

Property Asset Utilisation

18 DECEMBER 2018



NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

PERFORMANCE AUDIT

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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **'Property Asset Utilisation'**.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

Margaret Crawford

Auditor-General
18 December 2018

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Section one

Property asset utilisation



Executive summary

At 30 June 2018, the NSW Government owned \$160 billion worth of land and buildings. The NSW Treasury predicts this figure will rise over the coming years. Property NSW manages more than 900 leased office properties across the state. Approximately 250 of these are owned by Property NSW. Other NSW Government agencies maintain ownership and control of properties considered essential for service provision, such as schools, prisons and hospitals. Between 2012–13 and 2017–18 sales of property assets across the whole of the NSW Government have raised \$10 billion, of which Property NSW has sold property assets of approximately \$2 billion.

In September 2012, the Property Asset Utilisation Taskforce (the Taskforce) released its report on 'real property asset management across government' and concluded that the government has accumulated, over time, 'a real property asset portfolio it cannot afford to maintain or protect'. The Taskforce noted that 'a lack of centralised information seriously inhibits any whole-of-government strategic asset planning' and that maintaining under-utilised or unnecessary properties diverted funds from areas where they might be better used. The Taskforce's key findings included:

- the NSW Government should own property only as a means to deliver or enhance services
- many government properties were under-utilised, poorly maintained and inappropriate to support service delivery.

The Taskforce recommended the creation of Property NSW, as a replacement for the State Property Authority, to improve property asset utilisation and to drive efficiencies in the government's owned and leased property portfolio. Property NSW was to achieve these goals by:

- collating property information across the whole-of-government
- working with agencies on longer-term strategic real property asset planning to:
 - provide services to agencies as customers
 - bring a whole-of-government perspective to real property asset planning.

In response to the Taskforce report, in December 2012, the Premier's Memorandum M2012-20 (the Memorandum) established Property NSW to improve the management of the NSW Government's owned and leased real property portfolio.

Under the Memorandum, Property NSW is responsible for:

- management of all leased and owned commercial office accommodation
- acting as the central acquisition and disposal agency
- providing advice to the government on property matters and developing property policy
- conducting regular and ongoing reviews of agencies portfolios, working with agencies to identify efficiencies to improve service delivery, in relation to the review of capital planning¹
- maintaining the register of all government owned property.

The Memorandum states that ownership of all commercial office property should be vested in Property NSW.

This audit assessed whether Property NSW is effective in the management of NSW Government owned and leased commercial office property. To do this we assessed whether NSW Government leased commercial office space is being effectively utilised and whether the Government Property Register, a register of all government owned property, is accurate and up-to-date.

¹ Capital planning was previously referred to as Total Asset Management (TAM).



Conclusion

Property NSW's effectiveness in managing NSW Government owned and leased commercial office property is limited in three areas.

First, Property NSW has not comprehensively reviewed many agency property portfolios to help agencies identify assets, including commercial office properties, that could be better utilised or recycled. Second, the Government Property Register is not being actively maintained and contains incomplete and inaccurate information, limiting Property NSW's ability to use it to support strategic decisions about the use of government property assets. Third, Property NSW's decisions are not well documented and its processes to reach decisions are not transparent to stakeholders. That said, property utilisation has improved by about 14 per cent since 2012, and Property NSW is actively moving properties out of the Sydney CBD in line with the 'Decade of Decentralisation' policy.

Property NSW's role is to provide a strategic approach to property asset management. Under the 2012 Premier's Memorandum, this includes a requirement that Property NSW undertake regular reviews of agency property portfolios to identify efficiencies to improve service delivery. Property NSW completed one comprehensive review of an agency, limited reviews of four other agencies, and some reviews of government property in regional towns, prior to 2017.

In December 2017, Property NSW started working across the NSW Government to help agencies identify real property assets, including commercial office properties, that are under-utilised or surplus and that could be recycled, repurposed, or vested to Property NSW.

Following the Memorandum, agencies were directed to vest their commercial office properties to Property NSW. However, without more comprehensive reviews, Property NSW does not know how many commercial properties are yet to be vested. Agencies can approach Property NSW for assistance in managing their property portfolios, and Property NSW arranges the recycling of under-utilised and surplus properties that are brought to its attention. Property NSW is improving utilisation of government office space, according to agency self-reported information which Property NSW uses to calculate utilisation rates.

The Property Asset Utilisation Taskforce report (2012) recommended that the NSW Government needed a 'single source of truth' to inform asset retention and disposal decisions, leasing decisions and ongoing strategic property decisions. It concluded that the Government Property Register (GPR) could perform this function 'if populated appropriately'. However, the GPR is not comprehensively performing this function because it is still incomplete and out of date. Property NSW manages the GPR and NSW Government agencies are required to supply 'accurate, relevant and useful information' to populate it. Agencies are not always doing so in a timely manner, limiting its usefulness to support strategic decision making. Property NSW supplements the GPR with information from multiple other sources to assist its decisions, however, there is still no single, complete and accurate picture of the NSW Government property portfolio.

The work Property NSW does to identify, shortlist and propose new lease and agency relocation options is not well documented. Property NSW records the outcome of the process without detailing how and why decisions were made. There is limited transparency in this process for stakeholders. Record keeping is also inconsistent and many of Property NSW's divisions do not have procedures or guidelines.



1. Key findings

According to agency self-reported data, property utilisation is improving

Property NSW asks agencies to report their floorspace and staff numbers for the calculation of full time employee (FTE) utilisation annually, and when a lease is due for renewal.² A property is considered under-utilised if it fails to meet the NSW Government's target number of square meters per FTE. This target was previously 13m²/FTE for all new leases and was reduced to 10m²/FTE for all new leases in 2018. Where a property that exceeds the target is brought to attention, Property NSW improves utilisation by reducing leased floor space at the current premises or moving the occupant to a smaller location.

² FTE utilisation is also referred to as space efficiency, and is calculated as the net lettable area, less operational space, divided by the number of full time equivalent employees (FTE). It is one of several utilisation measures used to monitor the efficiency and cost effectiveness of the NSW Government property portfolio.

Between 2012–13 and 2017–18, overall utilisation has improved from 16.5m²/FTE to 14.26m²/FTE across the NSW Government, calculated using the self-reported information provided by agencies to Property NSW.

Property NSW is actively relocating government agencies for the Decade of Decentralisation, but could be more transparent with agencies about the process

Property NSW works with clusters to arrange agency relocations outside the Sydney CBD, in line with the NSW Government Decade of Decentralisation policy. During the Decade of Decentralisation, the NSW Government intends to reduce CBD office space by 100,000m² by moving public service jobs out of the Sydney CBD and into Parramatta, Liverpool and Penrith, with the intention of stimulating growth in these areas and generating long-term employment opportunities. Between 2011 and 2017, Property NSW arranged 144 agency relocations to 26 different locations.

When relocating agencies outside the Sydney CBD, in line with government policy, agencies are offered the opportunity to provide a business case to stay in the Sydney CBD. Property NSW does not document how it assesses these business cases.

Property NSW conducted limited property portfolio reviews between 2013 and 2017

Between 2013 and 2017, Property NSW completed one full property portfolio review of an agency. Four other agency property portfolios were also reviewed, but based on the evidence provided, these were limited in scope and depth. Property NSW has also provided evidence that it conducted 13 reviews of regional towns which identified government owned and leased properties. Given the 2012 Memorandum required Property NSW to undertake regular and ongoing reviews of all agency property portfolios, this represents a small sample. Outside of this process, Property NSW has relied on NSW Government agencies to advise it of assets that need to be better utilised or recycled.

The government introduced a new policy in 2017 reinforcing Property NSW's role to review NSW Government agencies' property portfolios

In 2017, the NSW Government introduced the Property Infrastructure Policy to create a more collaborative approach between Property NSW and NSW Government agencies to identify efficiencies in their property portfolios. At the time, Property NSW announced that it would 'shortly commence detailed reviews of governments property portfolio to identify surplus and under-utilised assets'.

Property NSW has since conducted three reviews across agencies in the Education, Health, and Industry clusters. Any office accommodation and generic (non-operational) properties identified during the portfolio reviews must be vested to Property NSW. Until these portfolio reviews are completed, Property NSW does not know how many office properties have not yet been vested in accordance with requirements set out in the Memorandum. In addition, it does not have a complete picture of how many under-utilised assets exist, limiting its ability to manage the government's commercial office property portfolio effectively.

Portfolio reviews are designed to assist agencies to identify under-utilised, surplus assets, or properties to be vested to Property NSW.³ Reviews are performed at the agency level as Property NSW advises it would be impractical to attempt a whole-of-government portfolio review across all premises. That said, Property NSW could draw together the findings of agency reviews to form a whole-of-government view. This would be consistent with the intent of the Property Infrastructure Policy to 'encourage a whole-of-government approach to the allocation of the state's real property capital and ensure better use of the state's asset base'.

³ All office and other generic property should be vested to Property NSW but this may not happen in the case of non-operational property assets which are required for service delivery.

Agencies are not updating the GPR, and Property NSW could more be more proactive in its follow-up

The GPR is incomplete and some of the information in it is out of date. This limits Property NSW's ability to use it as a complete and accurate picture of the NSW Government Property portfolio. According to the Property Asset Utilisation Taskforce report (2012), the Government Property Register (GPR) was intended to be the single source of truth on NSW Government owned property to assist with asset retention and disposal decisions, leasing decisions and ongoing state-wide strategic planning.

At the time of this audit, total property valuations were missing for more than half of the properties in the GPR, while other items such as property size, class and lot numbers were also incomplete. The quantity and type of missing data differed from agency to agency. Seventeen per cent of government entity names were incorrect or could not be identified. Without complete and accurate data, the NSW Government still does not have a single, complete and accurate picture of the NSW Government property portfolio.

NSW Government agencies are required, under the Memorandum, to supply 'accurate, relevant and useful information' to populate the GPR, but many agencies are not doing so in a timely manner, and are not keeping their entries in the GPR complete. Agencies are also required to check and correct their property data, but this is not easy to do as agencies are required to manually update the GPR. This is impractical for many agencies, especially agencies with a large number of properties. Property NSW does encourage agencies to update and correct their entries in the GPR, but this is not done regularly. Property NSW could do more to improve the update process and assist agencies to improve the quality of their data.

Property NSW's processes to identify, shortlist and propose new lease and agency relocation options are not well documented and not transparent to stakeholders

There are issues with transparency and documentation of decision-making when assessing renewals, new leases and agency relocations. Property NSW advised that 'standard procedures to assess and approve lease applications have been programmed' in their leasing system. However, Property NSW only records the outcome of decisions related to identifying, shortlisting and proposing renewals or new leases but does not explain how it reached these decisions.

The lease decision is made in consultation with agencies and the lease must be signed by both the client agency and Property NSW. However, four out of eight client agencies we spoke to reported that they have had little choice but to sign leases, as they need office accommodation to continue to operate.

Property NSW advised us that their response to under-utilisation of properties is determined using multiple criteria as are the assessments of new leases and lease renewals, but was unable to provide evidence to show how these criteria have informed each of its decisions. The reasons for a particular decision being made are not well communicated to client agencies, who also raised concerns with us about the lack of transparency in the decision-making process.

Property NSW's record keeping and guidance to staff is also inconsistent. Some areas of the business that we reviewed do not have policy documents, procedures or guidelines. The lack of guidance and documentation raises risks that Property NSW has made inconsistent decisions.



2. Recommendations

By December 2019, Property NSW should:

1. combine the results of property portfolio reviews to produce a whole-of-government picture of the NSW Government property portfolio
2. devise a strategy and plan to recycle or repurpose under-utilised properties using a whole-of-government picture of the NSW Government property portfolio
3. develop and report on indicators for progress in reducing the number and value of under-utilised properties at the whole-of-government level, referencing progress against an accurate baseline stocktake
4. improve the data held on government owned and leased properties by combining and automating data feeds to construct a single, consolidated and accurate whole-of-government property data set
5. document and communicate to stakeholders how its assessment criteria inform key decisions including agency relocations, lease renewals and rectifying under-utilisation
6. include customer satisfaction measures in its annual reports and reviews, in accordance with the requirements set out in the Premier's Memorandum M2012-20
7. improve record-keeping and compliance with the *State Records Act 1998* and the Department of Finance, Services and Innovation Records Management Policy.



1. Introduction

1.1 Background

Property Asset Utilisation Taskforce

In February 2012, the Property Asset Utilisation Taskforce (the Taskforce) was established to identify and implement efficiencies in the ownership, utilisation and management of the NSW Government's portfolio of owned and leased property.

The Taskforce's report concluded that the NSW Government had accumulated a property portfolio that it could not afford to maintain and which included properties that were under-utilised and not needed for the delivery of services. The Taskforce's report advocated identifying and recycling these property assets. The Taskforce's report also concluded that a single register of detailed information on NSW Government properties is necessary for effective whole-of-government strategic asset planning. The Taskforce concluded that this information is required for:

- decisions about asset retention and disposal
- leasing decisions
- ongoing state-wide strategic planning.

The Taskforce's report described the structure and contents of eight of the existing property databases held by NSW Government agencies, and concluded that the Government Property Register (GPR) was the best choice for building a single comprehensive register of all NSW Government property. The Taskforce's report also recommended that the GPR should become the 'single source of truth' on NSW Government property holdings within two years.

Property NSW was formed as a result of the Property Asset Utilisation Taskforce report

In December 2012, the Taskforce's report was followed by Premier's Memorandum M2012-20 (the Memorandum) which replaced the State Property Authority with Property NSW.⁴ Under the Memorandum, Property NSW has the mandate to improve the management of the NSW Government owned and leased real property portfolio.

The Memorandum states that real property assets are to be held by government only when those assets are essential for the provision of core government services. Any property that is not considered essential should be relinquished or sold, and the funds generated by the sale put to better use. Under the Memorandum, Property NSW is responsible for managing the GPR and all NSW Government agencies are responsible for providing 'accurate, relevant and useful information' to populate the register.

Property NSW is responsible for managing leases for commercial office property

Property NSW is responsible for managing commercial office property leases and has contracted the day-to-day management (including maintenance) of leased office property to an external provider. Property NSW directly manages planning and negotiating new and renewed leases, rental reviews, and make good.

⁴ Property NSW was originally called Government Property NSW. It was rebranded and adopted the current name in October 2016.



2. Property asset recycling



In December 2017, the NSW Government announced the Property Infrastructure Policy to create a more collaborative approach between Property NSW and NSW Government agencies to review and identify efficiencies in their property portfolios. Before this, Property NSW did not have a plan to assist agencies to identify under-utilised properties for recycling or repurposing. It still does not know how many under-utilised properties exist and will not know until it has completed all of the portfolio reviews it is currently carrying out under the Property Infrastructure Policy.

Between 2013 and 2017, Property NSW had only completed one comprehensive review of an agency, limited reviews of four other agencies, and some regional towns. Outside this process Property NSW chose to rely on other agencies to identify surplus property for recycling, repurposing or vesting ownership to Property NSW.

Property NSW has a role to provide a strategic approach to property asset management and is required to undertake regular reviews of agency property portfolios under the Premier's Memorandum. Property NSW only recently started working to assist agencies to identify under-utilised and surplus properties, or properties to be vested. These reviews should improve the identification of surplus and under-utilised real property assets and assist whole-of-government decisions on the recycling, repurposing of under-utilised assets and vesting of owned office accommodation to Property NSW.

Recommendations

By December 2019, Property NSW should:

1. combine the results of property portfolio reviews to produce a whole-of-government picture of the NSW Government property portfolio
2. devise a strategy and plan to recycle or repurpose under-utilised properties using a whole-of-government picture of the NSW Government property portfolio
3. develop and report on indicators for progress in reducing the number and value of under-utilised properties at the whole-of-government level, referencing progress against an accurate baseline stocktake.

2.1 Recycling and repurposing of property assets

Property NSW conducted a small number of property portfolio reviews between 2013 and 2017 including one full review of the properties owned by the Department of Education and limited reviews of four others, namely:

- Crown Lands
- Place Management (now part of Property NSW)
- Property NSW
- TAFE NSW.

Property NSW also claims it has conducted a portfolio review on NSW Health, but was not able to provide evidence to support this.

Given the Memorandum required Property NSW to undertake regular and ongoing reviews of agency property portfolios, the reviews between 2013 and 2017 represent a small sample. Outside this process, Property NSW was reliant on agencies to identify surplus property in their portfolios for recycling and repurposing. Agencies would advise Property NSW of properties that were no longer required, and these properties would then be sold, transferred or vested to Property NSW. Property NSW has also provided evidence of 13 reviews of government property in specific towns, mostly in rural NSW.

The government introduced a new policy in 2017 reinforcing Property NSW's role to review NSW Government agencies' property portfolios

In December 2017, the NSW Government announced the Property Infrastructure Policy to create a more collaborative approach between Property NSW and NSW Government agencies to review and identify efficiencies in their property portfolios.

Under this policy, Property NSW has commenced portfolio reviews of individual agencies, as it believes it would be impractical to attempt a whole-of-government portfolio review across all premises at the same time. Property NSW could draw together the findings of these agency reviews to form a whole-of-government view and provide a strategic baseline stocktake of the NSW Government's property portfolio. This would be consistent with the intent of the Property Infrastructure Policy to 'encourage a whole-of-government approach to the allocation of the state's real property capital and ensure better use of the state's asset base'.

Property portfolio reviews are intended to assist agencies to improve the identification of surplus and under-utilised real property assets, and facilitate whole-of-government decisions on recycling and repurposing property assets. Office accommodation and generic (non-operational) properties identified during portfolio reviews should be vested to Property NSW. Between 2012 and 2016, 114 properties were vested to Property NSW. However, until more comprehensive portfolio reviews are completed, Property NSW does not know how many office properties have not yet been vested.

The NSW Government recently formed the Property Asset Allocation Committee to 'facilitate the relocation of real property assets between government agencies, or the sale of surplus real property assets no longer required by government to support whole-of-government priorities and objectives'. The permanent membership of this committee consists of:

- Chief Executive Officer, Property NSW (Chairperson)
- Deputy Secretary, Department of Premier and Cabinet
- Deputy Secretary, NSW Treasury
- Chief Financial and Operating Officer, Department of Planning and Environment
- Deputy Secretary, Transport for NSW
- Chief Executive Officer, Greater Sydney Commission.

This change is intended to embed a more collaborative approach to decision-making about property assets introduced by the NSW Government in the 2017 Property Infrastructure Policy.

The GPR, although incomplete, remains an important resource to inform portfolio reviews. The GPR data is supplemented by information from other sources. To be effective, Property NSW will need to ensure that the data it uses to make whole-of-government property portfolio decisions is complete and accurate.

Based on agency self-reported data, property utilisation is improving

Property NSW calculates FTE utilisation as the net lettable area, less operational space, divided by full time equivalent (FTE) staff numbers.⁵ In other words, this is the floorspace used for desks and offices divided by the number of staff who occupy it. In 2011, the NSW Government set a utilisation target of 13m² per FTE for all new leases across the NSW Government. This was reduced to 10m²/FTE for all new leases in 2018.

From 2012–13 to 2017–18, whole-of-government utilisation has reduced from 16.5m²/FTE to 14.3m²/FTE – a decrease of 13.6 per cent. In presenting this information we note that Property NSW relies on agencies to self-report FTE via an annual survey, and does not directly verify its accuracy. During this period, an average of 86 per cent of surveys were completed and returned each year. In cases where the agency does not respond, Property NSW reports that it reuses the previous year's data. These utilisation figures also do not include vacant properties.

In addition to the annual survey, Property NSW also calculates utilisation when a lease is due for renewal. A property is considered under-utilised if it fails to meet the NSW Government's target.

⁵ Operational space is all areas required for specialised functions as part of an agency's operational role. This includes locker space, kitchens and toilet facilities.

Property NSW then attempts to improve the utilisation by reducing floor space in the current premises or moving the agency to a smaller location. However, this may not always be possible to do if:

- the property has been specifically constructed for the agency
- there are no suitable alternative properties available
- relocating the agency is too expensive.

Property NSW also advise that they would not break a lease to improve utilisation, unless:

- another agency could be found to backfill the space with efficient utilisation
- a cost benefit analysis justifies the decision to break the lease.



3. The Government Property Register



Property NSW needs to be more proactive in its management of the GPR and in encouraging agencies to provide the information needed to improve this register. In 2012, the Property Asset Utilisation Taskforce report recommended there be a single source of truth on property assets owned by the NSW Government. The GPR is intended to fulfil this role but it is out of date and incomplete.

Without a complete and accurate central register of property, Property NSW cannot provide the NSW Government with a comprehensive picture of its property portfolio, or make whole-of-government decisions about the property portfolio. Property NSW currently supplements the GPR with information from other systems in order to make decisions about leasing, relocations, and property recycling and repurposing. Agencies are required to provide 'accurate, relevant and useful information' but are not consistently doing so.

Recommendations

By December 2019, Property NSW should:

4. improve the data held on government owned and leased properties by combining and automating data feeds to construct a single, consolidated and accurate whole-of-government property data set.

3.1 The Government Property Register is incomplete and includes out of date information

Property NSW is responsible for managing the GPR

Under the Memorandum, Property NSW is responsible for managing the GPR. However, Property NSW asserts it is not directly responsible for keeping the GPR up-to-date or accurate, as neither the *Property NSW Act 2006* (the Act) nor the Memorandum explicitly instructs it to do so. They further assert that it is the responsibility of other agencies to maintain the accuracy and completeness of their listings in the GPR. It is true that the GPR cannot be kept up-to-date if it is not populated with information directly by agencies, as Property NSW is not in a position to do this itself.

Property NSW advises the GPR is accurate insofar as it reflects the NSW register of land titles, from which it receives a direct feed. Property NSW notes that the NSW register of land titles does not contain any information on unregistered properties, and concedes that both this information and property values are incomplete in the GPR.

The Act states that Property NSW must 'establish and maintain a register' and the Memorandum states that Property NSW must 'assume responsibility' for the GPR. Property NSW note that neither document specifies that the GPR must be accurate or up-to-date. The only document that specifically states that the register should be complete, up-to-date and a 'single source of truth' is the Property Asset Utilisation Taskforce report (2012).

Agencies are not supplying the information needed to update the GPR

Property NSW uses multiple information sources when making decisions on asset recycling and repurposing, and in property purchases and sales, as the GPR cannot be relied upon alone.

The Memorandum requires NSW Government agencies to provide 'accurate, relevant and useful information' to populate the GPR, but they are not always supplying the required information to Property NSW. There is no disadvantage to agencies if they do not comply.

Many agencies have not recently updated their relevant property details in the GPR, and only one cluster of agencies has provided complete valuation data for all of its properties. Valuation data is one of the items specifically mentioned in the Memorandum. It is important to note that where an asset is identified for disposal, an independent valuation is sought to determine the property's current value. NSW Treasury paper TPP14-01 requires land and buildings to be valued at least every three years with the exception of land and buildings under infrastructure. Property NSW

reports that most of the property assets registered in the GPR are land assets. Exhibit 1 shows the year of the most recent update to the valuation data in the GPR by cluster.

Exhibit 1 – Dates of agency up dates to valuation data in the GPR by cluster

Cluster	Date of most recent property valuation in the GPR
Education	2014
Family and Community Services	2015
Finance, Services and Innovation	2016
Health	2016
Industry	2016
Justice	2015
Planning and Environment	2016
Premier and Cabinet	2013
Transport and Infrastructure	2017
Treasury	2014

Source: Property NSW, Audit Office analysis as at 9 May 2018.

Total property valuations are missing for more than half of the properties listed in the GPR and many other items are also incomplete. The quantity and type of missing data differs from agency to agency. For example, 19 out of 168 government entities in the GPR are incorrectly named, and 10 cannot be clearly identified. Property NSW reports that it is currently investigating a solution to this issue by updating agency names in the GPR using an automatic feed.

In June 2018, the Audit Office compared property listings for three agencies' asset registers to the entries on the GPR and found that:

- one agency was missing ten property assets, worth less than \$1 million
- another agency had 2,400 properties on its asset register which are missing from the GPR
- the third agency has 675 properties listed in the GPR, but only two are mentioned in the agency's financial statements.

These findings suggest that the data sources that Property NSW is using to supplement the GPR are insufficient to create a complete picture of the NSW Government's property portfolio.

According to the Taskforce's report, detailed property information is essential for effective whole-of-government strategic asset planning and for the maintenance of property assets within the government portfolio.

Information for the GPR is provided by agencies and supplemented with data from other NSW Government systems. Property NSW reports the data sources are:

- Crown Land Information Database
- Integrated Property Warehouse
- Information Titling System
- Spatial Data Warehouse.

Direct feeds from these data sources are used to populate the GPR. Relevant data items are added automatically where possible but, where an item cannot be added automatically to the GPR, it must be manually verified and included. From 2013 to April 2018, 32 per cent (105,424 items) of the relevant data available in these systems needed to be manually added into the GPR. Property NSW has been actively working to improve the automatic addition of data into the GPR since 2016. In addition, Property NSW acknowledges that the functionality of the GPR would be improved if it were expanded to include unregistered property interests.

Property NSW could more proactively follow-up with agencies to update the register

When a property is purchased or sold, agencies are sent an automatically generated email reminding them to check that the information has been updated accurately in the GPR and to correct it if necessary. Property NSW does not follow up on whether this is done and argues that it is not necessary for it to do so.

Property NSW does not reconcile the GPR with agency property asset records and argues that it is the responsibility of agencies to maintain the accuracy and completeness of their entries in the Government Property Register. Property NSW advises that it has provided assistance with reconciliation to a small number of agencies that had large amounts of data to be up dated.

Starting in 2014, Property NSW has issued an annual report to each agency notifying it of any discrepancies between the GPR and the agency's own records. Agencies are expected to correct these inconsistencies and ensure that both the GPR and their titling records are correct. The GPR sometimes requires manual updating, which would be time consuming and resource intensive for many agencies, especially agencies with a large number of properties.

The collection of accurate data may be further compromised if agencies are not sure what data to provide. Between 2013 and 2016 Property NSW sent letters to agencies specifying different data items required in each year. Property NSW stopped sending these letters in 2016, but reports that it intends to issue letters again in the future and acknowledges that these letters could be improved with a more prescriptive explanation of the information required from agencies.

The Taskforce's report proposed incentives for agencies to provide updated information but these are rarely used

The Taskforce's report established an 18-month moratorium period (ending 30 June 2014) during which all NSW Government agencies were required to work with Property NSW to ensure that their property asset ownership data was complete in the central database. In addition, the report detailed five incentives that Property NSW could employ to encourage agencies to work collaboratively with Property NSW. These include:

- assisting agencies with their capital planning and step-in rights with respect to office and generic properties in situations where Property NSW deems the property specific elements of agency capital plans to be inadequate
- allowing agencies to retain net proceeds after a sale if the property value is listed in the GPR
- step-in rights, subject to government approval, where utilisation or value is not being maximised, after 30 June 2014.

Property NSW has provided some limited evidence of the use of these incentives in some situations. For example, Property NSW:

- reports that it has assisted agencies with their capital planning, but its involvement in the creation of these plans is not clear
- until 2016, sent annual letters to agencies detailing the data items that agencies were expected to provide each year
- sends automatically generated emails reminding agencies to check the information has been updated accurately in the GPR and to correct it if necessary when a property is either purchased or sold, but does not follow up on these messages
- reports that it would not keep the difference between the original valuation and the actual sale price when a property is sold
- reports it has employed step-in rights, but could not provide any evidence of this.

Property NSW is developing another information system

Property NSW advises that it is developing a new system to work alongside the GPR which will contain information from other parts of Property NSW that are currently kept separately. The Government Property Performance System (GPPS) is intended to function as a whole-of-government information system, although Property NSW report that it is not an asset management system or a register of government property. This system is intended to facilitate reporting on whole-of-government property KPIs and enable the analysis of the NSW Government's property portfolio, but Property NSW reports that it will not replace the GPR.

Property NSW states that this system will have an expanded set of data sources compared to the GPR and it is expected that it will have improved automated matching capabilities which should reduce the amount of manual updating required. The GPPS is intended to include data from other parts of Property NSW and is also intended to access data directly from other agencies' electronic property records, although agencies will have to agree to Property NSW having access to their systems. In June 2018, Property NSW launched a pilot version of this system, using a reduced number of KPIs and data from a small number of clusters. The KPIs are:

- increased capital recycling
- management of maintenance expenditure and condition of the portfolio
- descriptive metrics.

Property NSW reports that it expects to have the GPPS functioning by June 2019.



4. Transparency in decisions



Property NSW documents the outcome of decisions about relocations, lease renewals, and utilisation but is unable to provide evidence of how these decisions are reached. Property NSW is also unable to provide evidence of documented guidance for its staff on how decisions should be made. Whilst some level of subjectivity will play a part in such decisions, the lack of documentation and guidance raises issues of consistency, accountability and transparency in decision-making. Property NSW states that it makes decisions based on whole-of-government outcomes rather than equitable and consistent outcomes for client agencies, which is inconsistent with the criteria it reports that it uses when making decisions about leases and relocations.

Recommendations

By December 2019, Property NSW should:

5. document and communicate to stakeholders how its assessment criteria inform key decisions including agency relocations, lease renewals and rectifying under-utilisation
6. include customer satisfaction measures in its annual reports and reviews, in accordance with the requirements set out in the Premier's Memorandum M2012-20
7. improve record-keeping and compliance with the *State Records Act 1998* and the Department of Finance, Services and Innovation Records Management Policy.

4.1 Documentation and transparency of decision-making could be improved

The process used by Property NSW to reach decisions is not transparent to all stakeholders

Property NSW records the outcome of decision-making processes for renewing or establishing new leases for commercial office property, and lists the criteria it employs as:

- overall financial outcomes for government
- utilisation
- rent
- incentives
- relocation costs
- lease tails including make-good obligations
- future accommodation strategies
- service delivery requirements.

However, Property NSW does not document how it applies these criteria when making decisions. This information is entered into a template in the Leased Accommodation Request system and the outcome is recorded, but their evaluation against the criteria is not communicated to agencies.

While some level of pragmatism is necessary – taking into account the agencies' requirements, cost and benefits of differing lease options, and service delivery requirements – the lack of documentation and guidance for Property NSW staff raises risks around the consistency and transparency in decision-making. Property NSW states that it makes decisions based on whole-of-government considerations, unless directed to do otherwise at the Ministerial level, rather than prioritising equitable and consistent outcomes for client agencies.

Property NSW reports that improvements in asset utilisation can be made by:

- backfilling existing leased properties
- reducing the amount of leased floorspace
- relocating agencies.

Again, the choice of response is recorded but Property NSW is unable to provide any guidelines or documentation detailing how this choice is made. Property NSW acknowledges that it does not have structured documentation or an explicit methodology for the assessment of lease proposals.

Property NSW's record keeping is poor

Property NSW's record keeping is inconsistent and many divisions do not have policy documents, procedures or guidelines. Property NSW acknowledges this is an ongoing issue and reports that it has started a policy harmonisation project to review all policies and to make them available on their intranet. Property NSW stated that the use of automated processes, such as the Leased Accommodation Request system, reduces the amount of documented procedures as they are directly programmed into the system. This does not, however, provide transparency or clarity to stakeholders.

The lease decision is made in consultation with agencies and the lease must be signed by both the client agency and Property NSW. However, four out of eight client agencies we spoke to reported that they have had little choice but to sign leases, as they need office accommodation to continue to operate.

Property NSW is actively relocating government agencies for the Decade of Decentralisation

Property NSW works to arrange agency relocations outside the Sydney CBD, in line with the NSW Government Decade of Decentralisation policy. During the Decade of Decentralisation, the NSW Government intends to reduce CBD office space by 100,000m² by moving public service jobs out of the Sydney CBD and into Parramatta, Liverpool and Penrith, with the intention of stimulating growth in these areas and generating long-term employment opportunities.

Property NSW reports that it has been focussed on Parramatta as the primary site for relocations to reflect its importance as the second CBD under the Decade of Decentralisation policy, and as a high growth area under the Greater Sydney Region plan. Between 2011 and 2017, Property NSW arranged 144 agency relocations to 26 different locations, including 14 moves to Parramatta. The relocations to Parramatta involved moving 1,200 individuals out of the CBD and reduced the amount of floor space occupied by these agencies by 18,861m², more than any other location outside the City of Sydney.

Agencies identified for relocation under the government's Decade of Decentralisation policy are offered the opportunity to provide a business case to stay in the Sydney CBD. Property NSW advise that cost savings and the impact on agency service delivery are taken into consideration when moving agencies out of the Sydney CBD. The outcome of this process is recorded but we are unable to assess the effectiveness of this decision-making process as the assessment of these criteria is not documented.

Property NSW would be better able to demonstrate its efficiency if it reported its transaction fees publicly

In order to cover its costs, Property NSW agrees transaction fees with client agencies before commencing work on property transactions. Property NSW revised its fee schedule in September 2017 to increase the accuracy of fees charged to client agencies following a review. Property NSW could be more transparent in reporting its costs of service to clients, as well as benchmarking this and reporting it publicly in its annual report. In addition, some client agencies report that Property NSW does not recognise there may be further costs arising from delays in completing projects, or lease negotiations which the client agencies must pay.

Property NSW does not report on all its target KPIs

Under the Memorandum, Property NSW is accountable for achieving:

- strong customer satisfaction
- benchmarked financial returns on its property portfolio and investments
- effective real property asset utilisation and service quality
- competitive cost of service
- added value in client real property asset repositioning developments.

In its annual reviews, Property NSW reports achievements with respect to asset utilisation, property repositioning and returns on its property portfolio. Property NSW also reports key metrics to the Minister for Finance, Services and Property on a monthly basis including utilisation, rental outcomes, properties sold, and CBD office space reduction.

The Memorandum requires both strong customer satisfaction and competitive costs of service but neither of these items have been reported publicly by Property NSW. During this audit, we spoke to client agencies regarding their experience with Property NSW. Seven out of eight client agencies said they had experienced delays in completing transactions which impacted on their business while six out of eight client agencies said Property NSW did not understand, or did not attempt to understand their business. In July 2016, Property NSW conducted a customer satisfaction survey which rated their service as 5.2 out of 10. Property NSW has recently been working to improve customer service and this is reflected in improved survey results for customer satisfaction in mid-2018.

Property NSW advise that their operational costs are included in their financial reports but we note that these figures do not include any information on how these costs are competitive, as required by the Memorandum, or reference any benchmark that could be used to make a comparison.

Section two

Appendices



Appendix one – Response from agency



Property NSW
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Margaret Crawford
Auditor-General
Audit Office of New South Wales

Via email: Margaret.Crawford@audit.nsw.gov.au

Dear Ms Crawford

Re: Property NSW Property Asset Utilisation: Performance Audit Final Report November 18

Thank you for sharing the Final Performance Audit Report dated November 2018 (**Report**) and for allowing Property NSW (**PNSW**) the opportunity to respond.

PNSW's response to the Audit Office's recommendations is attached as appendix 1.

The Report is not correct in a number of areas, the description of our role is not consistent with the relevant legislation and government policies and the Key Findings do not assess the performance of PNSW against its role, objectives or KPIs, as summarised below.

1. The Conclusions of the Report are not consistent with the Scope and contain inaccuracies

a. The Scope of the Report

The Executive Summary of the Report provides that the scope of the audit was to assess whether PNSW is effective in the management and utilisation of NSW Government **owned and leased commercial office** and whether the Government Property Register (**GPR**) is accurate and up-to-date. However, the Conclusion refers to "...PNSW has not comprehensively reviewed many agency portfolios to help agencies identify assets...that could be better utilised or recycled...". This statement is incorrect and outside the original scope of the Report as PNSW's mandate is limited to commercial office property and it has conducted many reviews since its inception.

While PNSW works diligently with agencies and government to improve the management of the Government property portfolio, PNSW does not have a mandate or role to undertake many of the Audit Office's proposed actions. For example, PNSW does not have a role to make strategic decisions about the use of public schools, hospitals or roads, which are by their nature property assets.

b. First, PNSW has not reviewed many agency portfolios

The Conclusion states that "...PNSW has not comprehensively reviewed many agency portfolios to help agencies identify assets...that could be better utilised or recycled...". This statement is incorrect. For example, in May 2015, PNSW completed the Property Asset Utilisation Report II (**PAUT II**) which included a review of global best practise property asset management practices for government entities and a review of the entire NSW Government property portfolio (using GPR as source data). This Report has been provided to the Audit Office.

www.property.nsw.gov.au
Property NSW | ABN 91 840 597 406
Place Management NSW | ABN 51 437 725 177
Teacher Housing Authority NSW | ABN 50 007 468 870
Waste Assets Management Corporation | ABN 56 784 733 957

PNSW acknowledges that the Report has mentioned some of the portfolio reviews conducted by PNSW such as TAFE, Crown Lands, Place Management, Property NSW and various geographic reviews however the Report has not mentioned the portfolio reviews conducted by PNSW as part of the PAUT II process for the Health, Education, Industry and Transport clusters.

At 30 June 2018, the NSW government owned \$160B¹ of land and buildings, the vast majority of these assets are held on the Balance Sheets of agencies other than PNSW, which owns only c.\$940M or 0.6% of the total government property assets. These assets are used to support critical infrastructure including schools, hospitals, roads and rail. As PNSW has explained to the Audit Office, given the ownership and current use of the vast majority of assets, as intimated in the current policies (Premier's Memorandum 2012-20 (PM2012-20) and many other government decisions), PNSW must work collaboratively and with agencies to undertake property reviews. The Audit Office's statement also ignores the fact that over the past two years PNSW has completed organisational and portfolio reviews of almost every cluster and agency in the government as part of the implementation of the PAUT II (detailed below).

c. Second, The Government Property Register (GPR) is not actively maintained

The Conclusion states that the GPR is not being actively managed. This statement is incorrect. The GPR is actively managed and is regularly updated with automated electronic feeds of the most recent transaction data, including acquisitions and sales, from Land Registry Services. See further comments below on the GPR.

d. Third, PNSW decisions are not documented and transparent

The Conclusion states that PNSW's decisions are not well documented and not transparent. Based on the presumption that this relates to leasing decisions, it is important to note that lease decisions are not made unilaterally by PNSW and they are made in consultation and in agreement with the agencies which then sublet the relevant premises. This point was made explicitly in a meeting between the Secretary for the Department of Finance, Services and Innovation, Mr Martin Hoffman, myself and representatives of the Audit Office on 6 September 2018.

Further, PNSW has in place procedures and systems relating to all lease decisions and specifically, an online system where agencies submit accommodation requests via an accommodation request form. In collaboration with agencies, PNSW assesses leases against certain criteria including market rents, location, space utilisation, agencies' service needs and lease terms. Prior to entering into a lease, agencies are requested to confirm in writing their financial commitment to the sub lease of the relevant premises and that the lease terms are acceptable (for new leases). In addition, where the Minister is required to approve leases, there is a standard set of precedent documentation which includes evidence that the relevant lease satisfies the above criteria (also detailed further below in section 2(a)). Examples of the documentation have been provided to the Audit Office.

e. PNSW does not know how many commercial properties are yet to be vested

The Conclusion states that PNSW does not know how many commercial properties are yet to be vested with PNSW. PNSW holds records of the commercial properties in the NSW Government property portfolio and has estimated the value of all assets in the portfolio. Many of these assets have not been vested because they are used for service delivery and / or are located on sites where critical other infrastructure and services are delivered. For example, at the time of completion to the PAUT II Report in May 2015, General Government Agencies held 424 assets classified as "Office, Building and Government Services" worth an estimated \$887M, the main holdings split across the following key agencies:

¹ Total State Sector accounts 2017/18 audited by NSW Audit Office

Table 1: Office Assets held by Government agencies (May 2015)		
Agency	Value (\$m)	Number
PNSW	340	133
Police and Justice	113	62
Trade & Investment	120	64
Transport	224	125

As at 30 June 2018, General Government Agencies held 387 assets classified as "Office, Building and Government Services" worth an estimated \$1.3B, the main holdings split across the following key agencies:

Table 2: Office Assets held by Government agencies (June 2018) ²		
Agency	Value (\$m)	Number
PNSW	504	151
Police and Justice	26	59
Trade & Investment	25	22
Transport	188	107

The reference of cabinet submission for PAUT II report has been provided to the Audit Office. The number of properties and their classification was sourced from the GPR.

2. The Key Findings of the Report

a. PNSW is actively relocating government agencies for the Decade of Decentralisation but could be more transparent about the process / PNSW does not document how it assesses business cases.

PNSW is **not** relocating agencies for the Decade of Decentralisation (DoD), the NSW Government is relocating agencies as part of the DoD policy and all decisions regarding relocating agencies under the policy are made by the NSW Government. All Agencies are consulted and have the opportunity to provide comments on such decisions.

Under the DoD policy, the government has relocated 1,872 FTE from the Sydney CBD to Western Sydney and reduced office space in the CBD by approximately 72,800m² with a further 52,700m² committed space reductions over the next two years.

Upon expiry of CBD leases, if an agency seeks to remain in the Sydney CBD, the agency may prepare a business case. All decisions regarding new and the renewal of CBD leases are made by the Minister of Finance, Services and Property (**not** PNSW). PNSW prepares advice to the Minister to allow the Minister to assess whether the agencies need to remain in the CBD and PNSW consults with agencies in the preparation of its advice, including assessment of any such business cases (if provided) and consideration of a number of factors, including the following criteria:

- **Service Need:** the agencies must have a clear service delivery need to remain in the CBD
- **Rent:** Rents targeted to be at or below market rent (across the portfolio)
- **Market Evidence:** Market evidence of rents must be provided
- **Utilisation:** Must be at or below target of 13m² / FTE
- **CBD Strategy:** the lease must be consistent with the CBD Accommodation Strategy
- **Term:** Lease term must be consistent with the Strategy
- **New Leases:** Generally new leases target Activity Based Working fit outs and utilisation rates of c.10m² / FTE

² Changes in asset numbers across clusters reflect impacts of machinery of government changes since May 2015. June 2018 asset values were derived from GPR and internal PNSW data.

The Audit Office has been provided with examples of the above documentation.

b. PNSW conducted limited portfolio reviews between 2013 and 2017

The Key Findings state that between 2013 and 2017, PNSW has completed one full review and four portfolio reviews but these were limited in scope and depth.

Please note comments above in section 1(b) regarding PNSW's role and policies and that it must work collaboratively with agencies to review the \$160B of land and buildings currently held on the Balance Sheets of these agencies.

This finding is incorrect and ignores that portfolio reviews cannot and should not be considered in isolation of the suite of policies and incentives that have been put in place over the past five years to drive asset recycling, improved asset utilisation and the government's asset recycling results during this period. The policies and incentives put in place include implementing the recommendations of the PAUT Report, the PAUT II Report, the Asset Recycling Report, the Property Infrastructure Policy, the application of the PAUT II Report to the Education, Health, Transport, Industry and Finance Clusters and a range of incentives to encourage agencies to recycle assets (set out in PM2012-20).

The NSW Government has achieved c. \$10B of asset recycling over the past 6 financial years and PNSW has contributed c. \$500m per annum. PNSW's detailed reconciliation of assets sold has been provided and discussed with the Audit Office.

It is inconsistent to infer that PNSW has not been effective in improving the utilisation of the property assets because it has not undertaken portfolio reviews given the significant policy reform and asset recycling results to date.

c. PNSW does not know how many office properties have not been vested and ...does not have a complete picture of how many underutilised assets exist ... limiting its ability to manage the commercial office portfolio effectively

These above statements are incorrect and confuse PNSW's role in managing the NSW Government's owned and leased commercial office portfolio and PNSW's role in advising the NSW Government in relation to its entire property portfolio, noting less than 0.6% of the Government's \$160B of property assets are stand-alone commercial office.

PNSW is responsible for managing the government's owned and leased commercial office portfolio. In relation to the office assets owned by government, see the comments above in section 1(e).

In relation to the performance of PNSW management of the leased and owned office portfolio, note:

- In 2014, the CBD Office portfolio rents were 18% above the Prime Benchmark and in 2018 the portfolio was 34% below the same benchmark, representing the effective management of the portfolio out of Prime assets into A grade assets and relocation to the Southern CBD, saving an estimated \$80M when compared to the industry benchmark;
- For FY 18/19, 92% of new lease transactions are at or below market benchmarks;
- Current vacancy of total portfolio is 0.66% consisting of 0.08% of the leased portfolio and 0.58% of the owned portfolio;
- The targeted utilisation rate on new leases in FY 18/19 is 10m2/FTE
- The portfolio utilisation rate has continued to trend down and is currently at 14.3m2/FTE

d. The GPR is incomplete and some information is out of date. This limits PNSW ability to use it as a complete and accurate picture

The Report also states that according to 2012 PAUT Report, the GPR was intended to be a single source of truth to assist with asset retention and disposal decisions....

The 2012 PAUT Report is not a government policy. The government policy regarding GPR is set out in the Property NSW Act (Act) and PM2012-20:

- Section 21A(5) of the Act provides that PNSW must cause to be kept a register which includes details furnished in accordance with the Act
- Section 21A(2) of the Act specifies the information which must be provided to PNSW
- PM2012-20 merely provides that agencies must cooperate with PNSW in mapping all real property data to the GPR and with relevant useful and accurate information.

PM2012-20 or the Act does not require GPR to be "..... a single source of truth...." and GPR does not replace agencies' obligations to maintain their asset registers in accordance with accounting standards.

Further GPR is an accurate and up to date record of all government property, including over 288,000 properties where agencies own a legal or beneficial interest which have been registered and recorded on the Land Registry Services titling system.

PNSW acknowledges and agrees that the GPR could be improved if all agencies updated the register to include latest valuation data, however, this alone does not stop PNSW using GPR as one of a number of tools to undertake portfolio reviews and assist agencies to improve asset management (as evidenced by the PAUT II Report and the Property Infrastructure Policy (PIP)).

e. PNSW processes are not well documented and not transparent to stakeholders

See comments above in sections 1(d) and 2(a).

The Report further notes that ".... four out of eight client agencies we spoke to reported that they have little choice but to sign leases, as they need office accommodation to continue to operate....". It appears that the Audit Office has based a finding regarding "transparency" of decision making on 4 anecdotal conversations and, given that PNSW undertakes approximately 300 transactions each year, we would expect this conclusion to be based on an evidence based assessment of our systems, processes, results, performance against our KPIs and reporting. Further, there seems to be no logical correlation between an anecdotal conversation that an agency may choose to remain in a site because "...they need the accommodation ..." and any findings relating to transparency of how the agency and PNSW jointly came to make that decision.

3. The Audit Office and the Report fail to understand or articulate PNSW's role

The Audit Office has failed to understand PNSW's role as set out in the Act, PM2012-20 and the various government decisions and new policies that have been introduced by the relevant Ministers' for Finance, Services and Property and implemented by PNSW since the establishment of PNSW in 2013.

While PNSW works diligently with agencies and government to improve the management of the Government property portfolio, PNSW does not have a mandate or role to undertake many of the Audit Office's proposed actions including the ability to make strategic decisions about the use of non-commercial office assets (e.g. public schools, hospitals or roads, which are by their nature property assets).

PNSW's role is clearly set out in a number of documents, which have been provided to the Audit Office and are publicly available, including:

- the objectives of PNSW are to improve operational efficiencies in the use of government property, manage property, and provide **advice and support** to within government on property matters (section 10 of the Act);
- the functions of PNSW include to hold and manage property, develop property, share facilities, provide services and **provide advice to the Minister** on government properties (section 11 of the Act);
- PNSW has a role in **considering property strategic management issues** and agencies are required to work with PNSW in preparing their Total Asset Management Plans (PM2012-20).

4. The Report does not consider the government reform led by PNSW

Notwithstanding the limitations in PNSW's role across government, PNSW has continued to improve the policies that support management of the Government property portfolio.

PNSW acknowledges that the Report has briefly noted some of the policy reform led by PNSW such as the DoD and PIP policies however the Report does not consider the following significant on-going reform that the government has continued to undertake in relation to property asset management nor assess PNSW's role or performance in this reform, including:

- Implementing the Recommendations of the PAUT Report;
- Development of the new Whole-of-Government asset management policy (PAUT II);
- Application and implementation of the PAUT II policy to major property-owning Clusters, including Education, Health, Transport, Industry and Planning;
- Introduction of PNSW monthly and annual reporting against a comprehensive set of KPIs, many of which have been benchmarked to industry best practice;
- Development and introduction of the Whole-of-Government Office Accommodation Policy;
- Integration of six separate asset owning entities and a number of property and related service providing agencies (including Sydney Harbour Foreshore Authority, Waste Assets Management Corporation, Teacher Housing Authority of NSW, Police Housing, Public Works Advisory and Valuation Services)

Details of these reforms have been provided to the Audit Office.

5. The Report does not assess the performance of PNSW against objective KPIs

The Key Findings of the Report do not assess the effectiveness of PNSW against either its own KPIs or any other independent verifiable benchmarks or standards. PNSW acknowledges that the Report has briefly mentioned about some of the KPIs to assess the effectiveness of PNSW in managing commercial properties:

- **Asset Recycling:** PNSW has delivered c. \$500m of asset sales each year for the past five years and the government has delivered c. \$10B of asset sales over the past 6 years
- **Utilisation:** the utilisation of office space has improved from 16.5 m² / FTE to 14.3 m² / FTE over the 5 years;
- **CBD Office Space Reduction:** PNSW manages the reduction of CBD office space through a combination of office space reduction and relocation of public service jobs to metropolitan and regional areas of NSW. PNSW is on track to meet the reduction target of 100,000sqm by December 2019.

In addition to above KPIs, PNSW also reports the below KPIs to monitor and measure its performance in effectively managing commercial office assets:

- **Pipeline Reporting:** PNSW also reports its pipeline of future assets sales (which are kept confidential for commercial reasons);
- **Rent Benchmarking:** PNSW has a target that at least 75% of new leases are at or below market rent, which it has achieved for the last two years;
- **Vacancy:** lease portfolio vacancy rates, currently well below 1%;
- **Developments and Capital Projects:** PNSW manages projects with an estimated end value of over \$10B of capital projects

PNSW reports relating to these KPIs have been provided to the Audit Office. A summary of PNSW's KPI reporting is attached as appendix 2.

Yours sincerely



Brett Newman 4/12/18
Deputy Secretary Property & Advisory Group

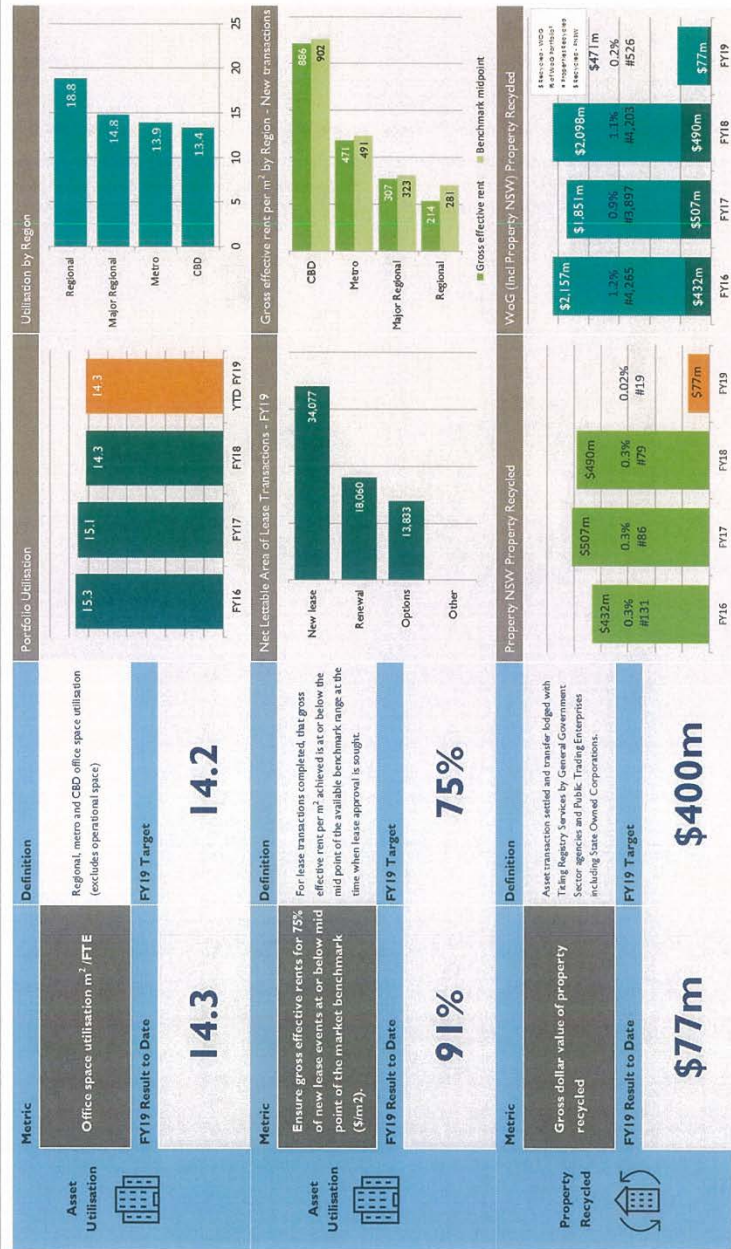
Appendix 1

PNSW's response to recommendations	
Recommendation	PNSW's response and proposed actions
By December 2019, Property NSW should:	
1. combine the results of property portfolio reviews to produce a Whole-of-Government picture of the NSW Government property portfolio	<p>Partially accepted.</p> <p>In accordance with the Property Infrastructure Policy (PIP), PNSW will conduct a rolling program of reviews of agencies' real property portfolios to identify potentially surplus or underutilised property that may no longer be required for service delivery.</p> <p>PNSW will combine the results of the endorsed and prioritised property portfolio reviews, noting that the:</p> <ul style="list-style-type: none"> • results must remain within government due to commercial and operational sensitivities as opportunities identified may relate to real property assets that have not been declared surplus by government; • combined results of the property portfolio reviews will not provide a Whole-of-Government picture of the NSW Government property portfolio as - <ul style="list-style-type: none"> o the program and timing of reviews is determined by government priorities and therefore the combined results will only relate to reviews completed at a point in time; and o the scope of the reviews is focused on a select number of sites and not all Clusters real property assets.
2. devise a strategy and plan to recycle or repurpose under-utilised properties using a Whole-of-Government picture of the NSW Government property portfolio	<p>Partially accepted. This is already existing under the suite of PNSW (set out above) and Treasury policies relating to asset management.</p> <p>Under PM2012-20, agencies are responsible for identifying vacant, underutilised or surplus real property assets for repurposing or recycling. In accordance with Property Infrastructure Policy, PNSW supports this process through the portfolio review program.</p> <p>PNSW will continue to work with agencies to develop strategies to recycle or repurpose surplus assets based on Whole-of-Government priorities and, where required, seek endorsement from the Property Asset</p>

		Allocation Committee (PAAC) and approval from Government.
3.	develop and report on indicators for progress in reducing the number and value of under-utilised properties at the Whole-of-Government level, referencing progress against an accurate baseline stocktake	<p>Accepted in Principle</p> <p>PNSW is currently reporting on utilisation performance of government's commercial office portfolio on an annual basis (see PNSW Annual Report).</p> <p>Consistent with government approvals related to PAUT II policy and the application to relevant Clusters, PNSW is developing a Whole-of-Government property information dashboard, that will report on real property KPIs, including real property asset utilisation performance.</p> <p>Note that government has not approved PNSW to report on the number and value of underutilised properties at either a Whole-of-Government or Cluster level. Subject to further NSW Government decisions on roles and powers of PNSW (which are currently not in place), PNSW may develop additional reporting to address this.</p>
4.	improve the data held on government owned and leased properties by combining and automating data feeds to construct a single, consolidated and accurate Whole-of-Government property data set	<p>Accepted in Principle</p> <p>PNSW will continue with the program underway to develop and improve the Whole-of-Government reporting including ERC approved Whole-of-Government KPIs and data from clusters, agencies and other government sources.</p> <p>No Government policy exists to empower PNSW to construct a single, consolidated and accurate Whole-of-Government property data set and the current GPR is unable to be developed into an automated single consolidated Whole-of-Government property data set.</p>
5.	document and communicate to stakeholders how its assessment criteria inform key decisions including agency relocations, lease renewals and rectifying under-utilisation	<p>Accepted</p> <p>PNSW has a well-established process for documenting and communicating to agencies on rationale for key decisions. The LARS system documents the rationale for all accommodation decisions. PNSW will continue to document, communicate and engage with agencies in this regard.</p>
6.	include customer satisfaction measures in its annual reports and reviews, in	Accepted

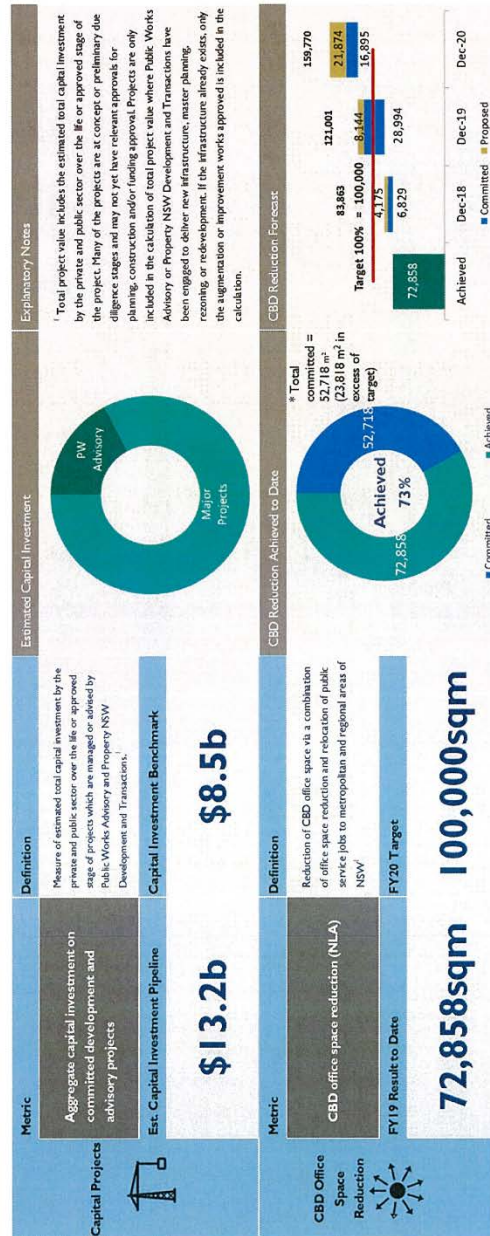
	accordance with the requirements set out in the Memorandum, M2012-20	PNSW will include these measures in its Annual Reporting.
7.	improve record-keeping and compliance with the State Records Act 1998 and the Department of Finance, Services and Innovation Records Management Policy	Accepted PNSW will continue with its record keeping improvement processes in line with the provisions of DFSI Records Management Policy.

Key Performance Indicators



1. For all lease transactions agreed in FY19 YTD, the utilisation rate is 10.9m²/FTE. Also excludes leased properties with a vacant lease till < 12 months.
 2. W&G Portfolio includes land and buildings, plant and equipment and infrastructure systems as per the General Government balance sheet as at 31 May 2018.
 3. KPI Methodology updated November 2017 with the following changes:
 A. Midpoint within market range used as the benchmark rather than the upper end of the range. Transactions weighted by \$ (delegation) rather than area. Effective rent KPI changed from at or 80% of new lease events to 75%.

Key Performance Indicators





Appendix two – Audit Office response

This report makes key findings in three areas relating to Property NSW's management of commercial office property: the identification and management of commercial office property, the management of the Government Property Register, and the transparency of processes to reach decisions regarding leasing. We note that Property NSW has accepted, partially accepted or accepted in principle the recommendations made in respect to the findings in these areas.

However, Property NSW's response at Appendix 1 does not accurately convey the content and analysis in this report. We provide clarification on some key points below.

The scope of this audit

Property NSW has questioned the scope of this audit, and whether some activities we examined are within its scope.

The scope of this audit is set out in full on page 33 of this report, and includes the Government Property Register and whether Property NSW is effective in its management of NSW owned and leased commercial office property. The scope includes agency portfolio reviews as these should help identify commercial office properties that need to be vested to Property NSW, as required by the Premier's Memorandum M2012-20 (pp. 1, 2, 3, 7, 8).

This audit report does not suggest that Property NSW's obligations to manage commercial property includes special purpose properties such as schools, hospitals or roads. This report states that the focus of the audit was on commercial office property (p.1).

Property portfolio reviews

Property NSW has questioned this report's findings regarding the number and depth of its reviews of agency property portfolios.

Premier's Memorandum M2012-20 requires Property NSW to conduct 'regular and ongoing' reviews of agency real property portfolios. This report finds that activity relating to this requirement was limited between 2013 and 2017 (pp. 3, 7).

Property NSW's response states this report does not mention that other portfolio reviews have been conducted since 2017. It does, at page three. At page eight the report also provides a detailed overview of how this process will be implemented going forward.

The Government Property Register

Property NSW's response notes that the *Property NSW Act 2006* provides that Property NSW must maintain a register of government property and that the Government Property Register (GPR) is accurate with respect of the NSW register of land titles. These facts are acknowledged on page ten of this report.

This report also refers to the Property Asset Utilisation Taskforce's findings regarding the need for a central register of property. It notes that the Taskforce report envisaged this register as a 'single source of truth.' It does not state that this is currently government policy.

That said, as noted in this report, the GPR is out of date and inaccurate in several respects (p11).

Vesting of property to Property NSW

This report comments on the vesting of commercial office property to Property NSW because this is an important step in ensuring effective oversight and management of these properties. This report acknowledges that Property NSW knows how many properties were vested between 2012 and 2016 (p.8), but finds that Property NSW will not know how many properties remain outstanding until it has completed its reviews of all NSW Government property portfolios (pp. 2, 3, 8).

The tables provided on page three of Property NSW's response were not previously provided in response to our requests for information on how much commercial office property is yet to be vested to Property NSW. We note the source of information in these tables is the GPR. This report has concluded that the GPR is inaccurate and out of date in several respects (p11).

This report also concludes that commercial office property utilisation is trending down (p 2).

The Decade of Decentralisation policy

This report agrees that the Decade of Decentralisation is a NSW Government policy (pp. 3, 15).

This report also notes that Property NSW has arranged 144 agency moves to 26 different locations under the Decade of Decentralisation policy (p.15).

Transparency in decision-making

Property NSW's response states that 'lease decisions are not make (sic) unilaterally by PNSW.' This audit report does not suggest that decisions are made in this manner. It does state that 'the lease decision is made in consultation with agencies and the lease must be signed by both the client agency and Property NSW' (pp. 4, 15).

This report acknowledges that Property NSW records the outcome of decision-making processes. However, it also points out that Property NSW does not detail how and why decisions were made to its stakeholders. As a result, we conclude that there is limited transparency about decision-making processes for stakeholders (pp. 2, 4, 14, 15).

Acknowledgement of Property NSW's role in leading government reform

Property NSW's response states that this report fails to acknowledge 'government reform led by Property NSW'. Not all reforms listed by Property NSW as having been overlooked are directly relevant to the scope of this report.

That said, Property NSW's progress in implementing the Property Asset Utilisation Taskforce report findings, the 'PAUT II' policy and reporting on some KPIs are covered in some detail in this report.

Assessment of Property NSW's performance against objective KPIs

The audit report lists all the areas that Property NSW will be accountable for achieving under the Memorandum (p.1).

- The audit report details key performance indicators that Property NSW reports at the time of writing that are relevant to the scope of this audit (p.16). These include:
- asset recycling. The audit report notes that:
 - asset sales between 2012 and 2018 generated \$10 billion (p.1)
 - Property NSW has been responsible for selling approximately \$2 billion of these assets (p.1).
- utilisation. The audit report notes that:
 - asset utilisation has improved by approximately 14 per cent since 2012 (pp. 2, 8)
 - asset utilisation is now 14.3 m²/FTE (pp. 3, 8)
 - the current target for asset utilisation for new leases is 10m²/FTE (pp. 2, 8).
- CBD office space reduction. The audit report notes that:
 - 14 moves have been made to Parramatta, involving 1,200 individuals and reducing the floor space occupied by 18,861m² (p.15).



Appendix three – About the audit

Audit objective

This audit assessed whether Property NSW is effective in its management of NSW Government owned and leased commercial office property.

Audit criteria

We addressed the audit objective with the following lines of enquiry:

1. Is the Property Asset Register for the state accurate and up-to-date?
 - Agencies are complying with the *Property NSW Act 2006* and Premier's Memorandum M2012-20 in ensuring the Register is complete and accurate.
 - Property NSW effectively manages and monitors the Register, and enforces action against agencies, to ensure the Register is up-to-date and accurate.
2. Are all NSW Government owned and leased commercial office property assets being fully utilised to provide government services or meet long-term objectives?
 - Property NSW ensures all commercial office property assets owned or leased by the NSW Government are effectively utilised by government agencies, or are providing an appropriate financial return for the state.
 - Property NSW has developed plans to identify the best use of under- and un-utilised commercial office property, and ensures these are applied.
 - Property NSW has plans in place to identify commercial office property assets to be recycled and to ensure that these assets are recycled as quickly and efficiently as possible.
 - Property NSW works with agencies and other stakeholders to ensure the efficient and effective management of owned and leased commercial office property.

Audit scope and focus

In assessing the criteria, we checked the following aspects:

1. agencies and property assets covered by Premier's Memorandum M2012-20
2. M2012-20 requirements, and whether Property NSW and other government agencies are complying with it
3. if Property NSW is fulfilling its role as the government's central acquisition and disposal agency
4. the accuracy and completeness of the Property Asset Register
5. Property NSW's processes to ensure all owned and leased property assets are fully utilised and adequately maintained for its purpose
6. the identification and management of unutilised or under-utilised generic real property.

Audit exclusions

The audit did not:

- include specific purpose assets that cannot be easily sold or transferred to be used for other purposes (e.g. secure prisons, power stations)
- consider state-owned corporations property management
- consider the maintenance of property assets
- question the merits of government policy objectives.

Audit approach

Our procedures included:

1. Interviewing:
 - relevant Property NSW staff
 - property management staff in a selection of NSW Government agencies that are, or should be, working with Property NSW with a focus on those agencies that have a significant number of or value in generic property assets.
2. Examining:
 - legislation, government policies, directions and regulations, relating to Property NSW's role in managing owned and leased government property
 - communications from Property NSW to NSW Government agencies about the Property Asset Register, M2012-20, leasing, buying and recycling assets
 - Property NSW plans, policies and procedures for maintaining the Government Property Register
 - any relevant data pertaining to property assets
 - annual reports from clusters and other agencies detailing property assets
 - Property NSW plans, policies and procedures for ensuring property assets are fully utilised and recycling unutilised property assets
 - Property NSW plans, policies and procedures on real property assets including the efficient use of these assets and any reviews of agency property portfolios
 - reviewing any relevant internal and external reports
 - memorandums of understanding between Property NSW and other NSW Government agencies
 - reviewing questionnaires, customer surveys and other feedback from other agencies.
3. Analysing data:
 - pertaining to property assets
 - held by other agencies on real property assets, including the utilisation and recycling of property assets.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

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 Property NSW. In particular, we wish to thank our liaison officers and staff who participated in interviews and provided material relevant to the audit.

We would also like to thank other stakeholders that spoke to us and provided material during the audit.

Audit cost

Including staff costs, travel and overheads, the estimated cost of the audit is \$385,000.



Appendix four – Performance auditing

What are performance audits?

Performance audits determine whether state or local government entities carry out their activities effectively, and do 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 an audited entity, or more than one entity. They can also consider particular issues which affect the whole public sector and/or the whole local government sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in section 38B of the *Public Finance and Audit Act 1983* for state government entities, and in section 421D of the *Local Government Act 1993* for local government entities.

Why do we conduct performance audits?

Performance audits provide independent assurance to the NSW Parliament and the public.

Through their recommendations, performance audits seek to improve the value for money the community receives from government services.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, state and local government entities, other interested stakeholders and Audit Office research.

How are performance audits selected?

When selecting and scoping topics, we aim to choose topics that reflect the interests of parliament in holding the government to account. Performance audits are selected at the discretion of the Auditor-General based on our own research, suggestions from the public, and consultation with parliamentarians, agency heads and key government stakeholders. Our three year performance audit program is published on the website and is reviewed annually to ensure it continues to address significant issues of interest to parliament, aligns with government priorities, and reflects contemporary thinking on public sector management. Our program is sufficiently flexible to allow us to respond readily to any emerging issues.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team develops an understanding of the audit topic and responsible entities 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 audited entity, program or activities are assessed. Criteria may be based on relevant legislation, internal policies and procedures, industry standards, best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork, the audit team meets with management representatives 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 management representatives to check that facts presented in the draft report are accurate and to seek input in developing practical recommendations on areas of improvement.

A final report is then provided to the head of the audited entity who is invited to formally respond to the report. The report presented to the NSW Parliament includes any response from the head of the audited entity. The relevant minister and the Treasurer are also provided with a copy of the final report. In performance audits that involve multiple entities, there may be responses from more than one audited entity or from a nominated coordinating entity.

Who checks to see if recommendations have been implemented?

After the report is presented to the NSW Parliament, it is usual for the entity's audit committee to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee 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 received by the NSW Parliament. These reports are available on the NSW Parliament website.

Who audits the auditors?

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

The Public Accounts Committee appoints an independent reviewer to report on compliance with auditing practices and standards every four years. The reviewer's report is presented to the NSW Parliament and available on its website.

Periodic peer reviews by other Audit Offices test our activities against relevant standards and better practice.

Each audit is subject to internal review prior to its release.

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 PURPOSE

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.

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