Services, etc.) and for ease of presentation the acronym DOLGAS is used throughout this Report.
2. Department of Local Government and Administrative Services (DOLGAS), Initial Submission, July 1986, Attachment 1, p. 1.
3. *ibid.*, Attachment 2, p. 1.
4. Joint Committee of Public Accounts (JCPA), 'Delays in Occupancy of Leased Premises', Report 153, AGPS, Canberra, 1975.

Department of Services and Property had not produced a cohesive or adequate set of procedures to enable it to cope with its functions. It recommended increased centralisation and specialisation of resources and clarification of the roles of individual departments.

1.6 In 1978 the Committee produced a further report, this time on the financing and administration of overseas property.⁵ At that time the Committee felt that the administrative arrangements needed to be simplified and concluded that the number of departments involved in overseas property administration was too great:

The Committee received much evidence indicating that the present administrative process leading to a decision involved several departments. This process led to expensive delays as well as frustration for overseas staff.⁶

1.7 That same year the Senate Standing Committee on Finance and Government Operations published a report on the Wiltona Migrant Hostel in Melbourne.⁷ The Committee found that, although six years had elapsed since the hostel was closed, there had been inordinate delay in the disposal of the property. This had occurred primarily because of the involvement of a large number of Commonwealth, State and local government organisations.

1.8 In 1980 the Auditor-General published a report on an efficiency audit of the Department of Administrative Services' (DAS) administration of the Australian property function.⁸ Audit took the view that DAS had responsibility for the management of all Commonwealth property excepting that specifically excluded by legislation or Government directive, thereby endorsing the Public Accounts Committee's earlier recommendations in its 1975 Report. The audit also found that there was lower priority accorded to the functions of disposal and rationalisation of property holdings and that there was little medium to long term planning.

5. JCPA, 'Financing and Administration of Property Owned or Leased Overseas by the Commonwealth Government', Report 172, AGPS, Canberra, 1978.
6. *ibid.*, p. 3.
7. Senate Standing Committee on Finance and Government Operations, 'Report on Wiltona Hostel', Parliamentary Paper No. 7/1978, AGPS, Canberra, 1978.
8. Report of the Auditor-General on an Efficiency Audit, 'Department of Administrative Services - Australian Property Function', AGPS, Canberra, 1980.

1.9 The House of Representatives Standing Committee on Expenditure reviewed the Auditor-General's 1980 efficiency audit report in 1981⁹ and a Finance Minute on the Overseas Property Report was produced by the Public Accounts Committee in 1982.¹⁰

1.10 In 1984, the Auditor-General conducted an audit of DOLGAS' new Property Information Management System (PIMS) and concluded that, despite some progress, the Department still did not have an adequate management information system.¹¹

1.11 In examining the 1984 Audit report, the Joint Committee of Public Accounts expressed particular concern that, despite the creation of the Property Directorate, many of the problems identified in earlier reviews and audits still existed.¹² In that report the Committee announced its intention to examine the wider issue of property management, outside the context of Audit reports. The Committee also felt that the broad cycle of previous reviews which had had little effect other than to comment on lack of progress should be broken. This was the basis for the current inquiry, which commenced in June 1986.

Public Service Board Review

1.12 Subsequent to the initiation of the Committee's current inquiry, concerns about slow progress in rectifying the problems identified also led to the setting up of an inter-departmental review of the Commonwealth's property functions. This review, chaired by the Public Service Board, was announced in July 1986 and was expected to report to the Government in April 1987.

Scope and Purpose of the Inquiry

1.13 The aims of this Inquiry were to find out whether there were major fundamental problems in the delivery of the Commonwealth's property functions, to identify their causes and to determine the reasons for their persistence. A final aim was to assess whether there were workable alternative administrative structures which, if implemented, could lead to demonstrable improvements.

9. House of Representatives Standing Committee on Expenditure 'Auditor-General's Efficiency Audit Report - Department of Administrative Services - Australian Property Function', Parliamentary Paper No. 110/1981, AGPS, Canberra, 1981.
10. JCPA, 'Finance Minute on Report 172', Report 195, AGPS, Canberra, 1982.
11. Report of the Auditor-General Upon Audits, Examinations and Inspections Under the Audit and Other Acts September 1984, 'Department of Administrative Services - Property Directorate - Property Management Information Systems', AGPS, Canberra, 1984, pp. 1-2.
12. JCPA, 'Report of the Auditor-General 1983-84, and September 1984', Report 241, AGPS, Canberra, 1985.

1.14 The current Inquiry was therefore necessarily broad in scope and focused on aspects of the domestic property function. As previously mentioned the overseas property function was reviewed by the Committee in 1978 and a follow-up report was published in 1982.¹³ DOLGAS provided the Committee with information on developments in that area since 1982. With one exception, submissions did not comment on the overseas property function.

1.15 The Committee received over 60 submissions from 45 organisations, representing Commonwealth agencies, unions and non-government organisations including some with large property portfolios.

1.16 Eight public hearings were held, at which evidence was taken from Commonwealth departments, statutory authorities, private sector agencies, academics, a union and a state government authority. Inspections were held in Perth, Canberra and Sydney.

13. JCFA, Report 195, op. cit.

CHAPTER 2

THE PROPERTY FUNCTION

- Introduction
- Authority
- Objectives
- Structure
- Scope of the Property Task
- Accommodation Guidelines
- The Private Sector
- The Importance of Competition

Introduction

2.1 The Commonwealth's property functions are extensive, comprising regulatory, strategic and service functions. The Commonwealth provides funding for property requirements to meet demonstrated policy or program needs. Further, the Commonwealth uses the property function to promote certain social policy objectives such as the maintenance of the national estate and the sale of unwanted properties at concessional rates to other government bodies.

2.2 Much of the focus of attention which has been directed at property administration has been the result of the burgeoning rent bill. However, the vastly increased rental component has been principally caused by the real decrease in owned space, an increase in the unit cost of office space and the growth in total space requirements as a result of increased staff numbers, the advent of new technology and pressures from staff associations.

2.3 An additional factor is the move by the Departments of Employment and Industrial Relations, Social Security and Community Services towards "shop front" office accommodation, in order to enhance their program delivery. Such accommodation is in the high rent bracket and consequently funding requirements are greater.

2.4 Further, until recently, the Commonwealth had not built a major office block for 10 years. The increased demand has been met by leasing accommodation, thereby putting more pressure on the leasing bill.

2.5 However, a fundamental problem is the short-term, ad hoc and fragmented nature of property administration. The problem

is summed up by Dorothy Kanaley in 'A Review of Commonwealth Use of Office Space' where the author notes:

Provision of office accommodation per se has not been central to Commonwealth decision making. Rather needs have been met as the residual effect of numerous decisions on policies and programmes Difficulties in forward planning have arisen from changing government policy with regard to the size and function of individual departments, rapid expansion in some areas of activity and lack of continuity in others. This, together with budgetary constraints and the workings of the rental market, has resulted in a fragmentary, ad hoc approach to accommodation decisions resulting in long-term inefficiencies. Current decisions are taken in the context of this existing, fragmented pattern of ownership and leasing.¹

Authority

2.6 Under the Administrative Arrangements Order of 31 January 1986, the Property Directorate is responsible for the acquisition, leasing, management and disposal of land and property in Australia and overseas. The legislative authority for carrying out these functions is based on the Commonwealth of Australia Constitution Act and is derived primarily from the Lands Acquisition Act 1955 (LAA). A number of other pieces of legislation specifically affect the administration of the property function. These are listed in Appendix A.

2.7 The Minister is also bound to comply with the provisions of the Australian Heritage Commission Act 1975 and the Environment Protection (Impact of Proposals) Act 1974.

2.8 All Commonwealth departments and most statutory authorities are subject to the LAA. Commonwealth owned registered companies (eg QANTAS) are not covered by the LAA, and 34 statutory authorities have been exempted from the Act by Ministerial decision.²

2.9 The extent to which Commonwealth agencies are required to use the Property Directorate depends on their relationship to Government and the degree of external regulation considered appropriate. The acquisition and disposal processes are the most closely regulated, the former by legislative requirements of the LAA, and the latter by policy decisions of Government. Planning, construction, management, review and rationalisation functions

1. Dorothy Kanaley, 'A Review of Commonwealth Use of Office Space' in Colin Adrian (ed), 'Australian Property Markets; Trends, Policies and Development Case Studies', Australian Institute of Urban Studies, Canberra, 1986, p. 227.

2. See Appendix C.

are not carried out by DOLGAS for commercial statutory authorities. In general, the greater the degree of policy and financial independence of the property user, the fewer the services that must be delivered through DOLGAS.³

Objectives

2.10 The objectives of the Property Directorate are:

- to help the Commonwealth achieve its macroeconomic and social objectives by:
 - satisfying in the most cost-effective, timely and socially responsible way the property needs of Commonwealth Government departments and specified authorities in Australia so that they can carry out their functional responsibilities;
 - optimising the Commonwealth's holdings of real property by systematic processes of acquisition, lease and disposal to meet the current and anticipated operational needs of specified Commonwealth agencies;
 - protecting the value of the Commonwealth's real property assets and maximising their efficient operation by promoting and, where appropriate, implementing effective management practices; and
 - providing and maintaining suitable cost effective accommodation and facilities for official Australian missions and their personnel.⁴

2.11 In addition to the objectives outlined above there are a number of ancillary objectives which DOLGAS seeks to fulfil. These are:

- to develop and maintain a central pool of expertise;
- to ensure that properties of heritage or environmental significance and of value to the community are protected in the public interest;
- to prevent the "bidding up" of the property market through Commonwealth agencies competing against each other for available space; and
- to develop and maintain an information base on the Commonwealth's property portfolio.

3. DOLGAS, Initial Submission, op. cit., p. 2

4. DOLGAS, 'Annual Report 1985-86', AGPS, Canberra, 1986, p. 48.

Structure

2.12 The Commonwealth's property function is carried out by the Department of Local Government and Administrative Services (DOLGAS) through two programs - Australian Property and Overseas Property.

2.13 The property program is delivered by DOLGAS as a central agency via its Property Directorate, operating through eight regional offices using a mix of public and private sector resources. In the public sector it is supported by some functions of other agencies including the Department of Housing and Construction, the National Capital Development Commission, the Attorney-General's Department and the Australian Taxation Office. Private sector consultants, agents and contractors are engaged on a fee-for-service basis for such services as cleaning, minor repairs and maintenance, auctions and specialist advice.

2.14 The property function was centralised to facilitate consistent and objective application of Government policy and encourage the development of a centre of expertise in property dealings both at home and abroad. Centralisation was pursued to prevent competing Commonwealth bodies from "bidding up" the market and to facilitate the development of co-operative, broadly based planning strategies in concert with State Government planning objectives.

2.15 Overseas property activities are administered on a day to day basis by overseas posts with co-ordination, policy, planning and technical support provided by the Overseas Property Office in the Property Directorate.

Scope of the Property Task

2.16 The Commonwealth owns and leases 24,457 properties in Australia and overseas.⁵ Overall Property Directorate outlays for 1985-86 were \$385.4 million.⁶ Overall Directorate Staff at 30 June 1986 was made up of 610 in both overseas and domestic operations.⁷ The costs of the Commonwealth's annual property programs over the last 7 years are in table 2.1.

5. DOLGAS, Initial Submission, op. cit., para. 2.3.1 and DOLGAS, 'Annual Report 1984-85', AGPS, Canberra, 1986, p. 72.
6. Of this \$385.4 million, \$290 million was spent within Australia while \$95.4 million was spent by the Overseas Property Office on accommodation and facilities overseas. Source: DOLGAS, 'Annual Report 1985-86', op. cit., p. 48 and p. 60.
7. DOLGAS, 'Annual Report 1985-86', op. cit., p. 121.

The Cost of the Commonwealth's Property Requirements

2.17 In 1985-86 net total expenditure on property programs was \$385.4 million. Expenditure on office accommodation rent for civil departments is the most rapidly increasing component, rising from \$78.4 million in 1981-82 to \$236.1 million in 1985-86.¹ DOLGAS predicts this could rise to \$1.0 billion by the early 1990's unless alternative strategies are adopted.² In addition, annual expenditure on fitting out leased premises for civil departments has risen from \$11.0 million in 1981-82 to \$57.0 million in 1985-86).³

2.18 Currently approximately 30% of office space occupied by the Commonwealth is owned and two thirds is rented from the private sector (see Table 2.4). In the late 1970's about half the occupied space was owned. However, as noted earlier, until recently the Commonwealth had not constructed a major office building for 10 years.

2.19 However, the level of ownership may have little or no impact on the efficiency with which the Commonwealth's property functions are carried out. This is because ownership may not always be the least cost solution to the provision of office accommodation. Over time the real cost of financing civil works project from borrowings may not be necessarily cheaper than financing leased accommodation.⁴

2.20 DOLGAS advises that the expenditure increases, particularly those in the leasing and fitout area, largely reflect:

- the growth in total space requirements averaging 4.9% per year from 1978-79 to 1985-86. Factors contributing to this growth include: (See Table 2.4)
 - Government initiatives, such as the introduction of the Pension Assets Test and increased numbers of Social Security and CES officers;
 - provision of more expensive shopfront office space;
 - the advent of new technology in departments;
 - staff increases;

8. DOLGAS, First Supplementary Submission, September 1986, Attachment B (7).
9. DOLGAS, Initial Submission, op. cit., para. 1.1.2.
10. ibid., para. 2.1.2 and Figure 2 on p. 4a.
11. Analyses reported in a recent Jones Lang Wootton paper (Technical Paper No. 4, The Economics of Purchasing versus Leasing, June 1986) demonstrates that there is no single answer to the question of whether purchasing or leasing is the better option.

TABLE 2.1
EXPENDITURE ON ACCOMMODATION FOR CIVIL DEPARTMENTS AND AUTHORITIES
FOR RENT, FITOUT, CONSTRUCTION AND REFURBISHMENT 1979/80 - 1986/87

| Year | Rent | | Fitout | | Construction | | Refurbishment | | Total | |
|---------------|--------|-------|--------|------|--------------|------|---------------|------|--------|------|
| | Actual | Real* | Actual | Real | Actual | Real | Actual | Real | Actual | Real |
| 1979/80 | \$62 | 103 | \$10 | 19 | \$15 | 28 | -\$ | -\$ | \$88 | 157 |
| 1980/81 | 69 | 103 | 13 | 20 | 10 | 17 | 6 | 9 | 98 | 156 |
| 1981/82 | 78 | 103 | 8 | 11 | 2 | 3 | 8 | 12 | 97 | 136 |
| 1982/83 | 100 | 120 | 18 | 22 | 2 | 2 | 10 | 13 | 130 | 160 |
| 1983/84 | 138 | 156 | 40 | 47 | 10 | 11 | 6 | 6 | 194 | 224 |
| 1984/85 | 178 | 189 | 57 | 63 | 20 | 22 | 3 | 3 | 257 | 282 |
| 1985/86 | 236 | 236 | 60 | 60 | 25 | 25 | 10 | 10 | 332 | 332 |
| 1986/87 (est) | 285 | 264 | 72 | 66 | 55 | 51 | 29 | 27 | 440 | 408 |

Source: Table compiled by DOGAS (First Supplementary Submission, Attachment C p.29) from Budget Papers and information supplied by NDC and DDC

* Real expenditures are expressed in terms of 1985/86 dollar equivalents.

TABLE 2.2: OFFICE ACCOMMODATION - COMMONWEALTH DEPARTMENT GROWTH AREAS 1981-82 to 1984-85

| | Employment & Industrial Relations | Health | Social Security |
|-------------------------------|---|----------------|--------------------|
| | m ² | m ² | m ² |
| 1981-82 | 161,570 | 68,360 | 187,230 |
| 1982-83 | 162,680 | 56,360 | 215,555 |
| 1983-84 | 189,980 | 56,880 | 285,520 |
| 1984-85 | 229,680 | 83,210 | 357,430 |
| Increase (m ²) | 68,110 | 14,850 | 170,200 |
| Increase (%) | 42 | 22 | 91 |

SOURCE: DOLGAS, First Supplementary Submission, Attachment B (9), p.26

TABLE 2.3: COMMONWEALTH DEPARTMENT GROWTH IN EMPLOYMENT, June 1982 to June 1985

| | Employment & Industrial Relations | Health | Social Security | Social Security and Community Services* |
|------------------------------------|---|--------|--------------------|---|
| As at June 30 | No. | No. | No. | No. |
| 1982 | 6469 | 4851 | 13275 | 13275 |
| 1983 | 7573 | 5003 | 16531 | 16531 |
| 1984 | 8143 | 4850 | 18503 | 18503 |
| 1985 | 9125 | 4499 | 16899 | 18784 |
| Increase (No.s) 1982 to 1985 | 2656 | -352 | 3624 | 5509 |
| Increase (%) 1982 to 1985 | 41 | - 7 | 27 | 41 |

SOURCE: Public Service Board, Annual Reports 1982-83, 1983-84, 1984-85, 1985-86 Staff Statistics.

*Department of Community Services was established in December 1984.

TABLE 2.4
OFFICE ACCOMMODATION FOR COMMONWEALTH DEPARTMENTS -
OWNED AND LEASED (as at June 1986)

| | Owned '000m ² | Leased '000m ² | Total '000m ² | Proportion Leased per cent | % Annual Change in Total Property per cent |
|---------|-----------------------------|------------------------------|-----------------------------|----------------------------------|--|
| 1978-79 | 903 | 959 | 1,861 | 52 | - |
| 1979-80 | 897 | 999 | 1,896 | 53 | 1.9 |
| 1980-81 | 892 | 1,039 | 1,931 | 54 | 1.8 |
| 1981-82 | 887 | 1,079 | 1,966 | 55 | 1.8 |
| 1982-83 | 842 | 1,033 | 1,875 | 55 | - 4.6 |
| 1983-84 | 835 | 1,227 | 2,062 | 60 | 10.0 |
| 1984-85 | 828 | 1,530 | 2,358 | 65 | 14.0 |
| 1985-86 | 858 | 1,728 | 2,586 | 67 | 9.7 |
| | | | | Average Annual Change | 4.9% |

NOTE: These figures relate to Commonwealth Departments and those Statutory Authorities which do not meet accommodation costs out of their own budgets (eg. Archives, Australian Bureau of Statistics, Australian Taxation Office, Australian Customs Service, Australian Federal Police, Electoral Commission, Public Service Board). Statutory Authorities which meet their own accommodation costs are excluded (eg. Telecom, Australia Post, Overseas Telecommunications Commission, ABC).

SOURCE: DOLGAS, correspondence of 14 November 1986, Attachment A

- the increasing pressures from staff associations concerning standards of office accommodation and the general work environment;
- . the real decrease of owned space over the six year period; and
- . an annual average increase of 12% in the unit cost of office space rented by the Commonwealth over the same period.¹²

Domestic Property

2.21 Administrative and funding responsibility for property operations within Australia is complex with policy, program and cash control for the acquisition and management of total holdings spread across several lines of accountability. In brief, the Property Directorate is directly responsible for:

- . acquiring and disposing of all property (other than for statutory authorities exempt from the Lands Acquisition Act);
- . planning for and providing office accommodation; and
- . managing office buildings occupied by more than one department (except in the Australian Capital Territory where the Directorate manages most office accommodation).

2.22 Direct responsibility for the day to day management of all other property rests with the occupying department or authority. However, the Directorate has a broad overseeing role in the overall management of property in the custody of departments and budget funded authorities. This occurs through promulgating policy guidelines, general advising and review activities directed to ensure that the best and most economic use is made of existing holdings.

2.23 In general DOLGAS has the following financial responsibilities:

- . program and cash control over funds for renting and acquiring office buildings for civil departments and for the day to day management of office buildings under its control;
- . cash control over funds for leasing defence properties with program control resting with the Department of Defence;
- . cash control over funds for departments acquiring other properties with program control resting with the sponsoring department;

12. DOLGAS, 'Report on the Review: Instalment Purchase as a Means to Financing Office Ownership', AGPS, Canberra, 1985, para. 14(c).

- program control over funds for the capital works and repairs and maintenance in buildings under the day to day control of DOLGAS with cash control resting with the Department of Housing and Construction (DHC); and
- program control over fitout in leased premises for civil departments with cash control resting with DHC.

2.24 In total the Directorate oversees the management of 22,914 properties in Australia including 3.3 million square metres of office space.¹³ Operational costs, including outlays on rent, acquisitions, salaries and administrative expenses, for 1985-86 amounted to \$344.1 million including \$107.7 million on behalf of the Department of Defence.¹⁴ There were 549 staff employed at 30 June 1986.¹⁵

Overseas Property

2.25 The Department, through the Overseas Property Office (OPO), is responsible for providing accommodation overseas and is the Australian Government's construction authority for overseas building projects.

2.26 Outlays for 1985-86 for the Office involved \$95.4 million¹⁶ for its overall services relating to the owning and leasing of 1,543 properties overseas.¹⁷ Staff as at 30 June 1986 numbered 51.¹⁸

Accommodation Guidelines

2.27 A major DOLGAS responsibility as a central agency is the development of guidelines for Commonwealth office accommodation.

2.28 The 1978 Office Accommodation Guidelines allowed a minimum of 6.34m² per workpoint in open plan areas, ranging to 9m². A rule of thumb of 10m² per person, including some circulation space, was used for planning purposes. By 1983, industrial disputation about over-crowding caused the space actually allocated per person to rise to 13.5m².¹⁹ DOLGAS indicated that this was to allow for the additional space needed to accommodate new technology, such as the introduction of office automation. The new guidelines, which came into effect in

13. DOLGAS, 'Annual Report, 1984-85', op. cit., p. 62.

14. DOLGAS, 'Annual Report 1985-86', op. cit., p. 49.

15. ibid., Appendix 3, p. 121.

16. ibid., p. 116.

17. DOLGAS, 'Annual Report 1984-85', op. cit., p. 72

18. DOLGAS, 'Annual Report 1985-86', op. cit., p. 121.

19. DOLGAS, Correspondence, 21 November 1986.

June 1985, recognised the new demands and suggested a new rule of thumb of 10m² to 13.5m² per person.²⁰ This allocation excludes common-use areas, storage, special purpose and amenity areas. Application of the new guidelines is prospective and covers all new office accommodation from 1985-86.²¹

2.29 Although the long term impact of the new guidelines is not possible to gauge at this stage, application of the guidelines to all new office accommodation from 1985-86 onwards may result in the maintenance of, or further increases in, the average of office space per worker. Despite the increases in the space available per worker, DOLGAS noted that some departments were still in over-crowded and inefficient accommodation.²² The spread of the use of new technology throughout the Service has also added to the pressures for higher average space per worker.

The Private Sector

2.30 Private sector property investors' primary objective is the maximisation of profit for the company's shareholders through cost-effective investment in and management of property. The public sector's primary function is the implementation of government policy through program delivery, with the property function being one input to this process.

2.31 The Commonwealth has a further property function to promote certain social policy objectives such as the maintenance of the national estate and the sale of unwanted properties at concessional rates to other government bodies; the pursuit of such objectives reduces the 'economic efficiency' of the property program. The private sector also has an obligation under various local government, state and federal legislation to adhere to social policy objectives.

2.32 The Commonwealth provides property funding essentially to meet demonstrated policy or program needs. DOLGAS, therefore will not necessarily be in a position to take advantage of market place opportunities insofar as investment in property is concerned, i.e. being in a position to buy when the market is low and to sell when the potential value exceeds the current return on investment. The private sector is also constrained by prevailing economic conditions.

20. *ibid.*, and DOLGAS, Second Supplementary Submission, October, 1986, p. 17.
21. DOLGAS, 'Provision of Office Accommodation in Australia for Commonwealth Agencies', AGPS, Canberra, 1986, para. 5.18.
22. *ibid.*, para. 2.13.

2.33 Further, DOLGAS has noted that office accommodation needs, in terms of new leasing programs and fitout costs, are generally not given a high priority by Government. Civil works programs for Commonwealth offices therefore tend to be viewed as discretionary expenditure. As a result construction of Commonwealth office accommodation has been subject to tight funding constraints over the past 5-6 years. The tight monetary situation, coupled with the unpredictability of funding decisions, has made commitment to a longer term strategy virtually impossible.²³

2.34 DOLGAS also notes that few resources are left for new proposals once the needs of on-going commitments have been satisfied. For example, DOLGAS was unable to put forward its major construction proposals, covering some 78 860 m² office space at a cost of \$272 million in the 1986-87 budget.²⁴ These proposals include the development of Commonwealth owned sites which in some instances have been vacant for as long as a decade. The Committee inspected one of these, the AGL site on the fringe of Sydney's CBD.

The Importance of Competition

2.35 The lack of competition is a factor which can impair the efficient operation of public enterprises, by reducing incentive for efficient operation. However, there is also the need to balance commercial performance against other Government objectives that many government enterprises are required to pursue.

2.36 The Committee has focused on making public service operations more cost effective and economical, bearing in mind that cost-effectiveness is only one of a range of community objectives and that other objectives which have a social rather than a cost-related dimension, must be taken into account by government departments and enterprises.

2.37 In some countries a number of government business enterprises have been subjected to a greater degree of competition or have been privatised. However, 'privatisation', although able to alleviate the extent of budget deficit over the short term, might simply substitute a private monopoly for a public one.

2.38 Research carried out in Australia and overseas strongly suggests that a competitive environment is much more important to cost effective operations than the question of public or private ownership. The exceptions are natural monopolies particularly those engaged in distribution networks involving, for example, gas pipelines. In this respect, the Committee's attention was drawn to surveys of empirical studies reported in the international economic literature. The studies involved extensive analyses of cost data at the firm level.

23. *ibid.*, paras. 5.12 ff.

24. DOLGAS, 'Provision of Office Accommodation - Australia and Overseas', *op. cit.*, p. 19.

2.39 While studies of this kind always face a number of methodological difficulties, including the problems created by the non-commercial objectives facing certain public enterprises, their findings have been generally accepted in view of the consistency of the conclusions reached over time, and across many countries.

2.40 A recently published article draws on two previous international publications which surveyed over 50 studies of public and private enterprise performance.²⁵ The studies were carried out over a period of 20 years in countries such as the US, West Germany and Canada. They cover a range of activities, including electricity generation, rail transport, refuse collection and hospital administration.

2.41 The important conclusion of the article is that, out of more than 50 studies, only six suggested that public organisations performed in terms of cost-effectiveness at least as well as private enterprises. In all six cases, the public firms faced a competitive market environment. The article concludes that this strongly suggests that opening up a market to competition is crucial to promoting cost-effective performance.

2.42 In essence, the studies provide empirical support for one of the premises of economics that competition is important to efficiency. The additional insight they provide is that this is probably true regardless of the nature of the ownership of enterprises. The more competitive the environment, the better the enterprise's performance, be it public or private.

25. JCPA, Minutes of Evidence, 'Administration of the Commonwealth's Property Functions - Volume 2', AGPS, Canberra, 1987, p. 438; and Simon Domberger and John Piggott, 'Privatisation Policies and Public Enterprise: A Survey' in The Economic Record (Economics Society of Australia), June 1986, pp. 145 - 162.

CHAPTER 3

PROPERTY PROGRAM DELIVERY

- Introduction
- Agencies Involved
- The Budget Process
- Departure from Current Arrangements

Introduction

3.1 The many agencies involved in the delivery of property functions and the lack of uniformity in the chain of responsibility have led to complex administrative processes for relatively simple functions. The blurred lines of responsibility and the co-ordination and liaison required between the different agencies means that it takes time for action to occur.

Agencies Involved

3.2 The following agencies are involved in the property function:

- the Department of Housing and Construction, which DOLGAS must use as its construction authority in all States and the Northern Territory, and in the ACT for repairs and maintenance and fitout in leased premises;
- the National Capital Development Commission (NCDC), which DOLGAS must use as its construction authority in the ACT, except for repairs and maintenance and fitout in leased premises;
- the Attorney-General's Department, which provides conveyancing and contractual services as well as legal advice;
- the Valuation Section of the Taxation Office, which DOLGAS uses as its valuation authority;
- the Public Service Board, which is interested in office location strategies, the physical work environment and other issues affecting staff;
- the Department of Arts, Heritage and Environment, which administers legislation regulating the Commonwealth's handling of environmental and national estate issues;
- the National Occupational Health and Safety Commission, which is consulted in regard to the physical work environment in office accommodation; and

- State, territorial and local government planning and zoning authorities, with whose requirements the Commonwealth complies where practicable, in a spirit of co-operation.

Unions are consulted where the interests of staff are affected by proposals.¹

Responsibilities of Individual Agencies

3.3 DOLGAS, as the central co-ordinating agency for the Commonwealth's property functions, is responsible for forecasting property needs, the development of Budget proposals (Australian and overseas property programs), Budget sponsorship of these proposals, the short-listing of alternatives, price negotiations in the case of acquisitions and leasing, and co-ordination across agencies.

3.4 Clients' requirements range from their proposals to locate all elements of a department in the same building, to provision of additional office space for expanding functions. These might concern office space needed for newly created authorities (eg Federal Airports Corporation), the leasing of shopfront space (eg Social Security) or staff housing in remote areas (eg Customs). Requirements also involve minor proposals to re-arrange office partitioning, or the carrying out of repairs over \$1500.

3.5 For statutory authorities under the LAA, their proposals include the leasing of premises for such requirements as post offices in newly developed areas or the purchasing of land for expanding Australia's common-carrier telecommunications facilities.

3.6 Clients' property requirements are submitted to DOLGAS for assessment of needs and service-wide priorities. This does not apply to cases where a department or authority wishes to purchase or construct a building solely for its own use. In that case the agency concerned is able to put a proposal to Cabinet itself. The roles of the Department of Finance and DOLGAS are then limited to commenting on the proposal.

3.7 DOLGAS itself prepares proposals to develop properties owned by the Commonwealth (eg refurbishing older buildings or replacing them with new buildings) and to purchase or construct properties to cater for predicted future needs.

3.8 Although DOLGAS is charged with reviewing property to identify under-used space, clients are also responsible for identifying surplus property. Once such property has been so declared, responsibility for its disposal rests with DOLGAS.

1. DOLGAS, Initial Submission, op. cit., Attachment 1, p. 2.

3.9 DOLGAS is also responsible for sale of properties declared surplus by Commonwealth agencies subject to the LAA. Until recently all properties declared surplus were first offered to state government and then to local government. This procedure tended to be time consuming, as the example of the Wiltona Migrant Hostel demonstrates so clearly.²

3.10 The requirement to give State and local government first opportunity to purchase has now been removed, thereby enabling DOLGAS to initiate and complete disposal action more quickly. However, there is still scope for concessional sales to State and local governments and Commonwealth-funded organisations to achieve Commonwealth or co-operative objectives relating to such issues as the environment, heritage, public housing and Aboriginal rights.³

3.11 The Department of Housing and Construction is primarily responsible for the technical aspects of construction activities and the funding of medium and minor civil works, fitout and repairs and maintenance. Much of the construction work is contracted out by DHC to the private sector. However, the Department carries out some work itself, including some repairs and maintenance. The responsibilities of the NCDC are limited to construction work in the Australian Capital Territory.

3.12 Clients' responsibilities are limited to identification of their property requirements, the preparation of user briefs, construction and management of special purpose facilities, management of single occupancy offices, the declaration of surplus properties and financial responsibility for their own acquisitions. With the exception of acquisitions, funding for property requirements is generally appropriated to DOLGAS.

3.13 Some statutory authorities are not subject to the Commonwealth's annual budget processes but, subject to the LAA, have greater responsibility for construction of general office accommodation, fitout of leased premises and office management. However, acquisitions, disposals, leasing and promulgation of standards remain with DOLGAS.

Choice of Supplier of Services

3.14 Currently DOLGAS clients are required to operate through central agencies. No alternative course of action is available to them, should they consider that the services offered are unsuitable for their purposes. The services offered may not be sufficiently timely or flexible in cases where the property requirements arise from high priority government initiatives, or from emerging commercial opportunities.

2. Senate Standing Committee on Finance and Government Operations, *op. cit.*
3. DOLGAS, 'Annual Report 1985-86', *op. cit.*, p. 49.

3.15 By contrast, central agencies (DHC, DOLGAS, Attorney-General's and Taxation) do have a choice between their own staff resources and private agencies for the carrying out of property related work. Indeed, central agencies exercise this choice quite freely. For example, DOLGAS makes use of private developers in its instalment purchase projects, DHC uses private builders for fitout work and Attorney-General's makes use of legal consultants at times of peak workloads. The responsibility for selecting the agent that will actually carry out the work rests with each central agency.

Financial Programming Responsibilities

3.16 The financial programming responsibility for domestic property is illustrative of the complexity of the current arrangements. For acquisitions, clients have a great deal of responsibility, with DOLGAS only being responsible for cost control. This contrasts with new leases for civil purposes, where DOLGAS has full financial control, including budget sponsorship, program control and cash control. Responsibility for civil fitout, repairs and maintenance is shared between DOLGAS and DHC and, for major civil works, between DOLGAS, DHC and the NCDC. The degree of responsibility of each of these departments varies across functions. Amongst client agencies, the Department of Defence has considerably greater financial control than other Commonwealth departments (see Table 3.1).

The Budget Process

3.17 In the case of leasing and fitout for leased or owned accommodation, the Department of Finance recommends annual program limits. DOLGAS, after consideration by both Central and Regional Offices, assigns priorities to departmental proposals and decides which it will sponsor within the limits set. It does this in consultation with clients, and Ministers are given the opportunity to make off-setting savings within their portfolios for items that DOLGAS cannot accommodate within the limits.

3.18 In essence, client requirements first need to be supported by DOLGAS, and then need to have a high enough priority to meet financial constraints.

3.19 Under the present annual appropriations system, moneys for property services are normally appropriated to DOLGAS under the Australian Property Services votes and Acquisition of Sites and Buildings votes, and to DHC for fitout works. The authority to spend moneys appropriated through the Budget process lapses at 30 June each year.

TABLE 3.1:
FINANCIAL PROGRAMMING RESPONSIBILITIES - DOMESTIC

| | Budget Sponsorship | Portfolio Outlays | Program* Control | Cash Control |
|-------------------------------------|-----------------------|-----------------------|---------------------|------------------------|
| Property Program | | | | |
| Acquisitions (Civil) | Clients | Clients | Clients | DOLGAS(1) |
| Acquisitions (Defence) | Defence | Defence | Defence | DOLGAS(2) |
| New Leases (Civil) | DOLGAS | DOLGAS | DOLGAS | DOLGAS |
| New Leases (Defence) | Defence | Defence | Defence | DOLGAS(2) |
| Fitout (Civil) | DOLGAS | DHC | DOLGAS | DHC |
| Fitout (Defence) | Defence | Defence | Defence | DHC (R&M Section 3) |
| Ongoing Rent (Civil) | DOLGAS | DOLGAS | DOLGAS | DOLGAS |
| Ongoing Rent (Defence) | Defence | Defence | Defence | DOLGAS(2) |
| Other Property Services | DOLGAS | DOLGAS | DOLGAS | DOLGAS |
| Repairs & Maintenance | DHC(3) | DHC | DOLGAS | DHC |
| Major Civil Works | DOLGAS | DOLGAS | DOLGAS | DHC |
| Medium & Minor Civil Works | DHC(4) | DHC | DOLGAS | DHC |
| Major Civil Works (ACT) | DOLGAS | DOLGAS | NCDC | NCDC |
| Medium & Minor Civil Works (ACT) | Territories (NCDC) | Territories (NCDC) | NCDC | NCDC |
| Instalment Purchase | DOLGAS | DOLGAS | DOLGAS | DOLGAS |
| Disposals | DOLGAS(5) | - | - | DOLGAS |

Note* Program control refers to the organisation which issues the requisition.

1. Cash appropriated to DOLGAS
2. Cash transferred under sub-warrant to DOLGAS
3. Based on bids from all departments, and overall limits set by Department of Finance.
4. Based on individual departments' negotiations with Department of Finance, and overall limits set by Department of Finance.
5. Once properties have been declared surplus.

SOURCE: DOLGAS, First Supplementary Submission, op. cit., Attachment E (1), p.34

3.20 For 1986-87, DOLGAS received requests for new leases estimated to cost \$100 million. It supported bids worth \$86 million for new leases and \$114 million for fitout. The approved programs were reduced to \$39 million and \$84 million respectively.⁴ Thus, for the current financial year, funds were provided for 39 per cent of clients requests for new leases or 45 per cent of the new lease proposals supported by DOLGAS, and 74 per cent of the DOLGAS supported fitout proposals. These proportions are indicative of trends since 1984-85.

3.21 In recent years DOLGAS has attempted to overcome the constraints imposed by the budget cycle on implementation of its longer term strategy by the introduction of instalment purchase arrangements as a means to financing office ownership. Under this arrangement an office block is constructed by private enterprise. The Commonwealth commences payment for the building on satisfactory completion of construction, with repayment in instalments over a mutually agreed period.⁵

Departure from Current Arrangements

3.22 The Government has recently departed from existing arrangements by delegating to the Department of Community Services the powers to dispose of property and to acquire and lease new properties for the Commonwealth Rehabilitation Service.⁶ The new lease program will be dependent on the availability of funds from the Department's disposals program. Funding will be via a trust fund arrangement.

3.23 A further departure from current arrangements involves the Departments of Education and Employment and Industrial Relations. These departments have taken part in a trial program whereby they have been given authority to seek budget funding for their new lease and fitout programs.⁷ DOLGAS advised that if the trial was deemed to have been successful, then the procedure would be extended to all departments and authorities currently covered by the new lease and fitout program.⁸ This procedural change would remove the need for DOLGAS, in consultation with the Department of Finance, to allocate priorities for new lease and fitout requirements, a major source of discontent under current arrangements.

3.24 The Departments of Education and Employment and Industrial Relations indicated that the trial program was marginally successful. The Department of Education indicated that:

4. DOLGAS, Correspondence, 14 November 1986, Attachment B.
5. DOLGAS, 'Instalment Purchase...', op. cit.
6. Minutes of Evidence, op. cit., Volume 1 pp. 268-269.
7. DOLGAS, Initial Submission, op. cit., pp. 29-31.
8. DOLGAS, 'Provision of Office Accommodation...', op. cit., p. 18.

We saw some marginal advantages to the new arrangements. We felt that we could negotiate directly with Finance and therefore present our case ... Without question it sharpened up our own internal processes for looking after the property function. Overall, we are saying the pilot was a success, that it was better than the old system, but only at the margin. I would not want to over-emphasise its success.⁹

3.25 DOLGAS initially stated that the trial program had not gone as well as the client departments might have hoped, in that:

... there was clearly a lack of understanding of the concepts of program or commitment ... we expected that but it was greater than we thought, therefore the education process we had to undertake for those departments and for the Department of Finance officers was greater than we anticipated. We have been through the process and we believe ... that they now have a better understanding of what they will have to do in the future if they choose to proceed with this process.¹⁰

3.26 However, DOLGAS went on to indicate an assessment of the program against the criteria of

- (a) whether from their point of view the process would work; and
- (b) whether the clients would be able to complete the process and sponsor their programs effectively:

Against that first criterion we have to say that it worked. Concerning the second criterion, we were interested in the level of program and the level of cash they were able to achieve in this budget as against the level that the Government's property allocation has given them in previous years. The answer to that is that they had a marginal improvement.¹¹

3.27 While there were problems with the procedures involved in bidding for the funds in the budget process, the trial was supported by both Departments. Some dissatisfaction with the trial was evidenced by DOLGAS and by the Department of Employment

9. Minutes of Evidence, op. cit., Volume 1 p. 78.

10. *ibid.*, p. 175.

11. *ibid.*

and Industrial Relations, but for different reasons. The Department of Employment and Industrial Relations acknowledged that their performance in the trial program was not as successful as they expected but stressed that they regarded the commencement of the devolution process as important.¹²

12. *ibid.*, pp. 84-100.

CHAPTER 4

MAJOR ISSUES

- Introduction
- Major Concerns
- Disposals
- Performance Indicators
- Financial Constraints
- The Heritage Issue
- The Statutory Authorities

Introduction

4.1 There are two aspects to problems in the management of property:

- those perceived by clients; and
- those within DOLGAS, either of an internal management nature or inherent in the management of property within the public sector.

4.2 Generally, clients expressed satisfaction with the central agency role of DOLGAS. However, problems had most often been experienced in the areas of lease and fitout work, repairs and maintenance and renewal of lease contracts. In addition, some departments felt that the lack of control over their own accommodation priorities and cash control was inconsistent with recent government financial reforms aimed at managerial responsibility and accountability.

Major Concerns

4.3 The major concerns of clients are summarised as follows:

- the lengthy delays and long response times once a need had been identified;
- the lack of control over resource use, ie difficulties with DOLGAS determining priorities between competing departments' demands for accommodation;
- the lengthy, cumbersome and inflexible procedures which do not enable departments to take advantage of cost-effective opportunities as they arise in the property market; and
- coupled with the above, unclear lines of responsibility for individual functions.

Delays

4.4 Delay in satisfying a property need may not only lead to increased costs but, probably more importantly, can hinder a department or agency from effectively carrying out its proper functions.

4.5 The most visible manifestation of problems with the current arrangements and the issue of most concern to clients was the delay in the time taken to complete action once a need had been identified. The need may be relocation of a department, a minor refit of office accommodation, or disposal of a property declared surplus.

4.6 In general, the Committee had difficulty in identifying the reasons for delays. In some instances, the origins of the delays could be traced back to central agencies. In others, changes in government policy, difficulties with budgetary processes, or the activities of client organisations themselves appear to have been the causes of slow response times. However, delays appeared to have their root cause in the cumbersome procedures which involved too many organisations.

4.7 The following specific examples of inordinate delays were cited:

- for approximately 5 years the Department of Immigration and Ethnic Affairs had proposed to relocate its Brisbane office. The Department advised that the latest scheduled date for relocation was October 1986;
- the Australian Customs Service has experienced considerable difficulties in New South Wales. Customs has been fragmented and subjected to nine accommodation changes since 1965. Even though a new Customs House project was approved in 1972, it has still not been provided;
- the renewal of a lease for the Housing Loans Insurance Corporation's Melbourne Office took 15 months, and leasing documentation of new premises in Melbourne took almost 5 years to be finalised; and
- repartitioning of office accommodation on the several floors of the MLC Tower in Woden, a relatively minor exercise, which at the time of writing had already taken 18 months and was still not complete.¹

1. See Appendix D (2).

Dead Rent

4.8 The Commonwealth Government incurs significant amounts of expenditure when delays occur in the occupancy of leased premises. This occurs principally because initial fitout is taking place in new premises or because all or part of a building is being refurbished.

4.9 Some dead rent is unavoidable because market conditions do not allow the negotiation of rent free 'holidays'. These are sought wherever possible but, in the current competitive market where there is a shortage of suitable accommodation, building owners are reluctant to defer commencement of rental payments.

4.10 However, DOLGAS advises that there are a number of other factors over which DOLGAS has little control and which can lead to delays in occupation of premises. These include:

- lack of consultation by client departments and authorities prior to Cabinet consideration of submissions on matters with associated accommodation implications;
- projects requiring the provision of fitout works of a highly specialised nature;
- late changes by clients to their user requirements briefs;
- protracted negotiations with property agents and owners;
- client disputation regarding space allocations;
- shortage of available funds due to cost estimates being exceeded;
- breakdown on the delivery of services by DHC sub-contractors; and
- the non-availability of essential fitout items.²

4.11 The Committee has had a long-standing interest in unoccupied leased office space, because of general concern about the obvious waste that occurs through the payment of 'dead rent'.

4.12 In response to the findings in 1975 of the Committee's 153rd Report, a co-ordinated lease and fitout system was introduced.³ The co-ordinated system was centralised in DOLGAS. Whether greater centralisation has led to improvements since 1975 was, therefore, of particular interest to the Committee in this Inquiry.

2. DOLGAS, Initial Submission, op. cit., Attachment 8, p. 2.

3. DOLGAS, First Supplementary Submission, op. cit., para. 8.0.6.

4.13 In relation to delays in occupancy arising from fitout, DOLGAS provided the Committee with a copy of a letter to the House of Representatives Standing Committee on Expenditure.⁴ The letter was prepared in response to a query about the steps that had been taken by DOLGAS to ensure that delays in office fitout did not occur.

4.14 In that letter DOLGAS makes the point that payment of some rent during fitout periods is unavoidable, because building owners are unwilling to defer commencement of rent payments until fitout work is completed. This is especially so at times when the market is tight. The letter also states that actual construction work for fitout takes about 3 months, depending on the extent and nature of the works.

4.15 It would appear that payment of 'dead rent' for a period of 3 months appears unavoidable. However, there have been several examples reported in Parliament and in previous reviews where 'dead rent' payments have continued well beyond 3 months, for periods as long as 5, 10 and even 15 months. For one ongoing project, the White Industries Centre in Canberra, these have already amounted to over \$2 million.

4.16 While the reasons for such excessive delays in occupancy often appeared to have been beyond DOLGAS's control, the Committee is concerned that the Department had been unable to provide statistics on the extent of avoidable 'dead rent'. The Committee is also concerned that the Department did not suggest changes that could make avoidance of such 'dead rent' possible in future. The Committee's 153rd Report included statistical information on the unoccupied leased office space for which rent was paid on an Australia-wide basis from July 1971 to June 1973.⁵ The Department was unable to provide comparable information for the purposes of this Inquiry. The Committee believes that such statistical information should continue to be collected and retained for the purposes of making comparisons over time.

4.17 The Department of Housing and Construction in its supplementary submission of 24 October 1986 provided some insights into how it monitors the progress of fitout work. DHC's monitoring appears to focus on financial matters and, in particular, on comparing actual expenditures with the corresponding budget appropriations. For fitout of leased premises, an under-expenditure of nearly \$13 million was recorded in 1985-86 against the original appropriation of \$69 million.⁶ This represents an under-expenditure of over 18 per cent. Delays in finalising leases and non-availability of buildings were cited as having been the major causes of this.

4. DOLGAS, Initial Submission, op. cit., Appendix A of Attachment 8.
5. See Appendix H.
6. Department of Housing and Construction, Supplementary Submission, 24 October 1986, Data Sample 8, p. 22.

4.18 DHC also provided a description of its overall performance monitoring system. The Submission showed that for 1985-86, 82 out of a total 411 projects (20 per cent) missed their initial target date for completion.⁷ In monetary terms these 82 delayed projects involved \$168 million out of a total \$532 million (32 per cent). The Department indicated that in about 50 per cent of cases reasons for delays could be traced to clients' actions or to changes in requirements after the initial project details had been arranged. Causes for delays in the other 50 per cent of cases were attributed equally to DHC and to other agencies. New target dates were set for the 82 delayed projects in consultation with clients, and these new targets were subsequently met for 71 (87 per cent) of the projects.

4.19 DHC also provided a project by project breakdown of the above summary information. This suggests that the Department already has at its disposal an information base that would allow monitoring of:

- delays in fitout operations; and
- the organisation or administrative processes responsible for these delays.

4.20 DHC's information base, however, does not appear to contain the dates on which rent payments have commenced. The extent of 'dead rent' payments that could be attributed to fitout delays therefore cannot be assessed from DHC's data base.

4.21 Unless all elements of leasing and fitout are brought together the extent of 'dead rent' payments, and their causes, cannot be analysed. Without such analyses, control of the extent of 'dead rent' payments seems extremely difficult, if not impossible.

4.22 It appears from the information submitted to the Committee that, while elements of leasing and fitout operations are monitored by the various agencies involved, there is no single central data base which could be used to indicate progress over time at the aggregate level. Although since 1975 decisions on leasing and fitout have become DOLGAS' responsibility, it appears that no single agency is responsible for monitoring and control of overall performance in this area.

Cumbersome Procedures

4.23 Many departments complained of lengthy, cumbersome, inflexible procedures which did not allow them to take advantage of cost-effective opportunities which may arise in the property market and which failed to accommodate changes in requirements. Given the long lead times which appear to be involved in seeking to acquire accommodation, there is a fairly high probability that client needs or specifications will change to a greater or lesser extent. An example of this occurred with the Department of Defence where it failed to secure accommodation for interim

7. *ibid.* Attachment A, Achievement of Workplan.

computer capacity and eventually decided to purchase a second-hand computer which had become available. In the event, the failure to secure the accommodation may have been partly the result of Defence's inadequate planning and changing requirements, in addition to a lack of responsiveness on the part of DOLGAS and DHC.⁸

4.24 For even the simplest operation involving, for example, the leasing of temporary shop-front office space with some fitout requirements, there is a need to involve at least five agencies. These are DOLGAS, DHC, Attorney-General's, Taxation and the client organisation itself. If fitout is contracted out to a private agent, a sixth organisation will also be involved. This situation tends to lead to blurred lines of responsibility.

4.25 For example, the Department of Aboriginal Affairs (DAA) was recently involved in the refurbishment of a number of floors of the MLC Tower at Woden. DAA had to deal with DOLGAS as the property manager, DHC as technical adviser, DHC consultants, the building owner, the preferred building contractor, the preferred sub-contractors and the Department of Territories building inspectors.⁹

4.26 However, because DOLGAS has to operate through a number of other central agencies, it is difficult to identify where the delay is occurring if implementation does not proceed according to plan.

Resource Use

4.27 The lack of control over accommodation and related services was perceived by many departments as being inconsistent with the Government's recent financial reforms which are aimed at making managers more directly responsible and accountable for the programs within their functional areas. The provision of property services is seen as an input. Late or unsatisfactory service could affect output or program delivery. Therefore, managers being held responsible for program outputs have argued that they should have more control over the inputs, in this case, property services.

4.28 The Committee noted that, because clients do not pay directly for their property requirements, it is likely that their demand for these services could be inflated as a result. However, the extent of this should necessarily be limited by the standards imposed by DOLGAS. Standards for office accommodation ensure that the office space occupied by a particular organisation is limited by the number and level of staff it employs. The existence of accommodation standards may offset to some extent the lack of discipline arising from clients not being charged.

8. See Appendix B (1).

9. See Appendix D (2).

Funding Priorities

4.29 Client departments were concerned about the manner in which the priorities for accommodation proposals are currently decided, ie not directly by themselves but by DOLGAS in consultation with the Department of Finance. Thus, a project which has a high priority within a particular department may not become a firm proposal when assessed as part of the totality of proposals from all departments. The task of 'weeding out' clients' requests is left to the central agencies, which may not be in a position to assess priorities accurately or may not be perceived to be assessing priorities accurately.

4.30 In the 1986-87 requests for new leases, the central agencies were forced to make decisions which left the majority of requests unsatisfied, funds only being made available for 39 per cent of such requests.¹⁰ The corollary to this is that, with DOLGAS deciding where the funds will be spent and with funds being appropriated to DOLGAS, departments have no opportunity to make decisions for the most cost-effective solutions regarding accommodation or services, nor is there any incentive for them to do so.

Disposals

4.31 Two distinct problems were apparent in relation to disposals. One was that clients had no incentive to declare surplus property or office space. Departments were not responsible for the cost of their property requirements, and neither did they benefit from any savings or revenue which may accrue to the Commonwealth on disposal. The other concerned the delays that tended to take place after DOLGAS had been notified that certain properties had become surplus.

4.32 For departments and most statutory authorities there are no incentives to declare vacant or partially used property and there are no penalties attached to the 'hoarding' of property. The present system may encourage departmental managers to keep unused space because of the funding difficulties, delays and frustrations associated with obtaining additional space in the future. However, given the overall increase in staff numbers and generally increased space requirements it is not likely that a significant amount of unused office space exists.

10. See Chapter 3, p. 23.

TABLE 4.1: OUTSTANDING DISPOSALS - ALL AGENCIES AND TELECOM

| Properties Declared to DOGAS | | | | | | | | | | Before 1983 | |
|------------------------------|-------|---------------------------|-------|---------------------------|-------|---------------------------|-------|---------------------------|-------|---------------------------|-------|
| Year declared to DOGAS | | 1984-85 | | | | 1983-84 | | | | Before 1983 | |
| All agencies ¹ | | All agencies ¹ | | All agencies ¹ | | All agencies ¹ | | All agencies ¹ | | All agencies ¹ | |
| No. | Value | No. | Value | No. | Value | No. | Value | No. | Value | No. | Value |
| \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| 200 | 47 | 37 | 8 | 189 | 39 | 39 | 1 | 85 | 14 | 34 | 8 |
| | | | | | | | | | | 63 | 9 |
| | | | | | | | | | | - | - |

1 All Commonwealth agencies subject to Lands Acquisition Act - as at November 1985.

2 Telecom - as at October 1986.

SOURCES: ACOA DOGAS National Consultative Council, op. cit. Telecom Australia, Second Supplementary Submission, October 1986, p.10.

4.33 The Committee notes that properties worth \$105 million are listed in the 1985-86 Budget Papers for disposal. In addition, information compiled in the National Consultative Council's (NCC) November 1985 document indicated that, at that time, 537 properties with a value of \$109 million awaited disposal.¹¹ Of these, 85 properties worth a total of \$14 million had been declared 2 to 3 years earlier and 189 properties worth a total of \$39 million 1 to 2 years earlier.¹²

4.34 A further illustration of problems with disposals was provided by Telecom. In Sydney some 40 Telecom properties with a value of over \$40 000 each are currently vacant. The value of 34 of these properties which had been declared to DOLGAS is close to \$14 million. Twenty five of these, valued at around \$8 million, were declared 2 to 3 years previous, and were still awaiting disposal as at October 1986.¹³

4.35 The Committee is aware that disposal procedures have recently been streamlined. It is no longer necessary to offer all surplus properties first to the State and then to local government. Under the revised arrangements, only properties of significance, as determined by Ministerial decision, need to be offered to other levels of government. Other properties can be sold directly on the open market. These revised arrangements should speed up disposals and help to avoid such situations as the protracted negotiations concerning the Wiltona Migrant Hostel.¹⁴

Performance Indicators

4.36 In its 1981 report on the Commonwealth's property functions, the House of Representatives Standing Committee on Expenditure commented on the shortcomings of the Department's workload statistics. The report noted that the Department was to develop work measurement techniques later in 1981, and said that that was a matter on which Parliament should be kept informed.¹⁵ Notwithstanding this request the Department has not provided such information either in the form of a special report or in its annual reports to Parliament

11. Australian Clerical Officers' Association, Department of Local Government and Administrative Services National Consultative Council Resources Sub-Committee Report, 'Resourcing the Commonwealth Property Function in Australia', Canberra, 1985, para. 7.31 (Included as Attachment to submission from Australian Clerical Officers' Association, July 1986) and referred to by DOLGAS in para. 4.5.8. of its July submission.
12. ibid. Attachment F.
13. Telecom Australia, Correspondence 19 November 1986, and Telecom Australia, Third Supplementary Submission, October 1986, Appendix F.
14. Senate Standing Committee on Finance and Government Operations, op. cit.
15. House of Representatives Standing Committee on Expenditure, op. cit., p. 19.

4.37 The Committee was interested in the performance monitoring and control processes in the central supply agencies for this reason and also in the light of the implementation of program budgeting and corporate planning. Although these agencies did not provide quantitative information on performance in their initial submissions, further information was provided after discussions at the public hearings.

4.38 The Committee was disappointed with the quality of the material provided. In general, there was emphasis on administrative processes rather than on service quality. There was a pre-occupation with activity (in terms of the number of meetings held, the nature of manuals or guidelines distributed, advice obtained from consultants, or consultative processes set up) rather than with performance (eg in terms of time taken to complete property tasks).

4.39 Performance was often described in general terms. The little quantitative information that was provided was either too sparse or too inconsistent to allow any meaningful conclusions. Compared with the management information and control systems in place within some non-government organisations, such as the Australian Mutual Provident Society (AMP), the systems available within the central Commonwealth agencies appeared to be in their infancy.

4.40 The Committee received comments from Finance on the quantitative information provided by DOLGAS in its second supplementary submission. Finance noted that it was the first time that DOLGAS had endeavoured to provide information of that kind, and that the Department's initial efforts to develop performance indicators were useful. Finance also said that there were difficulties in interpreting this information in the early stages of development. It concluded that:

As the indicators are further developed in the light of experience and user comment and as reliable time series data becomes available, their usefulness for departmental management, Government resource allocation and Parliamentary scrutiny purposes should also be significantly enhanced.¹⁶

4.41 Several central agencies said that introduction of program budgeting will enhance performance monitoring and control in their organisations. While the Committee accepts this, it notes that program budgeting mainly covers the financial aspects of performance monitoring. It does not directly concern itself with internal management issues, such as control of the timeliness and the quality of service delivery. Departmental managers have always been accountable to their Minister and Parliament for the efficient delivery of their functions. On that basis, it seems reasonable to expect them to be able to provide information on performance, both at present and over time.

16. Correspondence, Department of Finance, 24 October 1986.

4.42 In its initial submission, DOLGAS argued that the increased workloads led to staff shortages and that this caused delays in lower priority tasks. In the DOLGAS-ACOA NCC November 1985 document it is argued that around \$100 million could be saved if staff were increased by 196. The NCC's document was based on performance indicators developed in response to the Auditor-General's comments in his 1980 efficiency audit.¹⁷

4.43 Subsequently, DOLGAS advised the Committee that the NCC's document had been forwarded to the Minister for Finance from the Minister for Local Government and Administrative Services with the comment that:

...as we have now embarked on the budgetary process for 1986-87 I will be taking this material into account when I settle with my Department the 'first bids' for 1986-87.¹⁸

4.44 In the event, the Property Directorate sought an additional 22 staff out of a total Departmental additional bid for 60 staff. Further, DOLGAS has advised that current property programs would be undertaken within present staffing resources now and for the foreseeable future.¹⁹ The Committee had reservations about the adequate verification of additional staff requirements and highlighted this as an area in which DOLGAS management should be more vigilant.

4.45 While DOLGAS is to be commended for having attempted to develop performance indicators in response to the Auditor-General's suggestion, the Committee is concerned that little use has been made of this information for internal management purposes. Performance indicators should be seen as an internal management tool for bringing about greater cost-effectiveness in the Property Directorate's operations. The Committee felt it was important this was understood by the Department.

4.46 The previous discussion suggests that the management information systems of the central supply agencies are inadequate for the purposes of performance monitoring and control. This conforms with the findings of a report on management information systems throughout the Australian Public Service.²⁰

17. 'Report of the Auditor-General on an Efficiency Audit', op. cit.
18. DOLGAS, Correspondence, 8 October 1986.
19. DOLGAS, Initial Submission, op. cit., paras. 4.5.8-4.5.9.
20. Department of Finance and Public Service Board, 'Report on a Survey of Management Information Systems', June 1985.

4.47 The same document also notes that one of the main reasons for the service-wide inadequacy of management information systems was that senior managers did not ask for the full range of information needed for effective decision making. The survey found that senior managers focused mainly on expenditure, revenue and staff numbers. Few were interested in the quantity, quality and timeliness of work done.

4.48 The Committee examined the development of performance monitoring systems by the Property Directorate and by a large private sector property firm (AMP). However, direct comparison of the two systems was not possible, given the different emphases of the two organisations, which was directly reflected in their performance measurement. Notwithstanding this, the AMP system displayed better balance, with control of inputs and outputs being given a much more equal weighting.²¹

4.49 The Committee was advised that this performance monitoring system had made it possible for AMP to delegate considerable responsibilities to middle-management without sacrificing the benefits that can flow from centralised control. The Committee was particularly impressed with the extent to which top management was regularly informed of overall performance and with the way problem areas were immediately identifiable. Performance was further measured by means of a Business Plan. This was developed by the managers at various levels and contained a series of targets of estimated achievement levels.

4.50 The Property Directorate is currently developing its performance indicators through a system of efficiency and effectiveness indicators for each of the three areas of the Directorate, namely the provision and disposal of property, property management and program support. The Directorate, as a public concern, has different criteria for the establishment of its performance indicators than does the AMP as a private sector company. The Directorate's performance measurement will be constrained by its social responsibilities, its financing systems and its 'monopoly position'.

4.51 The performance indicators developed so far by the Property Directorate are not as precise as those of the AMP. However, it appears that the Directorate may be attempting to measure some of the more intangible aspects of its operations, such as its 'contribution to co-operative policy initiatives' and doubts whether achievement of such an objective can be meaningfully assessed.²² It may in fact be more effective to measure the tangible outputs (eg time delivery, cost of accommodation, costs of property management) with explanatory notes accompanying the data, where necessary, particularly in the case of concessional sales.

Leasing Documentation

4.52 A number of submissions indicated that finalisation of leasing documentation in certain instances had taken extended

21. A description of the AMP's performance monitoring system is at Appendix F.

22. DOLGAS, First Supplementary Submission, September 1986, Para. 11.0.2., p. 15.

periods of time. The Housing Loans Insurance Corporation gave an example to the Committee of a leasing matter which took several years to finalise.²³ In its second submission, the Attorney-General's Department outlined the role and responsibilities of that office in providing legal services on property matters.²⁴

4.53 The submission outlined the procedures involved in the provision of such legal services and the performance guidelines, 'Quality and Procedural Standards for Legal Work', using a data processing system. However, the statistics provided were insufficient indicators in themselves. A complex matter is given equal 'weight' in the system to a simple matter. There is also no indication of the length of time each matter takes for completion, or how long unfinalised matters have been with the Department.

4.54 The Department did indicate that it monitored work in the regions through a system of monthly management reports. Through these the Department is able to identify matters on which there has been no action for one, two or three months. However, the Department was unable to satisfy the Committee that target times for the completion of particular matters had been established. The Department did advise of a trial program which had commenced in the Melbourne office which would serve as a guide for the establishment of targets for the remainder of the Attorney-General's regional offices.²⁵

4.55 In its supplementary submission of October 1986 the Department stated that, based on a sample survey, requests by DOLGAS for legal documentation were received after occupation of leased premises in over 80 per cent of cases.²⁶

4.56 The Committee is of the view that there is considerable scope for streamlining the current procedures adopted for legal documentation.

Financial Constraints

4.57 Funding arrangements under the annual budget process have been said to have been a major reason why commitment to a longer term strategy for developing the Commonwealth's property portfolio has been virtually impossible.

4.58 The problems identified include:

- the inability to respond quickly to emerging leasing opportunities or departmental requirements. This arises from the need to obtain funds within the current financial year before leasing action can be initiated;

23. Housing Loans Insurance Corporation, Submission, July 1986, p. 2 and Attachment.
24. Attorney-General's Department, Supplementary Submission, October 1986, Attachment F.
25. Minutes of Evidence, op. cit., Volume 2, pp. 692-693.
26. Attorney-General's Department, correspondence of 16 October 1986, Attachment C.

- the low priority given by Government to office accommodation needs and the resulting shortage of funds; and
- the difficulty of obtaining commitment to a longer term portfolio strategy at times of tight budgets, including a lack of opportunity to put forward major construction proposals.

4.59 In the Committee's view it is the last problem identified that needs particular attention. One of the objectives set for the property function is to optimise the Commonwealth's holdings of real estate by systematic processes of acquisition, lease and disposal. DOLGAS specified at the hearings that optimisation in that sense would refer to 'professional portfolio management'. A DOLGAS witness defined this term as:

... the capacity to look at the portfolio as a total asset and to decide in the same way that a private investor would decide whether there are other uses to which that asset can be put or whether there are alternate financial structures that you can adopt in using the asset that will enable you to, in the private sector term, make a profit. I suppose in our terms that equates to reducing the costs.²⁷

4.60 The annual budget process, as it currently applies, does not allow for portfolio management of this kind. It is strongly biased towards leasing, with little opportunity for developing already owned property. An illustrative example is the Sydney AGL site, which has been vacant for several years because funds could not be obtained for construction of the planned office block. Funds have not been made available for 1986-87 and the proposal is to be resubmitted for 1987-88.

4.61 Although DOLGAS has taken some initiatives in an attempt to overcome these problems, eg the acquisition of properties via the instalment purchase method, it is unlikely that such initiatives could of themselves overcome the difficulties inherent in the current budgetary arrangements.

4.62 If the Central Property Agency is to be encouraged to rationalise its property holdings through a systematic and astute program of purchase and disposal, then it will require a financial arrangement which will permit this to happen. The commercial approach to portfolio management appears quite incompatible with the current financial arrangements. The Committee is of the view that professional portfolio management of the Commonwealth's property assets is only possible if the agency responsible for this task is given some freedom to make longer term investment decisions. This, in turn, requires control over the funds

27. Minutes of Evidence, op. cit., Volume 1, p. 139.

available for investment over the planning horizon which may span a period of years in the case of property investments.

4.63 One of the means of achieving this is through the use of a rolling fund or trust account arrangement. A trust account is established for a specific purpose, moneys from the account being used only for that purpose. The use of a trust account could facilitate a more commercial approach to property management in that the authority to spend money does not lapse at 30 June. A trust account arrangement provides the flexibility necessary for a commercially-oriented activity while maintaining the operation within the public account and totally within the budget sector, without the constraints of the annual budget process.²⁸

The Heritage Issue

4.64 The issue of insufficient funding for the maintenance of historic buildings was raised, particularly by the Department of Arts, Heritage and Environment and the Australian Customs Service.

4.65 The Department of Arts, Heritage and Environment commented that a significant proportion of the National Estate is owned or controlled by the Commonwealth. The problem, as the Department sees it, is that agencies do not have sufficient resources to maintain places of heritage significance to an appropriate standard. Historic buildings are more expensive to upgrade and maintain than contemporary buildings and this heritage factor is not compensated for in appropriations.

4.66 The Australian Customs Service is in the position of occupying a large number of older buildings, ie the Customs Houses, which incur high maintenance costs and are relatively inefficient. It echoed the view of the Department of Arts, Heritage and Environment when it stated:

These renovations can cost many times that of equivalent work done to a more modern building and ..., particularly during times of financial restraint, the allocation of priorities to old buildings could unfairly disadvantage an organisation such as the Customs Service.²⁹

4.67 Telecom also addressed the heritage issue in its final submission to the Committee. Telecom acknowledges that it has obligations to preserve the national heritage and estate, particularly as it has a large property portfolio.

28. Department of Finance, Supplementary Submission, September 1986, p. 36 and Minutes of Evidence, op. cit., Vol 2, p. 566.

29. Australian Customs Service, Submission, July 1986, p.1.

4.68 A 1979 report of the House of Representatives Standing Committee on Environment and Conservation recommended that specific budgetary provisions be made for historic properties.³⁰ To date that recommendation has not been the subject of a response by Government.

The Statutory Authorities

4.69 Five statutory authorities made submissions and gave evidence to the Committee. These were the Australian Broadcasting Corporation (ABC), the Australian Postal Commission (Australia Post), the Australian Telecommunications Commission (Telecom), the Overseas Telecommunications Commission (OTC) and the Housing Loans Insurance Corporation (HLIC). Of these, only the ABC is budget-funded.

Common Problems

4.70 All the authorities indicated substantial dissatisfaction with the current arrangements. Specific problems included:

- the dual approval process for properties valued at over \$2.0 million and consequent duplication of resources and action;
- the long time delays for acquisitions and disposals;
- the high cost of DOLGAS services when the authorities have no choice but to use DOLGAS and when they could possibly get better value for money and a wider range of services privately or could perform the functions in-house; and
- the different and sometimes conflicting priorities of DOLGAS. One of DOLGAS' aims is to meet economically and in a socially responsible way the current and anticipated needs of the Commonwealth insofar as property matters are concerned. The authorities argued that this policy conflicts with their respective business charters and/or that their needs are dictated by stringent operational and commercial requirements, unique to the particular authority, and about which only they are qualified to decide.

Request for Exemption from the Lands Acquisition Act

4.71 There appear to be some inconsistencies at present regarding exemptions from the Lands Acquisition Act (LAA). For example, some authorities are currently exempted while others of a similar nature are subject to the LAA. The Overseas Telecommunications Commission (OTC) was once exempted over a considerable period in the past, but is currently subject to the LAA.

30. House of Representatives Standing Committee on Environment and Conservation, 'Environment Protection - Adequacy of Legislative and Administrative Arrangements', AGPS, Canberra, 1979.

4.72 The Government recently exempted the Statutory Marketing Authorities from the LAA, citing the following reasons for this decision:

- independence to operate in the market place;
- responsibility for substantial financial transactions; and
- powers to deal in property necessary for carrying out their functions.³¹

4.73 The Committee found it hard to distinguish between exempted and non-exempted government business enterprises on the basis of the concept of 'commercial competitiveness'. It was advised that, with rapid changes in technology and with a trend towards deregulation, the earlier monopoly position of organisations, such as Australia Post, OTC and Telecom, has largely been eroded. Australia Post is increasingly subject to competition from electronic mail, private courier services, or telex and vocadex systems. Telecom already competes with the private sector in the terminal market and is increasingly subject to competition in the common carrier market. The emergence of satellite transmission and a tendency for large private and public organisations to rely to a greater extent on their own internal communications networks have been some of the main factors contributing to this.

4.74 It is unclear why some exempted organisations, such as the Reserve Bank or the Federal Airports Corporation, could be considered more competitive than some non-exempted enterprises. The Reserve Bank has sole responsibility in Australia for a number of external financial matters and there is no competition for the Federal Airports Corporation's activities.

4.75 Further, in a policy discussion paper, the Government has stated that:

As part of its general policy of removing unnecessary regulation, the Government proposes to reduce existing direct controls over statutory authorities and government business enterprises where it is satisfied with progress on the performance and public accountability of those organisations.³²

31. Department of Primary Industry Discussion Paper, 'Reform of Commonwealth Primary Industry Statutory Marketing Authorities', AGPS, Canberra, 1986, para. 2.40, p. 12.
32. Minister for Finance, 'Statutory Authorities and Government Business Enterprises: A Policy Paper Concerning the Efficiency and Accountability of Commonwealth Statutory Authorities and Government Business Enterprises', Department of Finance, Canberra, 1986, p. 4.

4.76 The trading authorities assert that their financial independence from the budget (except the ABC), the existence of qualified staff within their organisations, and the charging on a fee for service basis when the authorities have no choice but to use DOLGAS are all arguments which support their claims for exemption.

4.77 DOLGAS states that the rationale for centralisation of the property function is that it:

- prevents Commonwealth bodies from bidding against each other for lease or purchase of property;
- permits the Government to determine, through its co-ordinated disposal practices, the future use of socially or environmentally valuable surplus Commonwealth property;
- provides a conduit for direct application of Government policy on standards and costs, and provides a window on expenditure in this area;
- enables the Government to develop and implement strategies on the location of Commonwealth employment in the major cities in co-operation with State planning authorities; and
- provides a focus of Commonwealth influence on the market and other levels of Government.³³

4.78 It could be argued that, as the statutory authorities have substantial property holdings, particularly Telecom and Australia Post, many of these arguments for centralisation could be compromised, should the authorities gain exemption.

Current Practice

4.79 Current practice is that, owing to pressures on DOLGAS, certain statutory trading authorities subject to the LAA have gained de facto autonomy in some property matters. In particular, Telecom and DOLGAS have signed a Document of Understanding in which DOLGAS has recognised Telecom's need for greater autonomy and flexibility in property matters.³⁴

4.80 Although DOLGAS does not support further exemptions from the LAA unless the authorities are commercially competitive, it concedes that:

there is scope for a development of administrative arrangements, possibly including formal delegation of powers under the LAA.³⁵

33. DOLGAS, Initial Submission, op. cit., Attachment 3, pp. 4-5.

34. Telecom Australia, Submission, July 1986, Appendix D.

35. DOLGAS, Initial Submission, op. cit., Attachment 3, pp. 8-9.

4.81 DOLGAS argues that in the event of any such delegation the following problems would need to be avoided:

- abuse of the special Commonwealth immunities from State zoning and planning laws;
- gazumping by monopoly authorities;
- failure to explore the most cost-effective solutions to property needs because their cost represents a relatively small proportion of overheads generally, and all overheads are passed on to the public;
- inconsistency in handling of members of the public affected by land dealings by Commonwealth agencies because they are carried out under different statutes;
- disturbance of Commonwealth/State relations built up as a result of co-operative property practices;
- proliferation of staff handling property administration in the various statutory authorities, thereby losing economies of scale which can be obtained through centralisation;
- poor planning and inadequate co-ordination leading to an over-centralisation of Commonwealth employment in central business districts and lost opportunities to boost Commonwealth employment and services in deprived regions; and
- major Commonwealth activities being impeded by the inability of authorities to secure a landowner's agreement to sell critical land. This may result if authorities have no access to compulsory acquisition power.³⁶

4.82 In addition, the Commonwealth's responsibility to maintenance of the National Estate needs to be considered. However, given the extensive property holdings of the trading authorities, guidelines are issued which set down procedures to be adopted in satisfying Government requirements under the Environment Protection (Impact of Proposals) Act 1974 and the Australian Heritage Commission Act 1975. The latter requires each Commonwealth Minister to ensure that the Department administered by him, or any authority of Australia in respect to which he has ministerial responsibility, does not take any action that adversely affects a place on the Register of the National Estate (Section 30). All Commonwealth authorities are therefore subject to the Heritage Commission Act via their Ministers, regardless of their status with respect to the LAA.

36. DOLGAS, *ibid.*, pp. 8-9.

4.83 Telecom has a Memorandum of Understanding with the Department of Arts, Heritage and Environment to ensure, to the greatest extent practicable, that matters affecting the environment to a significant extent are fully examined and taken into account in any of Telecom's proposals. At present Telecom has procedures in place which ensure that heritage issues are considered by Telecom staff.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

- General Conclusions
- Central Property Agency
- Property Advisory Board
- Staffing
- The Budget Process
- Disposals
- Performance Indicators
- Devolution
- Accommodation Guidelines
- Leasing Documentation
- The Heritage Issue
- The Statutory Authorities

General Conclusions

5.1 In general, the central problem with property administration appears to be the complex and cumbersome procedures which have evolved as a result of the involvement of too many disparate organisations with overlapping areas of responsibility. This has served to perpetuate and exacerbate the delays in the delivery of property services. Further problems have arisen, both from the difficulties inherent in the budget process and from a lack of planning on the part of client departments.

5.2 The Committee feels that overall strategic control by a central co-ordinating body is necessary for the efficient functioning of property administration. However, allied to the retention of the central body is the streamlining of procedures and the precise determination of areas of responsibility.

5.3 Although it was evident that there are a number of problems with the current arrangements it was equally evident that there is a definite need for a central property agency, with overall policy control and responsibility for many of the property functions, and that this need was perceived by the majority of client departments.

Central Property Agency

5.4 The Committee feels that there should be a central body, ie a Central Property Agency, which would retain strategic control for the following purposes:

- to advise on strategic planning;
- to protect the national interest, particularly in the case of disposals;
- to prevent gazumping;

- to develop and implement strategies on the location of Commonwealth Government employment, particularly in the major cities; and
- to ensure a co-operative relationship with other levels of government.

5.5 The Central Property Agency would have responsibility for the following strategic functions:

- the provision of policy advice to the Minister;
- the management of owned property;
- compulsory acquisitions under the Lands Acquisition Act;
- the forecasting of future property requirements;
- the rationalisation of the Commonwealth's property portfolio;
- the setting of accommodation guidelines; and
- the collection of aggregate information, providing a central point for the holding of information on the Commonwealth's interests in property.

5.6 As a complement to the Central Property Agency, the Committee feels that there is a case for the devolution of certain routine functions to clients, where clients have the appropriate expertise and have expressed the desire to undertake such functions.

5.7 The Committee therefore recommends that:

1. a Central Property Agency be established as the central body responsible for the administration of the Commonwealth's property functions, with overall policy control;
2. the Central Property Agency be established as an independent Ministerially accountable agency within a portfolio, and within the Central Property Agency regulatory and service functions to be separated;
3. the Central Property Agency have responsibility for the management of the Commonwealth owned estate;

4. in order to speed up response times, the Central Property Agency have the option of using central agencies, 'in-house' expertise, or private firms for selected legal, valuation, construction and fitout activities when necessary; and
5. in order to release the Departments of Local Government and Administrative Services and Housing and Construction from such routine repairs and maintenance functions, that the upper limit for such works be raised from the current limit of \$1500 to the tender threshold, currently \$20 000, to enable client departments to undertake such functions on their own behalf.

5.8 Many of the problems either raised by witnesses or displayed in the case studies looked at by the Committee could be traced back to the complexity of arrangements arising out of the number of organisations involved in the property servicing process. This partly arises from the duplication of functions, particularly where the Department of Housing and Construction and the Property Directorate of DOLGAS are concerned.

5.9 As a result response times tended to be slow because of the necessity to involve a number of central agencies, depending on the function being performed.

5.10 The Committee feels that there exists a strong case for devolving responsibility for routine servicing functions to clients, particularly in areas where DOLGAS is not present and provided the client has the resources to arrange the required services and is willing to do so.

5.11 The Committee therefore recommends that:

6. routine servicing functions be devolved to clients;
7. clients have the option of using outside expertise for such services; and
8. if there exist special circumstances which necessitate repairs and maintenance work under the tender threshold to be undertaken by the Department of Housing and Construction, then such work should be undertaken on a fee-for-service basis.

Property Advisory Board

5.12 A feature of the current administrative arrangements for management of property is that accountability for performance by the central agencies mainly relates to financial matters associated with the budget process. There are little or no accountability provisions for other aspects of performance, such as timeliness and cost-effectiveness. The Committee was very concerned that the case studies cited by clients could be representative of overall performance by DOLGAS.

5.13 The Committee also noted that there did not appear to be a formal mechanism through which clients' complaints could be investigated and, if legitimate, rectified. On occasions particular problems appeared to persist year after year, without clients being able to turn to an effective investigations system to obtain relief. It considers that it should be possible to solve many property related difficulties at departmental officer level. Indeed, several witnesses said in their submissions that even relatively minor issues needed to be taken up at departmental head level, if the problems were to be resolved.

5.14 Incentives to perform well are not built into the system and information on the proportion of successfully completed projects is not available. Perhaps the most important adverse effects of the lack of a comprehensive set of performance indicators is that central agency staff only obtain feedback from clients and their superiors when something goes seriously wrong.

5.15 Some agencies said that, as program budgeting became more commonly practised, greater emphasis on performance would follow. Under program budgeting a comprehensive information base on performance may become available, but it is unclear that that in itself would ensure greater accountability for the timeliness and cost-effectiveness of the delivery of the Commonwealth's property functions. This is because program budgeting is essentially a financial management, rather than a general management tool.

5.16 The Committee considers that the Commonwealth could benefit from the selective adoption of private enterprise techniques and criteria, particularly in the rationalisation of the Commonwealth's property portfolio and forecasting of future property requirements. Further, the Central Property Agency should consider using existing programs such as the Interchange Program, in order to use outside expertise in an advisory capacity.

5.17 The Committee is of the view that in the case of property administration the establishment of a Property Advisory Board has the potential to significantly expedite application of recent Service-wide initiatives in the property area. As an initial urgent task the Board should advise on the setting up of a comprehensive management information, performance monitoring and control system.

5.18 The Committee recommends that:

9. a Property Advisory Board be established, with Commonwealth Government, private sector and other expert representation;
10. the Board is to advise the Minister responsible for the Central Property Agency on methods and criteria to ensure that the objectives of the property function are met; and
11. the Property Advisory Board be set up for an initial period of 2 years only, any extension of such time to be subject to review.

Staffing

5.19 At the hearings the Building Owners and Managers Association representative emphasised that, in order for the value of a property portfolio to be maximised, it was important that the personnel involved had the necessary training and were appropriately recompensed.

5.20 The Committee notes that property management is becoming a more specialised area and one for which tertiary institutions are now providing appropriate courses. It was particularly concerned that Property Directorate staff may not always be appropriately qualified in the area in which they operate.

5.21 The Committee therefore recommends that:

12. the Public Service Board investigate the implementation of a career structure, with appropriate qualifications requirements and commensurate salary scales, for property specialists within the Australian Public Service.

The Budget Process

5.22 The Committee felt that there were problems inherent in the budget process which:

- did not assist the sensible sale, purchase and redevelopment of the Commonwealth's property portfolio;
- effectively concealed from clients the costs associated with property requirements, moneys being appropriated to DOLGAS or to DHC for such items; and

- was unable to cope adequately with unforeseen accommodation requirements, which most often arise from revised Administrative Arrangements Orders or from New Policy Proposals which may not have taken into account accommodation implications.

5.23 One of the major problems experienced by DOLGAS was the increased workload and changed priorities caused by revised Administrative Arrangements Orders and New Policy Proposals funded in the Budget.

5.24 The Committee therefore recommends that:

13. all revised Administrative Arrangements Orders and New Policy Proposals provide details on consequential property/ accommodation requirements.

5.25 If the Central Property Agency is to be able to effectively carry out its stated objectives it is essential that a different rationale be placed on the operations of that Agency.

5.26 It is necessary that the Central Property Agency's prime function be to satisfy the property needs of the Commonwealth in the most cost-effective, timely and socially responsible way. However, there is a further requirement that the property portfolio be managed efficiently. To this end, it may be advisable to consider giving a degree of independence to the program for the management of the Commonwealth's property holdings.

5.27 The Committee therefore recommends that:

14. Trust Account funding arrangements be instituted to allow the Central Property Agency to fulfil its stated objectives, particularly in relation to the sale, purchase and redevelopment of the Commonwealth's property portfolio.

5.28 In view of the Committee's previous criticisms of the operation of particular Trust Accounts, the Committee is concerned that management of the Trust Account is efficient and effective. However, the Committee recognises that the Trust Account would be established for the pursuit of a major objective and it is the appropriate mechanism to achieve this objective.

5.29 In order that the necessary public enterprise accountability requirements are fulfilled the Committee recommends that:

15. the Central Property Agency have strong reporting requirements by presenting an annual report prepared according to the Guidelines for Annual Reports of Statutory Authorities and Departments and that the financial statements therein conform to the Form and Standard of Financial Statements for Commonwealth Undertakings as issued by the Department of Finance from time to time.

Disposals

5.30 There is a current requirement for all revenue from disposals of Commonwealth property to go into the Consolidated Revenue Fund. It is appropriate for such disposals to be handled by the Central Property Agency. Further, where property is owned in the name of a statutory authority, revenue from the sale of such property goes to the Authority. Given the Central Property Agency's role in the management of the owned estate it would be appropriate for the Agency to have responsibility for disposing of such property.

5.31 The Committee therefore recommends that:

16. where revenue from disposals is to go into the Trust Account or the Consolidated Revenue Fund, responsibility for disposals is to remain with the Central Property Agency.

5.32 The Committee recognises that the Central Property Agency should maintain an overseeing role over the disposal of property owned by the Commonwealth and its agencies. This is to ensure that national heritage and social considerations are taken into account. The opportunity for consideration of whether other broad policy objectives, such as decentralisation, may be affected by disposal of a particular property should also be made available.

5.33 The Committee therefore recommends that:

17. disposals on behalf of statutory authorities be approved by the Central Property Agency.

5.34 It will be necessary for the Trust Account to receive sufficient moneys for the Central Property Agency to operate effectively in the disposal of uneconomic or unused property and the funding of redevelopment or purchase programs.

5.35 The Committee therefore recommends that:

18. a register of core office accommodation properties be identified, such properties having the potential for sale; and
19. revenue from disposal of these properties to be credited to the Trust Account, unless the Government specifically decides otherwise.

5.36 Notwithstanding DOLGAS' revised disposal procedures, the Committee is most concerned that the Commonwealth has a large amount of valuable property identified for disposal. It could be argued that any delay in disposal action costs the Commonwealth the real rate of return on that money, were it invested in an interest bearing deposit. The Committee also felt that the information base on disposals appears extremely limited and quite inadequate for the purposes of performance monitoring and control.

5.37 The Committee therefore recommends that:

20. all Commonwealth departments, statutory authorities and undertakings be required to conduct annual reviews of their property holdings, maintain current assets registers which are publicly available, provide information on vacant properties in their annual reports, and advise the Central Property Agency of the result of these reviews for strategic purposes.

Performance Indicators

5.38 A central problem of the Inquiry was the paucity of data on which the Committee could make comparisons and assess performance. Further, the Committee was concerned with the quality of the material that was provided. There appeared to be undue emphasis on activity rather than the more tangible yardstick of performance. It was felt reasonable for departmental managers to be required to provide information on performance both at present and over time. The Committee is also concerned that, despite the Report of the Auditor-General in 1984, the Department still had not finalised the development of its property information management system.

5.39 The Committee is of the view that there is a need to broaden the accountability of the Central Property Agency beyond the financial matters dealt with in the annual budget cycle, and that this is particularly so in relation to the performance criteria of timeliness and cost-effectiveness.

5.40 The Committee therefore recommends that:

21. an efficient management information system and property data base be put in place as quickly as possible; and
22. the Central Property Agency develop performance indicators, if necessary using consultants, such performance indicators to be specific, dated, testable and quantifiable. These performance indicators will necessarily be related to the Central Property Agency's corporate objectives and program budgeting.

Devolution

5.41 There appears to be a strong link between the adequacy of the performance monitoring system in place, and the extent to which effective delegation of functions can occur.

5.42 It was generally agreed by witnesses that the system for administering the Commonwealth's property functions, as it operates now, is too centralised. In response to client pressure, DOLGAS initiated a trial which essentially involved delegation of budget sponsorship for new lease and fitout programs to client departments. Also, in several of its submissions DOLGAS stated that there could be gains from removing DOLGAS presence in certain areas. Greater devolution of responsibilities within DOLGAS to regional managers has also been identified as having potential benefits.

5.43 Further, because the costs of accommodation and associated property services for each agency form part of the overheads associated with program delivery, decisions on resource allocation at the department or authority level are best decided in the context of the department or authority's own budget. Departments should necessarily be conscious of all costs of the programs they deliver, including accommodation costs.

5.44 However, departments and authorities should only be able to proceed with property programs within guidelines developed by the Central Property Agency.

5.45 The Committee therefore recommends that:

23. full financial responsibility be devolved to clients for their property programs;
24. full operational responsibility be devolved to those clients, where the clients concerned have the necessary expertise and are willing to do so (this will apply particularly to the networked offices of the Departments of Employment and Industrial Relations and Social Security);
25. operational responsibility be devolved to clients for property programs including fitout, up to the tender threshold, currently \$20 000;
26. all construction and fitout activity above the tender threshold be the sole responsibility of the Department of Housing and Construction so that a single organisation has responsibility for this function;
27. significantly greater decentralisation of the Central Property Agency's authority be granted to its operational areas at regional level, particularly for the more routine functions; and
28. that the operational areas provide regular and timely reports of all aspects of their activities in line with the performance monitoring and reporting requirements of the Central Property Agency.

5.46 Current thinking very much supports cost identification and the 'user pays' principle and the Committee supports this principle. However, the Committee is concerned that such proposals should only be implemented where they can be shown to be cost-effective. The Committee understands that the proposals for the introduction of interdepartmental charging are still at the discussion stage, however, it has received no evidence on financial benefits and no model which demonstrates the benefit or otherwise of the introduction of interdepartmental charging.

5.47 Budget sponsorship for accommodation requirements as proposed above should serve to bring to an agency's attention the costs of its accommodation, without the requirement for the establishment of what could possibly be a very complex charging system for a notional transfer of funds.

Accommodation Guidelines

5.48 The Central Property Agency should continue to regulate the amount and standard of accommodation used by Commonwealth departments and statutory authorities, particularly in view of its overall policy and strategic planning roles.

5.49 The Committee therefore recommends that:

29. the Central Property Agency continue to establish accommodation guidelines as part of its strategic responsibilities and that these include guidelines on staff-space ratios and locational decisions.

Leasing Documentation

5.50 The Committee is concerned about the lengthy delays in the finalisation of leasing documentation. While it is the lessor's responsibility to prepare the leasing documentation, the Committee is concerned that much of the blame for late finalisation of leasing documentation must lie with DOLGAS and the Attorney-General's Department.

5.51 The Committee notes that the Attorney-General's Department is currently developing a performance monitoring and management control system in the Melbourne Regional Office.

5.52 The Committee recommends that:

30. the performance monitoring and control system currently undergoing development in the Melbourne Regional Office of the Attorney-General's Department be evaluated and finalised with the view to general adoption of the system throughout its other regional offices; and
31. the Central Property Agency and the Attorney-General's Department continue negotiations with private sector lessors to develop a standard form lease.

The Heritage Issue

5.53 A significant proportion of the National Estate is owned or controlled by the Commonwealth. The Committee recognises that the Government has an obligation to protect acknowledged historic buildings and that its actions in this regard could have a significant effect on the proportion of the National Estate which is adequately maintained.

5.54 Departments and statutory authorities are currently expected to meet such restoration and maintenance costs out of their own budgets. The Committee feels this is inconsistent with the implementation of program budgeting and cost recovery programs. In addition, some departments and authorities, in particular the Australian Customs Service and Australia Post, could be more disadvantaged than others.

5.55 The Committee recommends that:

32. a separate item within departmental and non-trading statutory authority appropriations be created to provide for excess maintenance and restoration costs associated with Commonwealth properties listed on the Register of the National Estate; and
33. in the case of statutory trading authorities, a separate item for excess maintenance and restoration costs be included in their accounts, in order that their contribution to the maintenance of the National Estate is not hidden, and may be compensated for by Government if deemed appropriate.

The Statutory Authorities

5.56 The Committee is not convinced that the reasons cited by DOLGAS for non-exemption of the statutory trading authorities are valid, particularly in the light of the Government's recent exemption from the LAA of all the statutory marketing authorities. The reasons cited for the exemption of these authorities were:

- independence to operate in the marketplace;
- responsibility for substantial financial transactions; and
- powers to deal in property necessary for their own functions.

5.57 These reasons can be applied equally to some statutory trading authorities, and in particular to Telecom, Australia Post, OTC and the HLIC.

5.58 The following additional factors support the case for exemption of the statutory trading authorities from the LAA:

- their financial independence from the Budget;
- the existence of qualified property staff within the organisation, or ready access to such staff; and
- the charging of market rates by DOLGAS for services provided, when the authorities have no choice but to use DOLGAS. Australia Post, in particular, agreed that they could get better value for money elsewhere.

5.59 The Committee recognises that exemption of such authorities from the LAA will have a substantial impact on the workload of DOLGAS and, if the Committee's recommendations are accepted, on that of the Central Property Agency. However, DOLGAS did not provide sufficient evidence to the Committee that centralisation of the property function was more cost-effective than otherwise. In fact, the weight of evidence appears to favour, at the very least, formal delegation of the Minister's powers to the statutory authorities.

5.60 Further, it is the Committee's belief that compliance with the objectives of the strategic controls and functions of the Central Property Agency referred to on pages 46 and 47 can be achieved by mandatory compliance with Ministerial directions.

5.61 The Committee therefore recommends that:

34. the Minister responsible for the Central Property Agency delegate his authority under the Lands Acquisition Act to off-budget government business enterprises, but with the requirement that they comply with the directions of that Minister;
35. the Australian Telecommunications Commission, the Australian Postal Commission, the Overseas Telecommunications Commission and the Housing Loans Insurance Corporation receive such delegations immediately; and
36. delegation to other statutory authorities be granted on a case-by-case basis.

LIST OF APPENDICES

- A. Legislation Affecting the Administration of the Commonwealth's Property Function
- B. List of Hearings and Witnesses
- C. List of Statutory Authorities Currently Exempt from the Lands Acquisition Act
- D. Case Studies
 - (1) Department of Defence - Project DESINE
 - (2) Department of Aboriginal Affairs - Central Office Partitioning
 - (3) Housing Loans Insurance Corporation - Leasing Documentation
- E. Department of Finance Discussion Paper - Interdepartmental Charging
- F. Performance Monitoring in a Private Sector Organisation
- G. Past Reviews of the Administration of the Commonwealth's Property Functions
- H. Unoccupied Leased Office Space - July 1971 - June 1973 and September 1986

APPENDIX A

**LEGISLATION AFFECTING THE ADMINISTRATION OF THE
COMMONWEALTH'S PROPERTY FUNCTIONS**

LEGISLATION AFFECTING THE ADMINISTRATION OF THE
COMMONWEALTH'S PROPERTY FUNCTIONS

The legislative authority for carrying out property functions is based on the Commonwealth of Australia Constitution Act and is derived from:

- Defence (Transitional Provisions) Act 1946 and Defence Transition (Residual Provisions) Act 1952 in so far as they relate to National Security (General) Regulations 54, 55AA, 55A, 60B, 60C and 60J-60M.
- Lands Acquisition Act 1955
- Lands Acquisition (Defence) Act 1968
- Lands Acquisition (Northern Territory Pastoral Leases) Act 1981
- Northern Territory (Commonwealth Lands) Act 1981
- Northern Territory (Self-Government) Act 1978, sections 69 and 70

In addition, the following legislation specifically affects the administration of the property function (as distinct from general legislation such as the Audit Act):

- Commonwealth Places Act 1970, which applies State law to Commonwealth places as Commonwealth law according to its tenor
- Public Works Committee Act 1969, which provides for examination by the Parliamentary Standing Committee on Public Works of capital works proposals in excess of \$6m
- Aboriginal Land Rights (Northern Territory) Act 1976, which provides in part for Aboriginal land claims in respect of Commonwealth land
- State legislation, for example planning and control, conveyancing and fencing legislation which governs the Commonwealth's relationship with other landowners and also the registration of title to Commonwealth land.

The Minister is also bound to comply with the provisions of the Australian Heritage Commission Act 1975 and the Environment Protection (Impact of Proposals) Act 1974.

SOURCE: Commonwealth Government Directory, Vol 2, Local Government and Administrative Services Portfolio, AGPS, Canberra, 1986, p8.

APPENDIX B

LIST OF HEARINGS AND WITNESSES

APPENDIX B

List of Hearings and Witnesses

Tuesday 9 September 1986, Canberra

| | |
|---|--|
| Department of Defence | Mr G P Anderson Mr R J Kinsella Mr N R Millar |
| Department of Immigration and Ethnic Affairs | Mr V McMahon |
| Department of Industry, Technology and Commerce | Mr B J Meredyth |
| Department of Local Government and Administrative Services | Mr J R Clarke Mr R S Divett Mr A F Gallery Ms P F McCahey Mrs P Morris |
| Observers | Mr J Louttit Mr L Milkovits |

Wednesday 10 September 1986, Canberra

| | |
|---|--|
| Australian Customs Service | Mr A B Luckman |
| Department of Education | Mr W C Bowron Mr P C Maher Dr A Taloni |
| Department of Employment and Industrial Relations | Mr J Bowdler Mr K A Power |
| Department of Local Government and Administrative Services | Mr J R Clarke Mr R S Divett Mr A F Gallery Ms P F McCahey Mrs P Morris |
| Observers | Mr J Louttit Mr L Milkovits Mr G Williams |

Wednesday 17 September 1986, Canberra

| | |
|---|---|
| Australian Broadcasting Corporation | Mr G E Moriarty |
| Australian Postal Commission | Mr K J Fennell Mr T J A Heuston Mr B A O'Hare |
| Australia Telecommunications Commission | Mr W F Brigden |
| Housing Loans Insurance Corporation | Mr M Hehir |
| Overseas Telecommunications Commission | Mr R J Cruickshank Mr N Plumb |
| Observers | Mr J Louttit Mr L Milkovits Mr G Williams |

Monday 22 September 1986, Canberra

| | |
|----------------------------------|---|
| Department of Community Services | Mr B Macdonald |
| Department of Defence | Mr G P Anderson Mr R J Kinsella Mr N R Millar |
| Observers | Mr P Brady Mr J Louttit Mr L Milkovits Mr G Williams |

Thursday 2 October 1986, Sydney

| | |
|---|--|
| Australian Clerical Officers Association | Mr R W Bennett Mr E W Lundberg Mr S J McAree |
| Building Owners and Managers Association | Mr P Barda Mr J Ploeg |
| National Mutual Life Association of Australasia Ltd | Mr B J Pollock |
| State Rail Authority of New South Wales | Mr L Freeman |
| Observers | Mr L Milkovits Mr K Sweeney Mr G Williams |

Thursday 9 October 1986, Canberra

| | |
|--|--|
| Attorney-General's Department | Mr T A Sherman |
| Australian National University | Dr I R Harper |
| Australian Taxation Office | Mr M R Coleman Mr E Killesteyn Mr V Mitchell Mr G Scott |
| Canberra College of Advanced Education | Dr R L Wettenhall |
| Department of Housing and Construction | Mr J Mellors Mr S J Palywoda Mr K J Rodda |

Monday 13 October 1986, Canberra

| | |
|-----------------------|--|
| Department of Finance | Mr W S B Jackson Dr M Keating Mr D A Shand Mr K E Sweeney Mr E R Thorn Mr D K Wallace |
| Public Service Board | Mr C R Geckeler Mr L Milkovits |
| Observer | Mr G Williams |

Monday 20 October 1986, Canberra

| | |
|--|---|
| Attorney-General's Department | Mr T A Sherman |
| Australian Telecommunications Commission | Mr W K Bate Mr W F Brigden |
| Department of Housing and Construction | Mr A S Blunn Mr J Mellors Mr K J Rodda Mr R J Roennfeldt |
| Department of Local Government and Administrative Services | Mr R S Divett Mr M A Gallagher Mr A F Gallery Mr A Hillier Ms P F McCahey Mrs P Morris |
| Observers | Mr J Louttit Mr L Milkovits Mr G Williams |

APPENDIX C

LIST OF STATUTORY AUTHORITIES CURRENTLY EXEMPT FROM THE
LANDS ACQUISITION ACT

**LIST OF STATUTORY AUTHORITIES CURRENTLY EXEMPT
FROM THE LANDS ACQUISITION ACT**

The following Commonwealth statutory authorities are exempt from the provisions of the Lands Acquisition Act 1955 under Section 66A of that Act:

A.C.T. Electricity Authority
Advisory Council for Inter-government Relations
Australian Apple and Pear Corporation
Australian Broadcasting Corporation*
Australian Canned Fruits Corporation
Australian Dairy Corporation
Australian Dried Fruits Corporation
Australian Honey Board
Australian Meat and Livestock Corporation
Australian National Airlines Commission
Australian National Railways Commission
Australian National University
Australian Shipping Commission
Australian Tobacco Board
Australian War Memorial Board of Trustees
Australian Wheat Board
Australian Wine and Brandy Corporation
Australian Wool Corporation
Canberra College of Advanced Education
Canberra Hospital Management Board
Canberra Theatre Trust
Christmas Island Phosphate Commission
Commissioner for Housing of the A.C.T.
Commonwealth Banking Corporation
Commonwealth Development Bank
Commonwealth Savings Bank
Commonwealth Trading Bank
Defence Services Homes Corporation
Health Insurance Commission
Joint Coal Board
National Companies and Securities Commission
Parliamentary Retiring Allowances Trust
Reserve Bank of Australia
Snowy Mountains Engineering Corporation

*Only in respect of short-term hire of places of public entertainment and of locations and facilities required for radio, film and television purposes.

CASE STUDIES

- (1) Department of Defence - Project DESINE
- (2) Department of Aboriginal Affairs -
Central Office Partitioning
- (3) Housing Loans Insurance Corporation -
Leasing Documentation

APPENDIX D (1)

DEPARTMENT OF DEFENCE - PROJECT DESINE

During the course of the PAC's recent Inquiry into the Defence Department's Project DESINE - Proposed Computer Acquisitions Report 254, the Department raised the issue of protracted delays and problems experienced by the Office of Defence Production in obtaining suitable accommodation for some of its computing equipment.

The Department described a chain of events which ultimately resulted in a proposal by the Office of Defence Production (ODP) to purchase a \$1.85 million secondhand computer, to provide interim computing capacity pending new equipment purchases in 1987/88.

This proposal appeared to have been a direct result of the failure to secure accommodation for a warehoused V6 Amdahl computer, which was already owned by the ODP and which could otherwise have met these interim capacity needs.

The PAC secretariat wrote to the Departments of Local Government and Administrative Services and Housing and Construction requesting their submissions on the matter.

However, on receipt of submissions from the two departments it was clear that principal responsibility for the failure to secure accommodation lay with the Department of Defence and the ODP itself, rather than with the Department of Housing and Construction or DOLGAS. The Department of Defence failed to adequately plan for its proposed acquisitions and to keep the central service agencies advised of its proposals. This failure to advise DHC and DOLGAS made their co-ordinating and service roles more difficult. It appears that both DOLGAS and DHC performed their respective responsibilities both conscientiously and expeditiously. Delays occurred as a result of matters outside their control.

CHRONOLOGY OF EVENTS

23.7.84 Department of Defence Support (DDS) wrote to Department of Local Government and Administrative Services (DOLGAS) Central Office indicating that it wished to upgrade its computer facilities at Jensen House (airconditioning, refurbishment and additional space for increased facilities). DDS asked that urgent attention be given to necessary works programming requirements.

26.7.84 DOLGAS replied to the effect that by this time it was too late to include the proposal in the 1984/85 Civil Works Program, nor could it be included on the 1983/84 Design List but that action would be taken to advance the project in the 1984/85 Design List with an early tender target date in 1985/86.

6.8.84 DDS confirmed the requirement for the 1985/86 New Works Program (2nd Floor Computer Room Refurbishment) at an estimated cost of \$350,000. The proposal was subsequently included in DESINE List A proposals for 1984/85 and gained status (estimate \$350,000).

26.10.84 DDS indicated an urgent requirement to immediately upgrade the airconditioning in the computer room. It mentioned that it had raised the proposal with the Department of Housing and Construction (DHC) and had secured an indicative cost of \$150,000. DDS indicated that it would fund the work from its own resources on receipt of a preliminary estimate from DHC.

19.11.84 DOLGAS (Vic) wrote to DDS acknowledging the advice of 26.10.84 but indicated that it would retain the proposal on the Design List until DDS had further advanced its latest proposition. DOLGAS also wrote to DHC seeking its advice on the current position.

20.11.84 DHC responded to the effect that a preliminary estimate for the airconditioning work was \$175,000 and that this had been forwarded to DDS on 16.11.84. It also mentioned that it was awaiting advice from DDS as to the status of the project.

26.11.84 DOLGAS (Vic) advised DOLGAS (C.O.) of the current position.

26.11.84 DOLGAS (C.O.) responding to matters raised by the Department of Finance (DOF) sought advice from DOLGAS (Vic) concerning justification for the total project and an indication of the minimum work required.

8.1.85 DOLGAS (Vic) referred the matter to DHC and the Department of Defence (DOD) for advice.

10.1.85 DOD responded direct to DOF justifying its proposal and seeking urgent consideration to proceed with Stage 1 of works (airconditioning) at \$175,000 in its 1984/85 Civil Works Program.

24.1.85 DOLGAS (Vic) responds to DOLGAS (C.O.) request of 26.11.84 indicating that no formal response had been received from DDS and DHC but that telephone contact had revealed that:

- design documentation for full extent of works was proceeding and nearing completion.
- DOD had indicated a preference to sponsor Stage 1 direct with DOF and had replied to DOF.

6.2.85 DHC provided DOLGAS (Vic) with a preliminary estimate of \$360,000 for total project.

13.2.85 DOLGAS (Vic) advised DOLGAS (C.O.) of interest by private developer in purchasing Jensen House for development of Victoria Central proposal.

21.3.85 DOD submitted a revised brief for the project and asked that the preliminary estimate be updated.

7.5.85 DOD asks that DOLGAS seek urgent approval for 1984/85 Design List status and raises issue of relocation of computer facility to Plaza Building or 8th Floor of Jensen House (then vacant). By this stage DHC had advised DOD that for technical reasons the 2nd Floor proposals was not the preferred solution due to extra costs and time associated with maintaining computer centre operational while works in, progress (i.e. after-hours work).

8.5.85 DOLGAS (Vic) wrote to DOLGAS (C.O.) with options paper for DOD computer facility:

- refurbishment of existing facility (2nd Floor, Jensen House);
- new facility (8th Floor, Jensen House);
- relocation to Plaza Building.

14.5.85 DOLGAS (Vic) refers proposal to DHC for advice. At this time also DOLGAS (Vic) was advised by Honeywell (occupants of Plaza Building) that it planned to vacate premises in December 1985.

22.5.85 DOD wrote to DOLGAS (Vic) indicating that the Plaza Building was now its preferred location and sought urgent action for the proposal to be included as a supplementary item on the 1984/85 works program.

7.6.85 DHC advised that new computer centre to be located at 350 St Kilda Road.

14.6.85 DOD advises DOLGAS (C.O.) that proposal to now proceed as an item on 1985/86 Defence Works Program.

9.8.85 Defence accepted the limit of cost estimate and also confirmed that no changes would be made without DHC assurances as to safety.

Aug. 85 An order was let for the stripping of the proposed area on Floor 2.

Oct. 85 A select tender for fitout was called based on briefed information and detailed floor loadings for equipment and sketches provided by Defence.

14.11.85 Defence confirmed that it would have additional heavier equipment within 18 months.

18.11.85 DHC notified Defence that this additional equipment was not tolerable from a structural aspect.

19.11.85 Tenders for fitout in accordance with Defence's original brief closed.

25.11.85 DHC provided further indicative costs for relocation options.

Dec. 85 Defence confirmed to DHC that it was not proceeding with 350 St Kilda Road.

16.12.85 DOD (C.O.) advised DOLGAS (C.O.) that Plaza Building proposal unable to proceed as floor loadings insufficient to support new generation hardware to be installed in approximately 18 months. DOD indicated alternative options being investigated.

16.12.85 DOD (Vic) asks that DOLGAS (Vic) seek alternative accommodation to Plaza Building - 500 to 600² with 7kpa floor loading for computer equipment and 250m² with 4kpa for plant and 1250m² with 4kpa for staff.

13.1.86 DOLGAS advised DOD (Vic) that 83-113 Batman Street, West Melbourne available December 1986.

16.1.86 DOD (Vic) advised DOLGAS location was suitable but timing unsuitable.

12.2.86-
21.2.86 5 buildings inspected by DOLGAS/DOD.

21.2.86 Meeting DOD/DOLGAS/DHC. DOD indicated the floor loading capacity has been reassessed at 5kpa. Following building inspections meeting determined to concentrate on 2 options of Jensen House and 58-62 Queensbridge Street.

24.2.86 DOLGAS requested DHC to examine 58-62 Queensbridge Street and to again evaluate Jensen House as preferred options.

24.3.86 Meeting with DHC/DOD/DOLGAS to discuss fitout requirements. DOLGAS stressed need for Defence to secure leasing funds and indicated that it would seek valuation advice in the interim.

7.4.86 Valuation requested for 58-62 Queensbridge Street.

7.4.86 DOD requested to confirm programme status for the 1986/86 Leasing Programme.

7.5.86 Preliminary valuation received for 58-62 Queensbridge Street.

15.5.86 DHC advised DOD of comparative fitout costs viz:

| | |
|---|-------------|
| 58-62 Queensbridge Street. | \$1,200,000 |
| (including 2000m ² accommodation for Army and RAAF Health Records) | |
| Jensen House | \$1,700,000 |

28.5.86 Technical Report received from DHC for 58-62 Queensbridge Street.

Report highlighted need for DOLGAS to raise with lessor in negotiations building deficiencies including mechanical engineering services not complying with standards for Commonwealth Office accommodation; provision of electrical general purpose power outlets to meet occupants functional equipments, provision of telephone block wiring installation; provision of emergency warning and communication system to Australian standards.

29.5.86 DOLGAS convened meeting with DHC/DOD to discuss fitout requirements. At this meeting it was confirmed that leasing funds had been secured for 58-62 Queensbridge Street and DOLGAS undertook to commence negotiations.

2.6.86 DOLGAS wrote to agent re proposed lease terms and conditions for 58-62 Queensbridge Street.

3.6.86 DOD forwarded Requisition for Lease for 58-62 Queensbridge Street.

1.6.86 -
12.6.86 DOLGAS met with agent and owner Negotiations continued.

19.6.86 Valuer forwarded final reviewed valuation.

25.6.86 DHC forwarded to DOLGAS updated technical report for consideration in future negotiations.

27.6.86 DOLGAS forwarded further leasing proposal to agent.

2.7.86 &
8.7.86 Further exchange of correspondence on lease proposal with agent.

23.7.86 Conference with all parties including owner on the Commonwealth's requirement for fitout of 58-62 Queensbridge Street and determination of works to be carried out by lessor.

4.8.86 to
21.8.86 Final exchanges of correspondence between DOLGAS and agent in arriving at agreed terms and conditions for lease of 58-62 Queensbridge Street.

2.9.86 Conference with DOD/DHC/DOLGAS. DOLGAS advised on status of lease negotiations and indicated that it would seek Ministerial approval as soon as possible.

9.9.86 L.A.A. submission forwarded to Minister.

18.9.86 Lease proposal approved by Minister.

26.9.86 DOLGAS advised DOD of lease approval.

APPENDIX D (2)

DEPARTMENT OF ABORIGINAL AFFAIRS - CENTRAL OFFICE PARTITIONING

The Department of Aboriginal Affairs provided the Committee with details of a refurbishment exercise to repartition accommodation for their Central Office, located on several floors of the MLC Tower at Woden in the ACT. This was a relatively minor repartitioning exercise, involving no structural work.

The following chronology of events illustrates the complications which developed (and consequential time delays) as a result of the involvement of too many agencies.

CHRONOLOGY - DAA Central Office Partitioning

| | |
|---------------|--|
| 19 April 1985 | Meeting between Mr Perkins, Mr Jacka, Mr Koukoulas and Mr Ken Jones (Secretary of Department of Local Government and Administrative Services (DOLGAS)) - arrange inspection of Dundas Court with the view of arranging new lease - secure funds for MLC Tower National Aboriginal Conference (NAC) lease |
| 2 May 1985 | Confirmed with DOLGAS the takeover of the NAC area from 1 July Drawings prepared Declined the offer of Dundas Court |
| 8 May 1985 | DOLGAS request our final layouts by COB Friday 10 May |
| 13 May 1985 | Layouts delivered by hand to DOLGAS Monday 13 May |
| 24 May 1985 | DOLGAS advised that Department of Housing and Construction (DHC) will complete estimate by 30 May Work should commence by the end of June |
| 19 June 1985 | DOLGAS advised that work should commence by the end of July and would not be completed inside 10 weeks |
| 5 July 1985 | Meeting with DOLGAS and Architects to view plans DAA advise amendment for 15th Floor and undertook to provide revised layout by 8 July |
| 8 July 1985 | Revised layout for 15th Floor delivered to DOLGAS |

| | |
|-------------------|--|
| 23 July 1985 | DOLGAS advised that layouts for Floors 14, 15 and 16 are to be collected from DHC 24 July and DOLGAS will deliver to DAA for approval. Layouts for Mezzanine, 2 and 12 will be completed by 5 August Work to commence in 3 to 5 weeks (sometime after 13 August) |
| 26 July 1985 | DAA forwarded alterations for 12th Floor |
| 7 August 1985 | DOLGAS advised layouts for Mezzanine, 2 and 12 to be completed by 8 August. Partition work to commence on or after 13 August subject to Lend Lease arrangements with private contractor |
| 20 August 1985 | Final layouts agreed with DOLGAS |
| 21 August 1985 | DOLGAS advise that work will not commence for a further 3 weeks - Lend Lease yet to advise DOLGAS of final contractor arrangements (expected 22 August) Layouts to be approved by the Department of Territories' Building Section |
| 28 August 1985 | DAA requested advice on latest developments |
| 29 August 1985 | DOLGAS advised that work should commence on Floor 12 on 12 September 1985 |
| 12 September 1985 | DOLGAS advised that partition work would not commence 12 September - 12th Floor is part of one project involving Floor 11 and 12. Department of Veterans' Affairs (DVA) are co-tenants and have revised their electrical requirements which is causing the delay. |
| 24 September 1985 | DOLGAS advised of a meeting they had with DHC, Lend Lease and Civil and Civic (Lend Lease construction agents) <ul style="list-style-type: none"> - Partition work for 11 and 12 slipped to 7 October : combinations of all involved however Lend Lease complicated matters by a complete revision of electrical and mechanical layouts - working drawings for 2 and Mezzanine should be available by early November with work to start soon after - working drawings for 14, 15 and 16 not expected before the end of November |

27 September 1985 Secretary wrote to Mr Jones expressing his concern of the continued delays
- copied to Mr A Blunn Secretary DHC

8 October 1985 DOLGAS advised they will expedite progress - work should start 15 October and be completed as a matter of priority

20 November 1985 DOLGAS advised that mechanical plans have been completed
DHC are revising the electrical plans DOLGAS anticipate a requisition should be issued in 3 weeks (10 December 1986)
- contractor can commence the day after however the Christmas shutdown is from 18 December until 9 January 1986

29 January 1986 DOLGAS advised that DHC doing final estimates which will take 2 weeks

11 February 1986 DOLGAS advised that DHC should let a contract to Civil and Civic this time next week
- commencement date should be within 7 days : reason for delay is that Lend Lease did not approve the plans until 5 February 1986

26 February 1986 DOLGAS advised that work should commence 17 March 1986

4 March 1986 WORK COMMENCED

6 May 1986 DAA submitted alterations for 14 and 16 Floors

5 June 1986 DAA submitted alterations for 2, 15 and 16

18 June 1986 Meeting between DAA, DHC, DOLGAS and Civil and Civic - variations agreed

4 July 1986 Building Inspector refused Certificate of Occupancy until redundant partition wall from the foyer to the external wall, 16th Floor, is erected even though it had been agreed that it be deleted from previous plans

8 July 1986 DHC conducted site inspection

10 July 1986 DAA/DHC (Nicolson/McIver/Ryan) discussed changes on site
DHC forwarded drawings to Architects

14 July 1986 DHC forwarded a second set of drawings - original set were not received

17 July 1986 DAA advise further minor alterations as a result of DHC Design Consultants recommendation

12 August 1986 DAA orally complained about delay to DOLGAS

14 August 1986 Revised drawings forwarded from DHC to Architects

27 August 1986 DHC Design Consultants submit to Ryan (DHC) further changes - DAA not consulted

3 September 1986 DHC received revised drawings from Architects

4 September 1986 DAA complained again about delay - DOLGAS advised

- mechanical plans with DHC
- layouts should be with Civil and Civic by early next week for costing and should provide same by midweek

As the contractors will have to schedule the work optimistically work could start in 2¹/2 weeks - say 22 September

12 September 1986 Mechanical drawings with Environ Mechanical Services Pty Ltd. - airconditioning Contractors
DAA (Nicholson) discussed outstanding work with Mr Roennfeldt, Regional Director DHC. Mr Roennfeldt undertook that plans would be clear of DHC and order issued within 6 weeks

10 October 1986 DAA met with DOLGAS to discuss the revised drawings to ensure they are correct. Due to some uncertainties McIver/Gordon met with DHC (Ryan)
DHC advised they would seek clarification from Civil and Civic on 14 October

20 October 1986 DHC advised they expect a revised written quote from Civil and Civic 20 October. If it is acceptable work can commence sometime week commencing 27 October.

HOUSING LOANS INSURANCE CORPORATION - LEASING DOCUMENTATION

HLIC's experience has been that the intervention of the Department of Local Government and Administrative Services and the Attorney-General's Department has usually added significantly to the Corporation's administrative costs and greatly lengthened the time taken to complete a leasing transaction. In this case the HLIC would have had access to the necessary expertise to arrange the documentation itself.

The sequence of events as described by the HLIC and Attorney-General's is detailed below.

Case 1: renewal of lease for HLIC accommodation at 379 Collins Street, Melbourne.

RECORD OF EVENTS

| Date | HLIC | Attorney-General's |
|---------------|---|---|
| 4 March 1976 | HLIC sought concurrence of Location of Aust Government Employees (LAGE) Committee to renewal of lease | |
| 20 April 1976 | LAGE Committee concurred | |
| 27 April 1976 | DOLGAS * requested by HLIC to arrange renewal of lease | Landlord informally advised by HLIC that Department would be in contact to establish terms for renewal of lease |
| 11 May 1976 | HLIC advised by Legal and General that no word had been received from DOLGAS | |
| 12 May 1976 | HLIC advised by DOLGAS that it had contacted Legal and General | |
| 21 June 1976 | HLIC advised by DOLGAS that it was awaiting reply from Legal and General | |
| 16 July 1976 | HLIC advised by DOLGAS that negotiations with Legal and General continuing | |

* The Department has been through a number of name changes over the past 10 years and for ease of presentation the acronym DOLGAS has been used.

RECORD OF EVENTS

| Date | HLIC | Attorney-General's |
|--------------|---|--------------------|
| 6 Aug 1976 | Legal and General advised DOLGAS that unless firm commitment for renewal received within 28 days a new tenant would be sought. (HLIC became aware of this advice only on 3.2.77) | |
| 18 Aug 1976 | HLIC advised DOLGAS of its concern at its lack of security of tenure and requested information on the current position with negotiations | |
| 31 Aug 1976 | DOLGAS requested by HLIC to advise present position | |
| 10 Sept 1976 | DOLGAS sought HLIC's views on a suggested new rental | |
| 29 Sept 1976 | DOLGAS advised Legal and General that proposed lease terms were acceptable. Legal and General indicated that another lessee was interested in the premises and that it was uncertain whether HLIC would be offered a renewal of tenancy | |
| 10 Nov 1976 | HLIC advised by Department that Legal and General had agreed to renewal of lease until 29.6.78 | |
| 12 Nov 1976 | Department advised Legal and General that approval had been granted for a lease for 2 years to 29.6.78 and that documentation was awaited | |

RECORD OF EVENTS

| Date | HLIC | Attorney-General's |
|---------------|--|--------------------|
| 3 Feb 1977 | HLIC informally advised by Legal and General that the Society would be serving the Corporation immediately with a notice to quit. The Society indicated that although a 2 year lease had earlier been canvassed with it by DOLGAS, the lease had never been agreed to by the Society | |
| 7 Feb 1977 | Deputy Chairman of HLIC made personal representations to Managing Director of Legal and General Assurance Society to have notice to quit withdrawn and to proceed with lease. Managing Director agreed | |
| 18 Feb 1977 | HLIC advised DOLGAS that Legal and General had agreed to withdraw its notice to quit and was willing to grant lease to 29.6.78. DOLGAS requested to arrange formal documentation as soon as possible | |
| 8 March 1977 | DOLGAS requested by HLIC to advise present position | |
| 29 March 1977 | HLIC advised by DOLGAS that lease documents had been received | |
| 7 April 1977 | HLIC advised by DOLGAS that lease documents had been returned to solicitors for further attention | |
| 20 April 1977 | HLIC accepted draft lease supplied by DOLGAS | |

RECORD OF EVENTS

| Date | HLIC | Attorney-General's |
|--------------|---|--|
| 24 May 1977 | | Instruction to examine draft lease received |
| 16 June 1977 | | Request that matter be treated as urgent received |
| 17 June 1977 | | Advice given by telephone and in writing |
| 12 July 1977 | | Instructions received |
| 13 July 1977 | | Lease executed on behalf of Commonwealth |
| 14 July 1977 | | Executed lease forwarded to Chief Property Officer (Vic) |
| 27 July 1977 | HLIC advised by DOLGAS that lease had been forwarded to Legal and General for execution | |
| 19 Aug 1977 | HLIC received completed lease documents | |

Case 2: leasing of new premises for HLIC's Melbourne Office in City Mutual Building, 459 Collins Street, following advice from its landlord, Legal & General Assurance Society, that the lease of premises in the Legal and General Building, 379 Collins Street, was not to be renewed on its expiry on 29 June 1978.

RECORD OF EVENTS

| Date | HLIC | Attorney-General's |
|-------------|---|--------------------|
| 24 Nov 1977 | HLIC completed an informal survey of available accommodation. Preferred new location was City Mutual Building. | |
| 7 Dec 1977 | Leasing of new premises approved in principle by HLIC Board. | |
| 15 Dec 1977 | HLIC advised Department of Administrative Services of its requirements and requested information on space available. HLIC stressed need for prompt action as existing lease due to expire 29-6-78 and landlord had indicated that it wished to resume the space for its own purposes. | |
| 2 Feb 1978 | HLIC advised by DOLGAS that negotiations for leasing of premises in City Mutual Building had commenced and that a valuation had been commissioned. | |
| 15 Mar 1978 | DOLGAS written to by Legal & General seeking information on intentions. (HLIC became aware of this letter only on 27-4-78 - (see below) | |
| 23 Mar 1978 | HLIC advised DOLGAS of its concern at delays | |
| 7 Apr 1978 | HLIC views on alternative locations sought by Department. | |

Record of Events

| Date | HLIC | Attorney-General's |
|--------------|---|---|
| 12 Apr 1978 | DOLGAS advised by HLIC that its strong preference was for premises in the City Mutual Building. | |
| 27 Apr 1978 | DOLGAS advised by Legal & General that in the absence of a reply to its 15.3.78 letter, it was assuming the HLIC would be vacating premises on or before 28 June 1978. | |
| 3 Mar 1978 | DOLGAS requested by HLIC to confirm that arrangements had been made for leasing of premises in City Mutual Building. | |
| 11 Mar. 1978 | HLIC advised by Department that lease of City Mutual premises had been approved. | |
| 2 Jun. 1978 | HLIC decided that due to delays in completing arrangements, it could not relocate to the new premises until end July 1978. Legal & General agreed to extension of lease in Legal and General Building until 29 July 1978. | |
| 29 Jul 1978 | HLIC moved to new premises. | |
| 1978-1982 | HLIC was in regular contact with Department re completion of lease documents. | |
| 18 Oct 1979 | | Instructions to comment on draft lease received |
| 11 Jan 1980 | | Conference with officer from DOLGAS |
| 4 Mar 1980 | | Reminder received from DOLGAS |

Record of Events

| Date | HLIC | Attorney-General's |
|-------------|------|--|
| 28 May 1980 | | Comments provided to DOLGAS |
| 22 Jul 1980 | | Response received from DOLGAS |
| 5 Aug 1980 | | Conference with DOLGAS officer |
| 12 Aug 1980 | | Instructions received from DOLGAS to approach lessor's solicitor to amend draft lease |
| 19 Sep 1980 | | Further comments provided to DOLGAS |
| 22 Sep 1980 | | Letter to lessor's solicitor proposing detailed amendment of draft lease |
| 17 Nov 1980 | | Telephone discussions with lessor's solicitor; solicitor awaiting instructions, however is able to provide some comments |
| 10 Mar 1981 | | Reminder received from DOLGAS |
| ? Mar 1981 | | Reminder sent to lessor's solicitor |
| 15 May 1981 | | Conference with lessor's solicitor |
| 21 May 1981 | | Letter to lessor's solicitor recording matters discussed at conference |
| | | Copy to DOLGAS with comments and advice. Instructions sought |
| 4 Jun 1981 | | Instructions conveyed in writing to lessor's solicitor |

Record of Events

| Date | HLIC | Attorney-General's |
|-------------|------|--|
| 18 Aug 1981 | | Further instructions sought from DOLGAS |
| 25 Aug 1981 | | Discussions with lessor's solicitor to resolve commencement date of lease |
| 15 Sep 1981 | | Commencement date confirmed in writing with lessor's solicitor and DOLGAS |
| 17 Sep 1981 | | Instructions received from DOLGAS concerning matters raised on 10 June 1981 |
| 23 Sep 1981 | | DOLGAS requests early execution of lease |
| 17 Dec 1981 | | Instructions conveyed to lessor's solicitor |
| 9 Feb 1982 | | Lessors solicitor advises that instructions expected shortly and requests copy of relevant indemnity |
| 17 Feb 1982 | | Question of indemnity as covered in proposed lease canvassed in writing with lessor's solicitor |
| | | Letter to lessor's solicitor as follows |
| | | "I enclose copies of two letters recently despatched to you at a time when, in view of your recent fire, they may not have reached the hand of the relevant partners in your firm. |
| | | If I can be of assistance of reconstruction of your file in either of these matters please contact Mr...of this office". |

Record of Events

| Date | HLIC | Attorney-General's |
|-------------|---|---|
| 30 Mar 1982 | | Reminder from DOLGAS |
| 1 Apr 1982 | | Reminder to lessor's solicitor |
| 8 Apr 1982 | The Auditor-General wrote to HLIC in the following terms - | |
| | "Leasing Arrangements | |
| | No documentary evidence of a lease covering the Melbourne Branch Office could be sighted. It is understood the Corporation has been pursuing the matter with the Department of Administrative Services, which handles the Corporation's leasing arrangements, since 1978. In view of the three year delay in the execution of the lease it is considered that finalization of arrangements is appropriate." | |
| 23 Apr 1982 | | Lessor's solicitor advises that instructions still awaited on some matters |
| 4 May 1982 | | Instructions conveyed by lessor's solicitor |
| 5 May 1982 | | Letter of 4 May forwarded to DOLGAS for instructions |
| 13 May 1982 | HLIC replied to the Auditor-General's letter of 8-4-82 - | |
| | 'Leasing Arrangements | |
| | The Corporation has been seeking for almost four years to have its Melbourne Office lease completed. In these | |

Record of Events

| Date | HLIC | Attorney-General's |
|-------------|--|--|
| | circumstances, we strongly endorse your comment that "finalization of arrangements is appropriate." We are at a loss, however, as to how this might be brought about. Perhaps your Office could take the matter up directly with the Department of Administrative Services.' | |
| 27 May 1982 | | Instructions received from DOLGAS |
| 31 May 1982 | | Instructions conveyed to lessor's solicitors |
| 1 Jul 1982 | Solicitors for City Mutual advised Crown Solicitor that if Commonwealth was not prepared to agree to a lease on the basis discussed, HLIC would be asked to vacate premises | |
| 6 Jul 1982 | | Responses received from lessor's solicitors (see Attachment) |
| | | Discussionsd with lessor's solicitor re above |
| 8 Jul 1982 | | Copy of 6 July letter to DOLGAS |
| 16 Jul 1982 | DOLGAS advised by HLIC that Corporation would hold the Department responsible if its tenure was not made secure without further delay. Copies of correspondence were forwarded to Chairman of the Task Force handling the sale of HLIC so that interested | |

Record of Events

| Date | HLIC | Attorney-General's |
|-------------|---|--|
| | | parties would be aware of the threat to the Corporation's position. |
| 26 Jul 1982 | HLIC advised by DOLGAS that Crown Solicitor had been instructed to complete lease | |
| 27 Jul 1982 | | Instructions from DOLGAS re remaining outstanding matter received with request to make arrangements to execute lease without delay |
| 5 Aug 1982 | | Lessor's solicitor requested to engross final draft of lease for execution |
| 12 Aug 1982 | | Urgency of provision of lease emphasised by telephone to lessor's solicitor. Action officer there absent till 30 Aug. |
| 17 Aug 1982 | | Lessor's solicitor informed in writing that documentation should be provided immediately after 30 Aug. |
| 6 Sep 1982 | | Telephone reminder to lessor's solicitor requesting lease |
| 14 Sep 1982 | DOLGAS requested by HLIC to advise present position | |
| 16 Sep 1982 | | Draft lease provided by lessor's solicitors |
| 30 Sep 1982 | | Written advice to DOLGAS on draft lease showing in detail how it differed from client's requirements |

Record of Events

| Date | HLIC | Attorney-General's |
|-------------|---|---|
| 4 Oct 1982 | | Discussions with DOLGAS on form of lease |
| 5 Oct 1982 | DOLGAS requested by HLIC to advise present position as a matter of urgency | |
| 14 Oct 1982 | | Further discussions with DOLGAS on form of lease: agreed that lease be given to HLIC for ultimate approval and instructions |
| 19 Oct 1982 | DOLGAS requested to advise present position as a matter of extreme urgency | |
| 21 Oct 1982 | HLIC requested by DOLGAS to comment on lease details | |
| 22 Oct 1982 | HLIC's comments to DOLGAS | |
| 26 Oct 1982 | DOLGAS instructed Crown Solicitor to proceed | |
| 28 Oct 1982 | | DOLGAS provides HLIC's instructions and requests urgent finalisation of the lease |
| 4 Nov 1982 | | Lessor's Solicitor informed of final instructions in writing |
| 12 Nov 1982 | | Lease in final form received for execution |
| 30 Nov 1982 | The Auditor-General again wrote to HLIC - 'Leasing Arrangements' Lease arrangements for the Melbourne Branch Office have | |

n

Record of Events

| Date | HLIC | Attorney-General's |
|-------------|---|--|
| | still not been finalised. In view of the comments you have made in respect of this issue in your letter of 13 May 1982, it is suggested that consideration be given, to making representations to your Minister who in turn might consider raising the matter with the Minister for Administrative Services on a Minister to Minister basis.' | |
| 17 Dec 1982 | | Fundamental defect found on final examination within AGS Victoria Office before execution of lease: raised by telephone with lessor's solicitor. |
| 17 Dec 1982 | DOLGAS requested to advise present position | |
| 11 Jan 1983 | | Lease returned for appropriate amendment |
| 13 Jan 1983 | HLIC advised by DOLGAS that lease would be executed shortly | |
| 28 Jan 1983 | | Lessor's solicitor advises that action officer is on leave but will attend to lease as soon as he returns |
| 22 Feb 1983 | | Reminder from DOLGAS |
| | | Reminder in writing to lessor's solicitor |

Record of Events

| Date | HLIC | Attorney-General's |
|-------------|---|---|
| 18 Mar 1983 | HLIC advised by DOLGAS that lease documents had been returned to lessor's solicitors for amendment | |
| 13 Apr 1983 | | Absolutely final form of lease provided for execution from lessor's solicitor |
| 28 Apr 1983 | | Reminder received from DOLGAS |
| 13 May 1983 | DOLGAS requested to advise present position | |
| 26 May 1983 | | Further reminder from DOLGAS |
| 27 May 1983 | | Lease executed on behalf of the Commonwealth of Australia |
| 30 May 1983 | | Lease returned to lessor's solicitor |
| 9 Jun 1983 | DOLGAS advised HLIC that lease had been executed and forwarded to lessor's solicitors | |
| 28 Jun 1983 | In Referring to the 30-11-82 letter of the Auditor-General, HLIC wrote - | |
| | <p>'Leasing Arrangements</p> <p>As you are aware, lease arrangements for the Corporation's premises are unfortunately outside the control of the Corporation. We share your concern at the prolonged delay in completing the Melbourne Office lease but do not consider it</p> | |

Record of Events

| Date | HLIC | Attorney-General's |
|-------------|---|---|
| | appropriate to raise the matter with the Minister since on 9 June 1983 the Department of Administrative Services advised the Corporation that the Deputy Crown Solicitor had executed the lease and forwarded it to the solicitors for the lessor for execution. | |
| | As far as we are aware, there were no unusual circumstances connected with the Melbourne lease which could account for the long delay in completion and it could be that similar delays are occurring with leases for departments and other authorities. Against this possibility, you may consider it desirable to raise the matter with other divisions of the Auditor-General's Office.' | |
| 13 Jul 1983 | | Reminder to lessor's solicitor |
| | | Commonwealth's lease returned duly executed |
| 20 Jul 1983 | | Commonwealth's lease sent to DOLGAS |
| 12 Aug 1983 | HLIC received completed lease documents. | |

APPENDIX E

DEPARTMENT OF FINANCE DISCUSSION PAPER
INTERDEPARTMENTAL CHARGING

INTERDEPARTMENTAL CHARGING - A DISCUSSION PAPER

BACKGROUND

1. Interdepartmental charging policy in the Commonwealth budget sector is primarily governed by Section 29 of the Finance Directions which states that as a general rule, charges should not be made for goods and services provided between departments or non-trading authorities which receive significant recurring financial assistance through the Budget. For example, at the present time departments and such non-trading authorities are not charged for the following common services:

- office accommodation provided by DOLGAS;
- fit-out repairs and maintenance provided by DHC;
- printing and publishing provided by SPRAT;
- statistical information provided by ABS;
- staff recruitment provided by PSB;
- library services provided by the National Library; and
- ADP services provided by Finance.

2. The present Direction is inconsistent with the thrust of the Government's budgetary and financial reforms which emphasise the importance of holding managers accountable for resources they consume.

3. The move to greater use of interdepartmental charging has recently gained momentum from:

- Cabinet's agreement, in considering a submission on controlling administrative expenditure (CD 7524 of 1 May 1986), that Finance, in co-operation with other agencies, would review the costs and benefits of extending the user pays principle and cost attribution within the Commonwealth sector; which was followed by
- the Prime Minister's Statement to Parliament on Public Service Reforms of 25 September in which he stated, "a series of studies is underway to determine the scope for extending user-charging between departments, as an incentive to greater economy in the use of goods and services".

CONCEPTUAL ISSUES

4. The objective of increased interdepartmental charging is to improve resource allocation. This can occur through appropriate incentives or disciplines applying to both (a) users and (b) suppliers.

- (a) The user pays principle recognises that the demand for a good varies with its price (although there may be some isolated cases of completely inelastic demand), and that there will be 'too much' demanded of a free or underpriced good or service. Therefore, requiring the user to pay will result in a more 'correct' amount being demanded and consequently a more efficient allocation of resources. At the same time, it will ensure the full costs of government activities are taken into account in decisions about the relative priorities of different programs and activities.
- (b) The provision of appropriate performance incentives or pressures to suppliers, if not through competition, through revenue retention arrangements or performance targets can be expected to put pressure on suppliers to improve their efficiency.

Nevertheless, charging would not be appropriate where benefits are outweighed by additional administrative costs.

5. A general application of the user pays principle, requiring departments and statutory authorities receiving substantial assistance from the budget to pay for the goods and services they receive from other departments or such statutory authorities, will:

- encourage users to decide on the priority such goods and services have vis-a-vis other expenditures;
- increase the financial awareness of managers, and emphasise where responsibility for resource use lies, reinforcing the recently introduced system of controlling running costs with resulting efficiency dividends;
- lead to a more cost effective provision of resources, as the suppliers may be placed under greater pressure to provide a responsive and value for money service;
- more clearly identify the cost of programs and so assist in assessing the full resource implications of changes in activity levels.

CHANGES TO FINANCE DIRECTIONS

6. A move to increased interdepartmental charging may be progressed by rewriting the relevant Finance Direction in more positive and encouraging language to promote interdepartmental charging as the norm rather than the exception, while still recognising that charging is not always necessary or desirable. The Direction would be supplemented by Guidelines setting out in more detail the criteria for determining whether charges should be made and how charges should be determined. These proposed criteria are summarised in the following paragraphs.

GENERAL CRITERIA FOR CHARGING

7. Charging is appropriate in the following situations:

- When it will improve resource allocation through providing an incentive for users to be economical and for suppliers to be efficient ie:
 - where the user has some control over the amount or type of the goods or services provided, ie there is some elasticity of demand;
 - where close substitutes of goods and services are also subject to a charge, ie again there is some elasticity;
 - where revenue retention and other appropriate arrangements may provide an incentive for efficient performance by departments supplying goods and services.
- Where the good or service is a significant part of the cost of a particular program and the exclusion of the cost would therefore significantly underestimate the full cost of the program, leading to inadequate information on which government makes its resource allocation decisions. (Although cost attribution rather than charging may also achieve this objective, charging better ensures that full cost information is systematically available.)

8. Charging may not be appropriate where:

- Once the service has been provided for one user, additional consumption by others does not impose any additional cost (eg Public Service Act and other regulations, unless specific to a particular department).

- there is an integrated but voluntary service, ie where if some potential users do not use the service a major purpose for its existence is frustrated (eg ABS collation of certain statistics). The cost of failure to use the service falls not on users alone but on those using resultant aggregates. (Note: this may be a case for concessional charging rather than not charging).
- there is a requirement to use a service so certain standards can be ensured (eg legislative drafting, Finance ledgers) or other policy requirements met (eg placement of advertising).
- there is a continuing government policy that a particular good should be provided free for reasons of national policy, (although such policies may be reviewed from time to time).
- the obverse of paragraph 7 applies and the demand and/or supply of a service would be inelastic to the imposition of a charge.
- administrative costs are excessive in relation to likely savings in resources in the long-term. Such administrative costs include the cost of determining an appropriate charge as well as the cost of systems for billing and collecting. The fact that an "ideal" basis for charging would be unduly costly need not preclude charging on a reasonable but simpler basis.

9. In summary, the presumption should be in favour of charging unless:

- incremental use of the service is virtually costless; or
- failure by even a small number of potential users to use the service would be damaging to governmental policy objectives or service-wide efficiency (in such cases there will usually be some mandatory element of the service; marginal uses beyond this may nevertheless be appropriate subjects for charging); or
- imposition of a charge would have a negligible effect on demand for that service; or
- costs of imposing charges are excessive in relation to potential benefits.

BASIS FOR DETERMINING AN APPROPRIATE CHARGE

10. The basis for determining an appropriate charge requires careful consideration. In a competitive situation the market will determine the price. Where competition is not present an appropriate charge should be based on full cost recovery except in cases where a 'core' service is maintained for policy reasons and some concession in pricing is necessary to avoid idle capacity. As a minimum, costs included in full cost recovery will include:

- all directly attributable cash costs, including salaries and wages and the cost of materials and stores;
- an appropriate allocation of all overhead costs, including personnel overheads, accommodation and office services;
- superannuation costs;
- a component for the use of assets based on current market values; and
- an appropriate return on capital.

Departments may add additional components if these can be reasonably identified and justified, eg emerging long term costs of long service leave.

11. The exact determinants of these components will need to be examined separately, bearing in mind that a detailed search for some precise 'true cost' may not be worth pursuing beyond a certain point. Prices based on costs that are reasonable approximations will achieve the bulk of the incentive effect without the possibly high administrative costs of determining an exact cost.

12. It is sometimes argued that concessional charging by an agency establishes a situation in which economies of scale can be obtained by the Commonwealth as a whole. However if such economies are real, a full-cost recovery charge would reflect this competitive advantage and no concessional charging should be required.

13. In the particular case where a service provides capacity necessary to meet peak loads for a required core service but temporarily available for secondary purposes, charges for non-peak users should not be set so low as to create demand for additional capacity (unless that can be charged for on a full cost basis) and should at least cover marginal costs (ie those costs that arise from the secondary use should be recovered but not necessarily those that would be incurred regardless of that use).

OPENING UP THE MARKET PLACE

14. The transparency involved in such charging may create pressures from users to have the right to obtain goods and services from the private sector if they consider it cost-effective to do so. There are some efficiency gains to be achieved through charging which are not dependent on the existence of open competition but may be achieved through setting of firm financial and other performance targets for supplying departments. The development of performance indicators under program budgeting has an important role to play in this regard. However providing some choice of supplier can enable managers to improve the utilisation of resources available to them and it may be appropriate in the longer term that the protection currently afforded to some public sector suppliers (in particular, common service agencies) be lessened or removed.

15. Whether or not there is any opening up of the market place, there will need to be examination of unnecessary constraints on the ability of departments to supply goods and services efficiently. The question of constraints on working capital retention and on capital expenditure as applied to working trust accounts will be part of that examination.

16. Any move to open up supplier departments to competition would need to be progressed on a case by case basis and would need to have regard to the benefits that centralised provision of services can provide in some instances, including -

- preservation of technical expertise within government;
- security;
- uniform standards/control over quality;
- certainty of supply;
- avoidance of higher costs associated with duplication of services or competition for scarce resources.

17. If supplier departments are to be opened up to competition it is appropriate that as far as practicable they be given the opportunity to compete on equal or fair terms with the private sector. (This would not however, include the right to sell to the private sector). To that

end they could be given a transitional period to move to full cost charging and to achieve a level of management efficiency to enable them to compete in the market, or other appropriate transitional arrangements might apply. The appropriateness of existing managerial constraints would also be examined by Finance as mentioned in paragraph 15.

CHARGING IN THE BUDGETARY CONTEXT

18. The principal issue here is the incentives and disciplines to be provided through the budgetary process for users to be more economical in their demand for goods and services and for suppliers to provide such goods and services in the most cost-effective manner.

19. For users, there will need to be consideration as to whether they should be fully compensated for the additional costs imposed by charging. As such funds will be part of running costs they will, in any case, become subject to the efficiency dividend requirement. If increased charging is to be seen as a logical progression in current public service reforms rather than a short-term cost cutting exercise full compensation may be most appropriate. However if it is considered necessary to demonstrate cost savings in the short term then the amount of discretion user departments have over either the type or quality of the good or service should be the basis for determining the required level of absorption by each user department. Where charges are established solely to expose full costs and agencies have no control over the level of charges or usage, no absorption would be expected.

20. For suppliers, the extent to which it is appropriate to allow retention of revenue will depend on the service in question. The greater the need for flexibility to respond to demand, the stronger is the case for revenue retention. Alternatively, in the case where services are provided (and charged for) on an irregular basis, and continued provision of the service is not dependent on maintaining working capital to any great extent, minimal retention is appropriate. Where full cost recovery occurs and there is nevertheless a significant growth in demand for the service there may also be a case for appropriate adjustment to ASL being funded (with allowance for on-costs) from the revenues concerned.

21. Appropriate retention of revenue could be achieved by applying the following arrangements:

- a common service agency would operate within a working trust account (with possible modification to the existing retention rule, an issue currently being examined by Finance);

- for an operation forming a significant part of departmental activity, either a net annotated appropriation or a net funding approach (an approach based on determining a gross appropriation on the basis of a target level of receipts, with appropriate adjustments for over or under-recovery) would be used; and
- in the case of an operation which is not a significant part of departmental activity, an ordinary appropriation would be used.

FINANCE ROLE

22. It is envisaged that Finance would initiate the expansion of interdepartmental charging through the selection, in consultation with relevant departments, of particular cases considered significant for their "demonstration effect". Thereafter it would be a matter for departments themselves, using the Finance Direction and Guidelines to initiate charging. Finance would not be required to approve individual charges. However Finance would adopt the role of "honest broker" in applying the Guidelines in the case of disputes between departments. Further, supplier departments would need to establish the reasonableness of the charge if challenged when an issue of supplementation of appropriation for a user department arose.

Department of Finance
December 1986

APPENDIX F

PERFORMANCE MONITORING IN A PRIVATE SECTOR ORGANISATION

APPENDIX F

PERFORMANCE MONITORING IN A PRIVATE SECTOR ORGANISATION

At the hearings of 2 October 1986, the Committee received evidence from witnesses representing the non-government sector. They were the Building Owners and Managers Association (BOMA), National Mutual Life Association of Australasia and the Australian Mutual Provident Society (AMP). The Committee also sighted internal documents describing their performance monitoring and control systems.

The value of AMP's property portfolio is currently in excess of \$4 billion, ten per cent comprising government tenancy.¹ The National Mutual portfolio in Australia is valued at \$1.4 billion.²

The most impressive features of AMP's monitoring and control system were:

- comprehensiveness, in terms of the range of functions covered by the performance indicators;
- ready availability, in that much of the information collected could be viewed on a VDU by direct inquiry; and
- consistency across the different reports prepared for different levels of management.

The functions covered at the building managers' level included:

- information, immediately available by VDU inquiry on each property held, on rents, leases and on tenants' accounting records;
- analysis of property income and expenditure (monthly report analysing all items of expense and income for a property);
- rental accounts in arrears and advance (weekly report, detailing the current balance for each tenant, compared with amounts budgeted for);
- lease diary events (monthly report, providing information on forthcoming leases, rent reviews, etc.); and
- vacancy rates (monthly report, providing information on the proportion of properties which were vacant).

1. Minutes of Evidence, 2 October, p. 333

2. National Mutual Submission, August 1986, p. 3

At the regional executive level, monthly reports are received on building management performance, capital budget estimates, and incomes and expenditure. At the Head Office level, the reports contain state by state information on net income to budget, rental accounts, vacant areas, sales and capital expenses.

Figure 4.1 illustrates this process in the case of one performance indicator, the proportion of office space vacant in a particular month. For a major building owner, this indicator measures the time taken to find a new tenant, after the previous tenant has stopped paying rent. In the illustrative example of Figure 4.1, the Australia-wide vacancies are shown to be low (2 per cent), indicating a satisfactory overall performance in this area. There appear, however, to be some problems in State 1, where vacancies in that month amounted to 4 per cent. The problem can immediately be sourced to Unit in Branch 2. Top management is then able to obtain the reasons for the above average delays directly from the buildings manager responsible for that particular Unit. Indeed, on the computer-printout sighted by the Committee, the Units were identified by the name of the responsible building manager.

A reporting mechanism of the kind illustrated has allowed management to establish, during the month concerned, that:

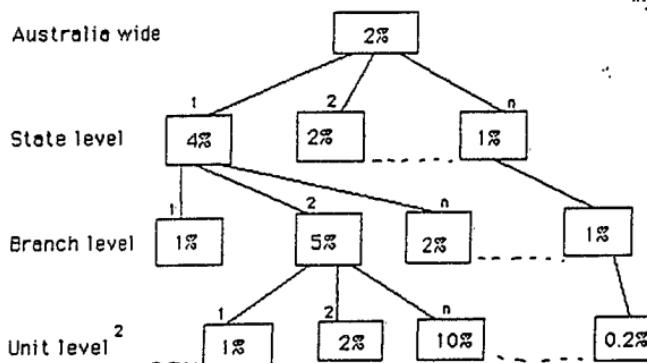
- overall performance was satisfactory. Any problems that may have occurred represented the exception, rather than the rule;
- some Units have significantly improved their performance;
- there were some problems in one particular Unit; and
- the reasons behind the problems identified (obtained directly from the responsible building manager).

The reporting mechanism also allows management to check in the following month's report that the problems identified a month earlier had been rectified.

Bases for Comparisons

The performance indicators described above can serve as a basis for a number of comparisons. As indicated in the example of Figure 4.1, the indicators have been collected and presented in such a way that comparisons between Units, States and Branches were possible. Comparisons could also be made with the Australia-wide average.

FIGURE 4.1 PROPORTION OF VACANT OFFICE SPACE - AN ILLUSTRATIVE EXAMPLE OF A NON-GOVERNMENT ORGANISATION'S MANAGEMENT INFORMATION SYSTEM



NOTE 1 The percentages quoted in the Figure are purely illustrative.

2 Senior building managers. Larger Units may comprise 3 to 4 building managers, under a senior building manager. They may be responsible for assets worth up to \$700 million. Other Units may comprise 2 staff, responsible for a rent debt of around \$2 million per annum.

Because reports of the kind shown in Figure 4.1 are prepared on a monthly basis, the performance of a particular Unit, Branch or State can also be monitored over time. In the example it is possible that Unit n of Branch 2 in State 1 has had an excellent record previously, and that the problems experienced in that particular month were outside the control of the responsible buildings manager.

A third basis for comparison is provided by the particular organisation's Business Plan. The Business Plan is initially developed by managers at the various levels, and contains a series of targets set by the managers themselves. It is their assessment of what they believe can be achieved in certain areas during the following year. The Plan, therefore, is another yardstick against which the series of performance indicators, prepared on a monthly basis, can be compared. The Plan covers targets of timeliness, as well as targets of expenditure and revenues. Once agreed to by the supervisor, individual managers are asked to sign their Plans. This commits managers to their plans, and provides an incentive for them to perform better than the targets set within the Plan.

Delegation

The performance monitoring system in place within the non-government organisations has made the delegation of considerable responsibilities to middle-management possible, without sacrificing the benefits that can flow from centralised control. Effective delegation is seen as essential, because management in the property area cannot be done from long distance. Only local managers know the local market, and they need to be able to respond to opportunities or problems flexibly and rapidly.

At the hearings of 2 October 1986, the AMP witness said that he, in his capacity as the NSW Property Manager:

- could approve sub-contracts up to a value of \$1 million for repairs and maintenance, provided that he had at least three tenders; and
- had full authority for all rental matters, as long as he reported once a month on what had been done involving funds over \$250 000 per annum.

At the hearings, the National Mutual representative noted that his company also operated under a high level of delegated authority. He said, however, that the key to the success to delegation was, in particular, the mechanisms that had been set in place to ensure that managers actually used the authorities delegated to them.³

3. Minutes of Evidence, 2 October 1986, p. 336

APPENDIX G

**PAST REVIEWS OF THE ADMINISTRATION OF
THE COMMONWEALTH'S PROPERTY FUNCTIONS**

PAST REVIEWS OF THE ADMINISTRATION
OF THE COMMONWEALTH'S PROPERTY FUNCTIONS

- 1975 Joint Committee of Public Accounts: Delays in Occupancy of Leased Premises (Report No. 153)
- 1978 Senate Standing Committee on Finance and Government Operations: Report on Wiltona Hostel
- 1978 Joint Committee of Public Accounts: Financing and Administration of Property Owned and Leased Overseas by the Commonwealth Government (Report No. 172)
- 1980 Auditor General: Efficiency Audit : Department of Administrative Services - Australian Property Function
- 1981 House of Representatives Standing Committee on Expenditure: Review of the Auditor-General's Efficiency Audit Report, Department of Administrative Services - Australian Property Function
- 1982 Joint Committee of Public Accounts: Finance Minute on the Committee's 172nd Report (Report No. 195)
- 1984 Auditor-General: September 1984 Report (Chapter 1, concerning audit of the Central Office of the Property Directorate)
- 1985 Joint Committee of Public Accounts: Reports of the Auditor-General - 1983-84 and September 1984 (Report No. 241, Chapter 1)
- 1986 Auditor-General: March 1986 Report (Section 14.1 concerning audit at Queensland Regional Property Office)
- 1986 Auditor-General: September 1986 Report (section 14.6 concerning the Overseas Property Office; sections 5.1 and 5.2 concerning Defence issues; sections 24.6 to 24.7 concerning the Australian Broadcasting Corporation)

APPENDIX H

**UNOCCUPIED LEASED OFFICE SPACE - JULY 1971 - JUNE 1973
AND SEPTEMBER 1986**

APPENDIX H

UNOCCUPIED LEASED OFFICE SPACE
(Australia wide)

July 1971 - June 1973

| Quarter Ending | Total Unoccupied Leased Space | Total Leased Space | Percentage Unoccupied Space |
|-------------------|-------------------------------------|--------------------------|-----------------------------------|
| | sq ft | sq ft | per cent |
| 30. 9.71 | 124 509 | 6 191 378 | 2.0 |
| 31.12.71 | 104 545 | 6 312 678 | 1.7 |
| 31. 3.72 | 153 707 | 6 494 451 | 2.4 |
| 30. 6.72 | 78 141 | 6 691 196 | 1.2 |
| 30. 9.72 | 119 890 | 6 757 322 | 1.8 |
| 31.12.72 | 291 506 | 6 944 312 | 4.2 |
| 31. 3.73 | 204 964 | 7 283 717 | 2.8 |
| 30. 6.73 | 441 359 | 7 518 855 | 5.9 |

Over the full two year period the average percentage of unoccupied leased space was 2.7 per cent of total leased accommodation.

SOURCE: Joint Committee of Public Accounts: Relays in Occupancy of Leased Premises, 1975, Report No. 153 (Appendix 2) p.49.

UNOCCUPIED LEASED OFFICE SPACE - September 1986

| Unoccupied Leased Space | Unoccupied Leased Space - Fitout Proceeding | Total Cols. I + II | Total Space Leased | Col I of IV | Col II of IV | Col III of IV |
|-------------------------------|---|--------------------------|--------------------------|----------------|-----------------|------------------|
| I | II | III | IV | | | |
| 13,147 | 104,162 | 117,309 | 2,628,351 | 0.5 | 4.0 | 4.5 |

Note: Table shows unoccupied leased space for which rent is being paid as at September 1986.

SOURCE: DOLGAS, supplementary submission.