
New South Wales Auditor-General's Report Performance Audit

The Office of Strategic Lands

NSW Department of Planning and Environment



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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **The Office of Strategic Lands: NSW Department of Planning and Environment**.

A handwritten signature in black ink, appearing to read 'Ian Goodwin'.

Ian Goodwin
Acting Auditor-General
10 August 2017

Contents

Contents	1
Executive summary	2
Conclusion	2
Recommendations	4
Introduction	5
Income and property management	5
OSL's structure	6
Key findings	7
1. Planning and performance	7
2. Approach to land identification, acquisition, management and divestment	10
3. Engaging with other agencies and stakeholders	14
Appendices	16
Appendix 1: Response from Department of Planning and Environment (Office of Strategic Lands)	16
Appendix 2: About the audit	18
Performance auditing	20

Executive summary

The Office of Strategic Lands (OSL) was established under the *Environmental Planning and Assessment Act 1979* (EP&A Act) to identify, acquire, manage and divest land required for long-term planning by the NSW Government, particularly for open space and public purposes.

OSL is a Corporation Sole acting on behalf of the Minister for Planning and is run within the Department of Planning and Environment (DPE). OSL is a self-funding entity, and is responsible for administering the Sydney Region Development Fund (SRDF), a statutory fund used for ongoing land acquisition and management. OSL currently only operates within greater Sydney and holds over a billion dollars in land assets in this region.

This audit assessed whether OSL effectively fulfils its role to identify, acquire, manage and dispose of land, and whether OSL ensures it is sustainable over the long-term to meet its objectives.

Conclusion

OSL effectively fulfils most aspects of its defined role, but is not supporting strategic land planning through proactive identification and acquisition of land for future public use. OSL is diligent in its financial management over the short and medium terms. However, it has identified that relying on the sale of surplus land to continue funding its ongoing operations is not sustainable, and it is yet to finalise a strategy to address this.

OSL does not currently have a strategic or proactive focus to improve land planning outcomes. This is primarily due to the lack of a clear strategy and business plan to direct its work which defines OSL's purpose, objectives, goals and performance targets. OSL expects to finalise and implement a Strategic Business Plan to guide its future direction and long-term sustainability, in late 2017.

OSL has three primary sources of funding. The largest source is Treasury loans which it needs to repay. The next most significant source of funding is from sales of land no longer required for government's long-term needs. OSL has identified that it is likely to run out of surplus land within ten years. This is a significant financial risk for OSL, which should be addressed through a long-term financial strategy.

Contributions by Sydney councils into the SRDF are OSL's only regular and consistent income stream. The formula to calculate these contributions has not been reviewed for over 25 years, and recent council mergers and border changes have increased the need to review the formula.

OSL is not used as extensively as it could be by other NSW Government agencies. It has the potential to play a much bigger role in assisting NSW Government agencies with longer term planning by partnering with them to identify, acquire, hold and manage land for future needs. For example, it could acquire land in future residential growth areas for needed public services such as schools, hospitals and transport corridors. There is also potential for OSL to expand its operations beyond the greater Sydney region into other parts of NSW to provide a statewide benefit from its unique role in government.

OSL has a unique role amongst government agencies, and could be used across NSW

NSW Government agencies we spoke with consider OSL fulfils an important role for the state that no other government agency performs. As a self-funding long-term land holder and manager, OSL can acquire and manage land beyond the four-year budget cycle that other government agencies face. Consideration should be given to expanding to other growth areas in NSW, where its unique role could assist in longer term land planning.

OSL has established good processes and procedures for most aspects of its role. This includes governance processes that we found to have been applied effectively. There was also adequate oversight and approvals for land transactions.

OSL has yet to finalise a business strategy to ensure long-term sustainability

OSL has shown that it is financially and operationally viable in the short to medium term. However, it does not have an overarching business strategy to guide its operations and ensure it is financially sustainable for the long-term. With a unique role in government, it is important for OSL to clarify its direction and implement a strategic business plan to drive its progress.

While there is no overarching long-term strategy, OSL has documented operating plans which guide its land acquisition and land divestment activities over the short to medium term. It has not developed a plan for its ongoing land management activities.

OSL advised that its Strategic Business Plan will be finalised and implemented in late 2017. This Plan should clarify OSL's long-term direction, and guide its business to ensure it is financially sustainable.

OSL does not have adequate performance targets and measures

OSL has four key deliverables as part of DPE's business plan. These deliverables cover land management, working with other agencies, and ensuring the SRDF is sustainable. There was no evidence that OSL or DPE monitor whether OSL achieves all key deliverables.

Currently, OSL's performance targets are limited to meeting dollar values. OSL does not have any measures to demonstrate the achievement of outcomes that align with its core business, such as its success in land management or in working with other agencies. OSL staff also said that dollar targets were not always adequate or appropriate to measure its business performance.

With the development of its Strategic Business Plan, OSL has the opportunity to clarify its future business direction. This includes ensuring it has a range of relevant goals and performance measures that will support it becoming a strategic land planning partner with NSW Government agencies and local councils, and a land holder for the long-term.

OSL's current financial management approach may impact long-term sustainability

OSL has valued the land that it needs to purchase on behalf of government to meet long-term strategic land needs in the Greater Sydney region, at \$1.2 billion. However, OSL's annual budget for purchasing land is only between \$40 million and \$50 million until 2021. Also, in each of the last four years, OSL has not spent more than \$30 million on land purchases because it relies on landowners to initiate contact when they are ready to sell their land. Without a more proactive approach, it is not possible for OSL to make needed purchases in a timely manner. OSL acknowledges the substantial gap between these values, but has not established a budget or plan for how it will purchase all the identified land.

Currently, OSL reviews and assesses its short-term financial position, every month. It also has an Asset Policy Committee that reviews the SRDF and other funding initiatives every three months, to ensure OSL and the SRDF remain viable over the short and medium term. While this is good practice, OSL is lacking a longer term financial management strategy.

OSL has developed a Divestment Strategy which provides a five-year schedule of planned divestments. This is land OSL owns which has been identified as no longer required for government purposes. OSL has established an approach to generate the best and highest price for these sales. While funds are generated through the sale of surplus land, it also means that OSL holds fewer land assets to sell. OSL has identified it will run out of surplus land within ten years.

OSL needs to finalise and implement a business model to ensure it is financially and operationally capable to sustain and grow its business for the long-term.

OSL is working to improve transparency and engagement with key stakeholders

To deliver on its role, OSL needs to be able to effectively engage and work with its stakeholders, including NSW Government agencies, local councils, and people selling or buying land.

NSW Government agencies we spoke with are generally satisfied with OSL's level of engagement and consultation. However, it would be beneficial for all parties to clarify and document their expectations of each other through a formal arrangement. OSL could also be more proactive in promoting its services, and working with additional NSW Government agencies to identify strategic lands.

The local councils in the Sydney region we spoke with are not as satisfied with OSL's engagement and communication. The councils advised that they do not consider they are well-informed of OSL's plans for their area, or how their contributions to the SRDF are spent.

More broadly, the activities of OSL are not reported transparently to stakeholders or the general public. OSL is developing a communication package for local councils and the community. This is an opportunity for OSL to improve the transparency of its role, operations, projects, and the SRDF, as well as promote its services and achievements.

Recommendations

The Department of Planning and Environment (Office of Strategic Lands) should:

By December 2017:

1. clarify and document its long-term purpose, role and goals in line with its mandate. This includes:
 - finalising and implementing a business plan with outcome-based performance measures that support the achievement of its goals
 - establishing and implementing a business and financial model, including resourcing, that supports its long-term strategy
 - exploring options for expanding the operation of OSL to other areas of NSW.

By July 2018:

2. develop and implement an approach for working with NSW Government agencies to improve its efficacy in strategic land identification, acquisition and management.

On an ongoing basis:

3. improve the transparency of its operations, and its communication and engagement with all stakeholders. This includes developing engagement strategies appropriate for different stakeholder groups.

Introduction

The Office of Strategic Lands (OSL) was established in 1951 to identify, acquire, manage and divest land required for the NSW Government's long-term planning purposes. OSL acts on behalf of the Minister for Planning, as a Corporation Sole, under the *Environmental Planning and Assessment Act 1979* (EP&A Act).

OSL acquires and manages land identified for long-term strategic needs, and then transfers or sells it to other government agencies for ultimate use. It also sells land identified as surplus to government's long-term strategic requirements. Surplus land can also be transferred to local councils. OSL operates only in the greater Sydney region (from Wyong in the north, to the base of the Blue Mountains in the west, and south to Wollondilly). OSL has 20 staff who manage over 6,000 parcels of land.

Exhibit 1: Context of OSL's operations



Source: Extract from OSL draft Strategic Business Plan - OSL's Contribution to Shaping Sydney, 2017.

Income and property management

OSL's funds are managed through the SRDF. The SRDF is a statutory fund that holds income from sales of surplus land, Treasury loans, leasing arrangements, and contributions from Sydney local councils. OSL uses these funds to acquire or develop land, pay administrative costs, rates and charges, and make Treasury loan and interest repayments.

OSL's main source of funds are from Treasury loans. OSL's loan balance at the end of 2016–17 was \$188 million, down from \$413 million in 2013–14. OSL's primary sources of annual income are from sales of surplus lands, council contributions, royalties and rent.

Exhibit 2: OSL's annual income sources for 2013–14 to 2016–17

	2013–14	2014–15	2015–16	2016–17 ¹
	\$'000	\$'000	\$'000	\$'000
Gain on disposals ²	21,194	52,903	22,404	59,250
Council contributions	7,640	7,785	7,980	8,199
Royalties	3,920	4,302	4,252	4,586
Rental income	3,105	3,267	3,246	2,760

Notes:

1 Amounts for 2016–17 are unaudited.

2 Gain on disposals refers to the profit made from sales of land, property, plant and equipment.

Source: Corporation Sole 'Minister Administering the *Environmental Planning and Assessment Act 1979*' audited financial statements for 2013–14, 2014–15 and 2015–16, and unaudited 2016–17 financial statements provided to the Audit Office of New South Wales.

In 2016, OSL had its land revalued, and the calculated asset value of all the land it owns was \$1.2 billion. It sells land considered surplus to government strategic requirements. Any funds raised from these sales are used to manage existing, and purchase new, land for long-term government needs.

OSL has valued the strategic lands it is required to purchase at \$1.2 billion. It has established a budget for purchasing the identified lands at between \$40 million and \$50 million each year until 2021.

In some cases, OSL rents out land until it is needed by other NSW Government agencies for their strategic purpose. OSL manages the commercial properties it rents out, and outsources its residential property management to real estate agents.

With some land, OSL has established a care, control and management (CCM) arrangement with the relevant local council. In these cases, OSL retains legal ownership and control over the land and any developments, and the councils pay for and manage the lands upkeep. OSL is focusing on transferring land currently under a CCM arrangement, to local councils.

OSL's structure

OSL has been structured to support each of its main functions:

1. Acquisition - purchase land identified and reserved by other NSW Government agencies and local councils on planning instruments for the longer-term
2. Divestment - land identified as surplus to government needs is sold to generate revenue, or transferred to local councils to meet community needs
3. Land and Asset Management - manage land OSL owns before selling, or transferring ownership to other NSW Government agencies for its ultimate purpose
4. Strategic Policy - new group; initially establish OSL's Strategic Business Plan.

Key findings

1. Planning and performance

OSL has not had an overarching strategy to guide its operations, and ensure it is financially sustainable for the long-term. OSL advises it will finalise its Strategic Business Plan by late 2017. This Plan should clarify OSL's long-term direction and guide the establishment of its business and financial models to ensure financial and operational sustainability.

Performance measures and targets should guide an organisation to achieve the goals established under its business plan. Currently, OSL's performance targets are limited to meeting dollar values. OSL does not have any measures to demonstrate the achievement of outcomes that align with its core business, such as its success in land management or in working with other agencies.

The development of its Strategic Business Plan is an opportunity for OSL to clarify its future direction, and ensure it has a range of relevant goals and performance measures that will support its role as a strategic land holder and manager for NSW.

Recommendations

1. The Office of Strategic Lands should clarify and document its long-term purpose, role and goals in line with its mandate. This includes:
 - finalising and implementing a business plan with outcome-based performance measures that support the achievement of its goals
 - establishing and implementing a business and financial model, including resourcing, that supports its long-term strategy
 - exploring options for expanding the operation of OSL to other areas of NSW.

OSL does not have a clearly defined strategic plan to guide its operations

OSL is a separate legal entity acting on behalf of the Minister for Planning, and has a distinct function in government. However, it is yet to finalise its own Strategic Business Plan that includes a relevant strategy, objectives and targets to guide its operations. In 2015, OSL developed a Statement of Business Intent document. It has also developed strategies for managing the acquisition and divestment of land for the short to medium term. However, these strategies are not longer-term strategic planning.

OSL is run as a business unit within DPE, and adopts DPE's corporate objectives and policies. OSL's activities are included as functions within DPE's business plan. There are four key deliverables relevant to OSL that have been allocated to the DPE Division that it sits within.

Exhibit 3: OSL's key deliverables from DPE's business plan

1. Ensure sustainability of Sydney Regional Development Fund
2. Responsibly manage Department owned lands
3. Broaden partnerships with other agencies on strategy and policy details
4. Acquire, manage and distribute lands for open space and other public purposes including infrastructure.

Source: Department of Planning and Environment 2016–17 Business Plan; Growth, Design and Programs Action Plan - OSL Branch.

There are minimal reviews or reports by either DPE or OSL that indicate any monitoring to ensure OSL is working to achieve all four key deliverables.

Along with complying with the EP&A Act, these deliverables are the established direction for OSL. OSL is finalising its Business Plan to ensure it can continue operating as a self-sufficient entity for the long-term. This Plan should clarify OSL's long-term direction, and guide its business and financial models and its operations.

Relevant performance targets and outcomes have not been established

OSL has an Action Plan which lists key tasks for achieving each of its four key deliverables. The Action Plan has allocated responsibilities for each task to individual staff, but there is no monitoring or reporting of progress in delivering on these tasks. There was also no indication that the Action Plan is regularly checked and updated to ensure it remains valid and useful.

OSL does not have any performance outcomes or targets that relate to optimising its land use, working with other entities, or the long-term sustainability of the SRDF - aspects that are part of OSL's core business.

OSL's only performance targets are to meet annual budgets:

- \$40 million expenditure for 2017–18 to acquire strategic land
- \$55 million target to transfer lands to local councils
- net sales revenue averaging \$45 million for each of the next five years.

These financial performance targets are incomplete and do not reflect other key work done by OSL. For instance, land transfers by OSL to other NSW Government agencies are not reflected in the land transfer target. This land can be of substantial value, and help OSL achieve its key deliverables stated in Exhibit 3. In 2016–17, for example, OSL's focus for transfers was on land to the Western Sydney Parklands Trust (WSPT), rather than on transferring land to local councils. A change in its performance measures would make OSL's targets more reflective of its time and effort in delivering on a key government project.

Exhibit 4: Western Sydney Parklands example

The Western Sydney Parklands was established in 2008 as an open space and recreational use parkland in Sydney. It is the largest urban parkland system in Australia at 5,280 hectares, running 27 kilometres through three local council areas.

It is reported that, since 2008, OSL has transferred 1,220 hectares from land it owned, to the WSPT. In 2016–17, OSL transferred a further 81 hectares of land worth \$45 million. It had initially purchased these lands between 2013 and 2016.

This land represents an improvement in the 'liveability' of Sydney because of the increase in publicly owned and accessible green space in Western Sydney. It is also a reflection of OSL working with other agencies.

Source: Department of Planning and Environment and Office of Strategic Lands, 2017.

By establishing a broader range of relevant performance targets and measures, including outcome-based measures, OSL can better direct its functions to achieve its role as a long-term land holder and planning partner for NSW. It could also establish different outcomes and measures that reflect the different areas of responsibility within OSL.

OSL reviews its progress in achieving financial targets

While monitoring of outcomes was insufficient, we found the financial aspects of OSL's business were well monitored. OSL has an Asset Policy Committee that meets every three months. The Committee fulfils its responsibilities to make policy decisions on property acquisition and disposal transactions, ensure acquisitions and divestments are appropriately reviewed, approve revaluations, and review the SRDF and other funding initiatives to ensure the SRDF and OSL remain viable.

OSL senior staff review and assess its short-term financial position. Each month, they receive detailed reports on progress against budget, including variances for each team, key programs, and overall, as well as explanations for significant positive and negative variances. An abridged monthly report is also provided to the DPE Audit and Risk Committee.

Equally important to the financial aspects, is the achievement of performance outcomes. The implementation of a business plan is an opportunity for OSL to clarify its future business direction, and to establish a range of goals and performance measures to support it becoming a strategic land holder and planning partner with NSW Government agencies and local councils across NSW, for the long-term.

2. Approach to land identification, acquisition, management and divestment

OSL relies on NSW Government agencies and local councils to advise it when they require land to meet their long-term needs, as well as which land is appropriate to acquire. OSL has valued the land that it needs to purchase on behalf of government to meet long-term strategic land needs, at \$1.2 billion. However, its annual budget for purchasing land is only between \$40 to \$50 million. OSL does not have a budget or plan for how it will purchase all the identified land.

OSL may hold and manage land for many years before it is sold or transferred to other NSW Government agencies or local councils for its ultimate purpose. During this time, OSL rents out land it has identified as suitable, to generate revenue. OSL does not conduct regular site inspections of all the land it owns to ensure holdings remain safe, are not inappropriately developed, and maintain their long-term purpose.

OSL can sell land it owns that is no longer required for government purposes. It has developed a schedule of planned divestments for five years into the future. It has established an approach to generate the best and highest price for land sales. OSL has identified that it will run out of surplus land to sell within ten years. A significant source of income for land purchases is money earned from land sales. OSL needs to establish a funding model to ensure it is self-sufficient for the long-term.

2.1 OSL's processes to identify, acquire, manage and divest lands

OSL could be more involved in identifying long-term land needs

OSL does not actively identify land to acquire to meet government priorities. It relies on advice from other NSW Government agencies when they require land to meet long-term needs, and which land is appropriate for acquisition. This land is also recorded in each local council's Local Environment Plan, following state government approval to reserve the land.

The NSW Government agencies we spoke with said OSL provides a useful long-term land management function for government. To encourage better utilisation of its services, OSL should more actively promote its purpose, capabilities and services to other government agencies. This could assist in ensuring appropriate lands are identified early across government, and acquired for their future strategic purpose.

OSL needs to establish a budget and plan to acquire all the identified lands

In 2015, OSL developed its LandBank Acquisition Strategy. This Strategy identifies and reflects government and OSL priorities, objectives and programs. It also reports a substantial gap between the \$1.2 billion value of land that OSL needs to purchase, and its current annual budget for purchases of \$40 to \$50 million. OSL has not established a plan or budget to acquire all the identified lands.

Landowners are advised, and restrictions are placed on land use and development, when their land is initially identified as required for future government purposes. OSL relies on landowners to initiate contact when they want to sell their land. OSL will then advise the potential seller of the acquisition process and when it is likely to offer to purchase the land. Purchases may therefore not happen immediately. This has resulted in OSL's actual expenditure to acquire land being less than \$30 million for each of the last four years.

OSL conducted a trial where it contacted some landowners to see if they were willing to sell their land in the Western Sydney Parklands area. OSL evaluated this more proactive approach, and did not consider it successful.

Exhibit 5: OSL's attempt to actively contact potential sellers for required lands

In 2016, OSL wrote to the 20 remaining property owners within the Western Sydney Parklands area, asking if they were willing to sell their land to OSL. The land sites were already identified as being important to finalise the Parklands, and were located within the Parklands' boundaries. OSL did not intend to compulsorily acquire any land, and asked the landowners to contact OSL if they wished to sell. It received only one response.

OSL assessed the success rate, as well as the risks and costs, of making this contact. OSL identified the low response rate, along with the potential for incurring land valuation and assessment costs without a guaranteed purchase, as major concerns.

OSL concluded that its current owner-initiated approach is adequate for its needs. However, it is also considering modifying and expanding the trial to other major projects.

Source: Audit Office research, 2017.

Our review of a sample of acquisitions since 2014–15 found that OSL maintained adequate documentation to show that it complied with DPE and OSL acquisition requirements, received appropriate approvals, and maintained communication with sellers throughout lengthy purchase processes.

There are potential advantages for agencies to use OSL for their long-term land planning and purchase purposes. OSL staff have the skillset to acquire and manage land for the longer term. Also, as a self-funding agency, OSL can plan and operate beyond the four-year budget cycle of other agencies.

OSL can improve the record-keeping and management of lands

OSL may hold on to land it acquires for many years before it is transferred to another government agency or a local council for ultimate use. During this time, OSL is responsible for managing the sites. In some cases, OSL rents out the land it has identified as suitable.

OSL leases out land to generate revenue. It uses real estate agents to rent out residential land, and manages commercial land leases itself. It maintains property lists and tenancy schedules that provide details on each site, their occupants or real estate agents, and lease terms and amounts. These lists should be more frequently reviewed to ensure details are up-to-date. Without an accurate up-to-date listing, OSL cannot be sure that all land in its name is accurately recorded, and that the land maintains its value and utility for its identified future use.

We reviewed a small number of leased commercial and residential properties. We found that OSL generally maintains adequate and up-to-date documentation throughout the life of the leased asset. OSL maintains ongoing communication with, and checks reports provided by, real estate agents, and ensures they are meeting expectations. However, there was no evidence that OSL staff inspected any commercial or residential sites themselves to ensure the land remained safe and not inappropriately developed. Site inspections should be done on land OSL leases out directly, or through real estate agents, as well as unused land.

OSL has land management arrangements with councils

With some of its land, OSL has a care, control and management (CCM) arrangement with the relevant local council. CCM has been an historical arrangement; one example we saw dated back to 1972. Under CCM, OSL retains legal ownership and control over a lands' use and any developments, and the council pays for and manages the upkeep. These sites are used for the benefit of the local community, such as local parks or sports grounds.

OSL does not regularly check land under CCM arrangements to ensure that there are no inappropriate developments, and that the land remains safe and suitable for future use. OSL advises this is because councils have an obligation to manage land zoned for community use under both the EP&A Act and the *Local Government Act 1993*. However, as OSL retains ownership and control over land under CCM arrangements, it should ensure land remains suitable for its intended purpose.

OSL needs to improve its records of land transfers

For land under CCM arrangements, and identified as surplus to NSW Government requirements, OSL's preference is to transfer these to the local council for a token amount under a Land Transfer Agreement. The Agreements contain caveats that restrict development or zoning changes to the land, and ensure the land continues to be used for the benefit of the local community. Councils are also required to seek OSL approval for any significant change to the lands' use.

Our review of land transfers to councils and other NSW Government agencies found that there was ongoing communication between OSL and the recipient. However, there was minimal evidence of appropriate timely approvals being received or records being kept up-to-date. OSL has established procedures and processes for divesting land, and it is an important accountability step that these are consistently applied.

2.2 OSL's financial capacity

OSL is a small self-funding entity which does not receive any budget allocations. Instead, its income is mainly from asset sales, council contributions, royalties and rental returns. OSL uses these funds to cover its ongoing operational expenses, acquire new land, and repay its Treasury loans.

OSL maximises revenue from land sales

OSL consults with other NSW Government agencies to identify and classify land as surplus when it is no longer required for government purposes. This may be because government priorities have changed, or land parcels may become excess to government needs following the completion of a major project, for example transport corridors.

OSL has a LandBank Disposal Strategy that maintains a schedule of planned divestments of surplus lands for five years into the future. The Strategy and schedule are reviewed, on average, every year. This Strategy is an appropriate method to identify when and how surplus land should be sold.

It is important that OSL continues to generate the best and highest price for any land it sells. The sale of surplus land is OSL's largest source of annual income. We found evidence that OSL does what it can to maximise the potential value of land before it decides to sell.

Exhibit 6: Maximising revenue potential from surplus land

When one site was classified as surplus land, OSL assessed its value and identified a greater return could be made if the one large site was subdivided into ten lots - nine of these became residential subdivisions, and one lot was kept as open space and transferred to the local council.

This was a lengthy process, taking nine years from approval of the subdivision to the sale of the nine lots. The subdivision and development of the nine lots generated more revenue for OSL than if only the one large site was sold.

Source: Office of Strategic Lands, 2007 to 2016.

Our review of a sample of land sales finalised since 2015 found that, overall, there was adequate oversight and appropriate approvals throughout the disposal process, and that land was sold at best price.

Expected revenue from surplus land sales will be inadequate to purchase required land

In 2016, OSL identified surplus land currently worth \$188 million for divestment over the following five years. It estimated that the sales over the five years could generate \$276 million in revenue.

Even if OSL sells all its surplus lands, which it has estimated could generate a total of \$496 million in revenue, it will not be able to afford to purchase all the identified land, valued at \$1.2 billion, as well as cover its operational costs. OSL also needs to generate adequate revenue to repay its Treasury loans, rather than continue to rely on the loans to fund its

operations. OSL needs to develop a sound long-term approach to managing its financial and operational capacity, so that it can achieve its long-term purpose.

Formula for council financial contributions should be reviewed to ensure relevance

Sydney councils make a financial contribution to OSL through their payments to the SRDF. OSL has used the same formula to calculate each council's contributions since 1991. The statutory formula is based on each council's rateable land value as at 31 December 1990, and adjusted annually for the Consumer Price Index. OSL has advised it will work with the Department of Premier and Cabinet, the Office of Local Government and local councils, to review the formula and contributions, during 2017–18.

The council contributions are OSL's only regular and consistent income stream, and OSL applies a consistent approach to calculating this annual income source. One problem identified with the formula to calculate council contributions is that it does not account for any changes to the council area, for example population or land value changes. The recent council amalgamations and border changes increase the chances of the calculated contribution being incorrect, and have increased the need to review the formula.

OSL also applies a consistent and regular approach to collecting the council contributions. Each year, each Sydney council is advised of its required contribution and payment terms. However, councils are not advised on how the funds are spent. Councils we spoke with stated that they would like to know how contributions are used in their area.

A review of the SRDF formula, and more open communication with councils, is necessary to improve OSL's financial viability over the medium term, and to ensure council's ongoing support for OSL.

OSL's current financial management approach may affect its long-term sustainability

OSL has acknowledged that its long-term financial capacity is a challenge. It has advised that it expects to run out of surplus land to sell within ten years. OSL is managing the timing of acquisitions and divestments, and therefore its finances, to ensure it can support itself for the short and medium term.

However, this is not an appropriate long-term strategy. Over the longer term, OSL will face challenges in remaining sustainable once all surplus land has been sold. OSL has recognised this as an issue and is finalising a Business Plan to address this, and to ensure it is financially and operationally capable to sustain itself for the long-term.

3. Engaging with other agencies and stakeholders

NSW Government agencies we spoke with see value in OSL's functions. There is no requirement, however, for OSL and NSW Government agencies to work together to ensure long-term land planning strategies are aligned to achieve whole-of-government benefits. OSL could be more proactive in promoting its services and working with additional NSW Government agencies to identify, acquire and manage strategic land for future needs. This would help to solidify OSL's role in assisting with long term land planning in NSW.

The local councils in the Sydney region we spoke with are not as satisfied with OSL's engagement and communication as NSW Government agencies are. The councils advised that they are not well-informed of OSL's plans for their area, or how their contributions to the SRDF are spent.

More broadly, the activities of OSL are not reported transparently to all stakeholders or to the general public. OSL is developing a communication package for local councils and the community. This is an opportunity to improve the transparency of its role, operations, projects, and the SRDF, as well as to promote its services and achievements.

Recommendations

2. The Office of Strategic Lands should develop and implement an approach for working with NSW Government agencies to improve its efficacy in strategic land identification, acquisition and management.
3. The Office of Strategic Lands should improve the transparency of its operations, and its communication and engagement with all stakeholders. This includes developing engagement strategies appropriate for different stakeholder groups.

OSL relies on having the land and income to ensure it can remain self-sustaining, as well as its capacity to effectively engage and work with NSW Government agencies, local councils and other stakeholders to continue its operations.

No alignment of OSL's planning strategies with other state government agencies

We spoke with some state government agencies involved in strategic land use in NSW. They said that OSL was of value, and plays an important role in achieving government's overall land development plans. None saw a duplication or cross-over in purpose or functions between OSL and their agency.

However, there is no standardised approach to ensure OSL's plans are aligned with other key agencies' planning strategies to achieve long-term government goals and land use benefits. Nor are NSW Government agencies required to use, or consult with, OSL to make strategic land purchases. Without a cohesive approach across NSW Government agencies, OSL, as the government's identified long-term land manager, is not well utilised to ensure whole-of-government benefits are achieved.

OSL needs to clarify and communicate its purpose to other NSW Government agencies to ensure it is effectively used, and that there is an alignment of planning strategies across government.

State government agencies are generally satisfied with the level of engagement

The NSW Government agencies we spoke with were generally complimentary of OSL's engagement and consultation processes. There is regular communication between key staff of OSL and these agencies.

Exhibit 7: Good practice example of OSL working with another government agency

UrbanGrowth NSW is a NSW Government agency that focuses on large-scale urban redevelopment projects, with a current focus on the Sydney and Hunter-Newcastle regions.

UrbanGrowth NSW considers OSL a preferred partner. There is frequent and open communication between staff, and they approach each other for any land development projects and needs. UrbanGrowth NSW advised it has a strong relationship with OSL, and the two agencies work in synergy to achieve streamlined project management for developments.

OSL maintains ownership of land to be used in development projects. OSL manages small-scale development projects (fewer than 250 lots), and UrbanGrowth NSW manages larger developments for a fee. UrbanGrowth NSW advised that it sells land that is on OSL title where both agencies agree it is better to merge adjoining lots owned by both agencies, to ensure the best return for government.

Source: Audit Office research, 2017.

One area for improvement is for OSL to have regular strategic meetings between its executives and the key executives of other relevant NSW Government agencies. However, there are no high-level agreements between OSL and relevant NSW Government agencies. Establishing a framework to clarify what each agency can expect from working with OSL would be useful to guide a collaborative approach that supports the identification and management of government's long-term land needs.

Councils consider OSL's engagement and communication is inadequate

The Sydney region councils we spoke with are not satisfied with OSL's communication and engagement. There are no regularly scheduled meetings with, or other forms of updates for, councils on OSL's plans that could affect their area. OSL has acknowledged this needs to improve and is developing a communication package. The communication package is a mix of information on OSL's role, the SRDF, projects it is working on, and its achievements. The information is planned to be provided through the DPE website, brochures, information sheets, and traditional and social media. It will be targeted to either councils directly, or available for the general public to view, depending on its content.

The councils we spoke with stated that they were not informed of where or how their SRDF contributions are spent. Some councils suggested OSL should be more transparent on how SRDF monies are used. OSL's letters to councils advising of their required SRDF contribution provide only a generic explanation of how the SRDF is used. The letters do not specify how funds have been spent in the local council area.

OSL considers councils as partners in its SRDF arrangement. However, there are gaps in its communication and engagement with councils that need to be addressed. Changes need to be made to improve OSL's standing with councils and local communities, which should help OSL achieve its key deliverables.

Limited communication on OSL's operations with the general community

There is limited transparency and public reporting on the activities of OSL. It meets financial reporting requirements through its audited financial statement which is included in DPE's Annual Report. The Annual Report also includes brief information on OSL's activities for the financial year. However, for transparency purposes it would be better to advise the public on what OSL does and how its funds are used. OSL's proposed new communication package should assist in improving the transparency of its operations to the public.

Appendices

Appendix 1: Response from Department of Planning and Environment (Office of Strategic Lands)



Your ref:
17/10034

Ms Margaret Crawford
Auditor-General of NSW
GPO Box 12
Sydney NSW 2001

Dear Ms Crawford

A handwritten signature in blue ink, appearing to read 'Margaret', written over the typed name.

Performance Audit – Office of Strategic Lands

Thank you for your letter dated 14 July 2017 and the opportunity to respond to the Performance Audit Report on the Office of Strategic Lands.

I am pleased the audit found that, as a self-funding long-term land holder and manager, the Office of Strategic Lands fulfils an important and unique role to support a wide variety of government agencies in achieving their strategic objectives under the State Priorities.

The Department of Planning and Environment has reviewed the Report and prepared the attached response to each of the recommendations.

I would like to thank the Audit Office team for its efforts in taking a collaborative approach to examining the performance of the Office of Strategic Lands.

The Audit Report recommendations will provide greater clarity on the improvements necessary to ensure the Office of Strategic Lands continues to enable Government's strategic vision for the green grid, strategic infrastructure and other planning priorities for Sydney Region and the regions of NSW.

Should you have any questions in relation to this matter, please contact Mr Stephen Dewick, A/Director, Office of Strategic Lands, at the Department on 9860 1406.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'CM McNally', written over the typed name.

Carolyn McNally
Secretary

7-8-17

Recommendations	Accept/Reject	Proposed Action
<p>By December 2017: Clarify and document its long-term purpose, role and goals in line with its mandate. This includes:</p> <ul style="list-style-type: none"> • finalising and implementing a business plan with outcome-based performance measures that support the achievement of its goals • establishing and implementing a business and financial model, including resourcing, that supports its long-term strategy • exploring options for expanding the operation of OSL to other areas of NSW 	Accept	<p>By December 2017, finalise a Strategic Business Plan setting out the vision, goals and key directions for the Office of Strategic Lands to deliver in the next ten years, focussing on the first five years, and expanding its role beyond Sydney Region to regions of NSW.</p> <p>By December 2017, finalise implementation roadmaps and funding model options for the next ten years to improve operations and ensure long term financial sustainability of the Office of Strategic Lands.</p>
<p>By July 2018: Develop and implement an approach for working with NSW government agencies to improve its efficacy in strategic land identification, acquisition and management</p>	Accept	Engage with relevant government agencies to establish a model and financing agreement for strategic land identification, acquisition and management.
<p>On an ongoing basis: Improve the transparency of its operations, and its communication and engagement with all stakeholders. This includes developing engagement strategies appropriate for different stakeholder groups.</p>	Accept	Develop a structured engagement model to enhance relations with other government agencies, the community and other partners, to commence implementation in early 2018.

Appendix 2: About the audit

Audit objective

This audit assessed whether the Office of Strategic Lands (OSL) effectively fulfils its role, and whether it is sustainable over the long-term.

Audit criteria

We addressed the audit objective by asking the two following questions:

1. Does OSL fulfil its role to identify, acquire, manage and dispose of land?
2. Does OSL ensure it is sustainable over the long-term, to meet its objectives?

The first audit question was addressed with the following criteria:

- a) OSL has developed an approach to identifying, acquiring, managing and disposing of lands which aligns with its corporate objectives
- b) OSL has effective governance processes to oversee acquisition and disposal of land
- c) OSL meets its key performance targets and these align with its corporate objectives
- d) OSL engages effectively with other agencies and stakeholders to fulfil its role and to ensure planning strategies are integrated.

The second audit question was addressed with the following criteria:

- a) OSL has assessed its financial capacity to meet its current and future goals
- b) OSL applies an effective strategy to ensure it meets its corporate objectives over the long-term.

Audit scope and focus

This audit focused on:

- OSL policies, processes and systems for identifying, acquiring, managing and disposing of land
- OSL's documentation relevant to acquiring, disposing and managing
- OSL's communication and engagement with relevant agencies and stakeholders
- OSL's processes for building its capacity to ensure it is self-sufficient in the long term
- OSL's governance processes
- OSL's corporate objectives, targets and measures for land management, acquisition and disposal.

To assess a sample of transactions, we made a random selection of transactions that were finalised in 2014–15, 2015–16 and 2016–17.

Audit exclusions

The audit did not assess or question:

- how land is managed once ownership is transferred to another NSW Government agency or local council
- land acquisition and disposal processes in other government agencies
- the merits of government policy objectives.

Audit approach

Our procedures included:

1. Interviewing OSL staff responsible for the acquisition, management and disposal of lands.
2. Examining and analysing key documents, including:
 - plans, reports, policies, procedures, guidelines, processes and systems for identifying, acquiring, managing and disposing of land
 - OSL's communication and engagement with relevant agencies and stakeholders
 - documents which detail OSL's processes for building its capacity to ensure its self-sufficiency
 - documents which detail governance and oversight procedures, and their application
 - documents which detail OSL's methods of forecasting its financial solvency
 - documents relating to OSL's corporate objectives, measures and targets for land management, acquisition and disposal including business or strategic plans that contain targets or performance indicators and measures
 - relevant legislation, government directions and regulations that relate to OSL's role
 - data and documents relating to land holdings and transfers, acquisitions and disposals
 - a sample of transactions covering the acquisition, disposal, transfer and rental of lands
 - information from other jurisdictions that have a similar function.
3. Consulting with other stakeholders including:
 - selection of Sydney councils who are using the care, control and management arrangement with OSL, or have received land
 - New South Wales Government agencies that have been involved in the identification, acquisition, disposal or transfer of land with OSL
 - DPE staff who work with OSL to fulfil its role.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3500 on performance auditing. The Standard requires the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by the staff of the Office of Strategic Lands in the Department of Planning and Environment who participated in interviews and provided material relevant to the audit.

Audit team

Sandra Tomasi conducted the performance audit, assisted by Andrew Gill. Tiffany Blackett and Michael Thistlethwaite provided direction and quality assurance. Claudia Migotto and Giulia Vitetta acted as Engagement Reviewers.

Audit cost

Including staff costs and overheads, the estimated cost of the audit was approximately \$220,000.

Performance auditing

What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983*.

Why do we conduct performance audits?

Performance audits provide independent assurance to parliament and the public.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, the public, agencies and Audit Office research.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant minister and the Treasurer are also provided with a copy of the final report. The report tabled in parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

Do we check to see if recommendations have been implemented?

Following the tabling of the report in parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the parliamentary website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every four years. The review's report is tabled in parliament and available on its website.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100.

Our vision

Our insights inform and challenge government to improve outcomes for citizens.

Our mission

To help parliament hold government accountable for its use of public resources.

Our values

Purpose – we have an impact, are accountable, and work as a team.

People – we trust and respect others and have a balanced approach to work.

Professionalism – we are recognised for our independence and integrity and the value we deliver.

Professional people with purpose

Our insights inform and challenge government to improve outcomes for citizens

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