Trevor J Seymour-Jones

*An Assessment of International Leading Practice in the Integrated Management of Public Sector Property Assets, and its Application to the Australian Public Sector*

Faculty of Architecture, Design and Planning
University of Sydney

A thesis submitted in partial fulfilment of requirements for the degree of Doctor of Philosophy

This is to certify that to the best of my knowledge, the content of this thesis is my own work. The thesis has not been submitted for any degree or other purposes.

I certify that the intellectual content of this thesis is the product of my own work and that all the assistance received in preparing this thesis and sources have been acknowledged.

Trevor J Seymour-Jones
September 2017
Acknowledgements

It would be remiss of me if I did not acknowledge, with great appreciation and gratitude, the belief, support and patience in this endeavour of my good friend and mentor, Dr David Leifer.

We first met in 2004 at a conference in Canberra with a particularly uninspiring theme of Property Management in the Public Sector. I noticed that we shared an addiction for cryptic crosswords and, on the first day, he seemed to be struggling with the puzzle in The Sydney Morning Herald. Thinking that it would be a good icebreaker, I introduced myself by presenting my completed crossword. This would be the only time that I would get the better of David's intellect!

We have been firm friends since, although I must have tested our friendship on a number of occasions with my frustration with academia, the realisation of how much I didn't know (and still don't know), and periods of sulky silence. I took the view that “you got me into this, so put up with it!”

It has been a wonderful experience to analyse and question the profession that I have practiced for nearly forty years. It has expanded my mind, and introduced me to some incredible people.

Thank you, David.

It is with much appreciation that I also acknowledge and thank Associate Professor William Martens, who served as my principal supervisor during the final stages of writing the thesis, and supported and guided me through this exercise with his advice, wisdom and understanding. Thank you, Bill.

I think it is customary to thank family for all that they are put through in such an undertaking. I now know that this is not just a hackneyed custom. At times, I found this to be a very lonely experience, and a test of motivation and stamina. There is no doubt that I would not have completed this work without the love, patience, support, encouragement, and pure bloody-mindedness of my wonderful wife Jane, and beautiful daughters, Olivia and Elizabeth, and son-in-law, Kevin. Thank you all, with my love.

September 2017
TABLE OF CONTENTS

ABSTRACT

1 Introduction ................................................................................................................. 7
1.1 The Property Asset Management Problem ............................................................... 7
1.2 The Strategic Property Asset Management Context ..................................................... 9
1.3 Thesis Background and Significance .......................................................................... 9
1.4 Theses Purpose and Aim ........................................................................................... 11

2 Research Method ....................................................................................................... 13
2.1 Qualitative Study ...................................................................................................... 13
2.2 Data and Information ............................................................................................... 13
   2.2.1 Literature Reviews ............................................................................................... 13
   2.2.2 Author’s Publications and Unpublished Articles and Papers ............................ 14
   2.2.3 Australian Public Sector Asset Data ................................................................ 14
   2.2.4 Empirical Evidence and Traditional Property Management Theory ............... 14

3 The Importance of Public Sector Property and its Management ............................... 15

4 Strategic Property Asset Management: the path to a public administration professional discipline ................................................................. 17
4.1 Introduction ............................................................................................................... 17
4.2 Property Management: The English Civil War, Thorncroft and Arnison .................. 18
   4.2.1 The English Civil War ......................................................................................... 18
   4.2.2 Thorncroft .......................................................................................................... 18
   4.2.3 Arnison ............................................................................................................... 20
4.3 Property Management: a professional discipline ....................................................... 21
   4.3.1 ‘Professions’, ‘the Professional’, and ‘Professionalism’ ...................................... 21
   4.3.2 The Property Management Profession ............................................................... 22
4.4 Corporate Real Estate: building organisational value .............................................. 23
4.5 Facility Management: people, work and place ......................................................... 28
4.6 Property Management, Corporate Real Estate and Facility Management .............. 29
4.7 Strategic Property Asset Management in the Public Sector ....................................... 30
4.8 Strategic Property Asset Management Definition .................................................... 33

5 Measurement of Performance in the Public Sector ..................................................... 35
5.1 The Public Service’s Contract with the Community .................................................... 35
5.2 Organisational Characteristics .............................................................................. 36
5.3 Empirical Evaluation ............................................................................................... 40
5.4 The Collection, Management and Use of Data ........................................................ 45
   5.4.1 The Need for Information and Data ................................................................. 45
   5.4.2 Property Asset Data and Information in Australian Public Sectors ....... 46
   5.4.3 Typical Standard Core Strategic Property Asset Management Data and Information Requirements ......................................................... 48
5.5 Measuring Public Sector Reform ............................................................................. 50
   5.5.1 New Public Management ................................................................................. 50
   5.5.2 Change in the Public Sector ............................................................................. 53
   5.5.3 The NPM Paradigm and Property Management Reform .................................. 54
5.6 Summary of Findings and Conclusions .................................................................. 55

6 The Search for a Leading Practice in Public Sector Strategic Property Asset Management - Case Studies: United Kingdom Central Government and Federal Government of the United States of America ........................................................................... 57
6.1 Introduction .............................................................................................................. 57
6.2 The Need for a Strategic Approach ........................................................................ 57
6.3 Case Study: UK Government .................................................................................. 57
Appendix 3: Case Study

Appendix 2: Case Study

Appendix 1: Case Study

6.3.1 Research method .................................................................................................................. 57

Figure 6.1: UK Government – path to Strategic Property Asset Management ............................. 58

6.3.2 Drivers of Asset Management Reform .................................................................................. 58

6.3.3 The Lyons Report: a foundation for leading practice.............................................................. 59

6.3.4 OGC Research Project: University of Leeds – Improving Property Asset Management in the Central Civil Government Estate (“the Leeds Report” or “Leeds”) .................. 62

6.3.5 OGC Research Project: “Improving Asset Management in Government Departments – A report on improving the capability and capacity of managing property assets in central civil government” (“the Howarth Report”, or “Howarth”) ..................................................................... 73

6.3.6 The Office of Government Commerce: High Performing Property – Routemap to asset management excellence ........................................................................................................... 74

6.3.7 Outcomes of Property Asset Management Reform in the UK Government Central Civil Government Estate .................................................................................................................... 76

6.3.8 On-going Organisational and Governance Development and Reform .................................. 78

6.4 Case Study: USA Federal Government – the path to Property Asset Management Reform (2003 – 2015) ......................................................................................................................... 78

6.4.1 Introduction ............................................................................................................................ 78

6.4.2 The Federal Real Property Portfolio ...................................................................................... 79

6.4.3 Federal Real Property: a “high-risk” ..................................................................................... 79

6.4.4 Financial Implications .......................................................................................................... 80

6.4.5 Reforming the Management of the Federal Real Property Portfolio .................................. 80

6.4.6 Results and Outcomes ......................................................................................................... 81

7 Case Study: The Australian Public Sectors.................................................................................. 83

7.1.1 Introduction ........................................................................................................................... 83

7.1.2 The Australian Public Sector Overview .............................................................................. 83

7.1.3 The Australian Commonwealth Government – a chequered history ................................ 92

7.1.4 New South Wales State Government: some good theory, not so good in practice... 98

7.1.5 Australian Local Government Sector – led by the blind .................................................... 120

8 Statement and Evaluation of the Hypothesis for a ‘Leading’ Practice Model for the Management of Government Property ......................................................................................... 137

8.1 A ‘Leading’ Practice Model ..................................................................................................... 137

8.2 The Model’s Application to the Australian Public Sector ......................................................... 142

8.2.1 Summary of the Barriers to the Integrated Management of Government Property in Australia ............................................................................................................................ 142

8.2.2 How the Model Addresses Australia’s Barriers and Problems ........................................ 143

9 Further Findings and Observations ........................................................................................... 145

9.1 The Lyons Report ...................................................................................................................... 145

9.2 The ‘Holy Grail’ ........................................................................................................................ 145

9.3 The Australian Public Sector .................................................................................................... 145

9.3.1 Sector Findings ..................................................................................................................... 145

9.3.2 New South Wales Government ............................................................................................ 146

9.3.3 Local Government ................................................................................................................. 146

9.3.4 Potential for ‘Nationally Consistent’ Integrated Planning and Reporting Frameworks 147

9.3.5 Strategic Asset Management as a Public Sector Profession ................................................ 147

9.4 The Significance of this Thesis and Direction for Further Research ........................................ 147

References ......................................................................................................................................... 149

Appendix 1: Case Study – United Kingdom Central Government

Appendix 2: Case Study – Federal Government of The United States of America

Appendix 3: Case Study – Australian Public Sectors
Abstract

This thesis examines the Governance, Management and Administration of Governments' property assets. By examining the developments in the United Kingdom (UK) and United States of America (USA), this thesis demonstrates why and how an integrated and strategic approach to the management of these assets is an important and crucial element of public administration. The thesis examines the concepts and theory behind the property management discipline and shows that it is as much of an art than a science, with its practice being extensively influenced by context and human behaviour. This data and information is used to develop a hypothesis for a ‘leading’ practice model for the management of government property.

Innovations in property management policy and practice introduced by the UK and USA governments since the early 2000s to improve property asset efficiency and effectiveness are being touted as world’s ‘leading’ practice, as is their development of performance ‘measuring instruments’.

This assumption that a world’s ‘leading’ practice exists is tested through case studies into the UK and USA governments. Determining the position of the Australian public sector’s asset management capacity and capability against this standard is tested by applying the ‘National Assessment Framework’s Asset Management Maturity Assessment Model’ to a number of Australian public sector government jurisdictions. These measurements are analysed, and compared to an understanding of performance derived from a qualitative analysis of information and data obtained from the literature review, case studies, and the author’s professional experience.

Studies are conducted into the Australian public sector to identify gaps between the existing status of the management of property and the ‘leading’ practice model. These gaps are analysed and the barriers to such a practice identified. The thesis develops an understanding of any organisational behavioural issues that influence asset management policy, governance, and capacity to undertake and respond to change.

Until the early part of the last decade, governments across the world had typically not understood the importance of real property to the provision of public services and to government financial sustainability. Beyond a number of papers and edited publications describing the experiences of individual jurisdictions, there is a lack of detailed and evidence-based research into the strategic management of government property assets. Little research exists for the Australian public sector.

This thesis is intended to provide a platform for the research continuum in an area where little formal study has been undertaken. The significance of this thesis is that it provides a knowledge base for the Australian public sector to improve the management of its property assets (and other asset classes), which have an estimated value of some $325 billion.
“Because all things are interconnected, you must know each one, and how each one affects and effects every other.”

“Strategy is the means by which all actions are coordinated and all resources allocated.”

“Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat.”

(Sun-tzu, 6th cent. BC)
1 Introduction

If asked whether their property strategies and plans maximise the efficiency and effectiveness of their government’s property assets, many property managers will answer by saying, ‘of course they do’. But the question is too complex to be answered in pure property terms alone.

Maximising efficiency and effectiveness goes beyond the implementation of property strategies and property management plans. When viewed in the light of whole-of-government business and administration, property asset strategies, when integrated with human resources, business, service and financial planning, should have considerable influence over, and contribution to policy outcomes; financial sustainability; public services; the environment; quality of community life; economic activity; and the health, welfare, education and safety of a community, region or nation.

The emphasis on should imply that property assets do not always provide the optimum support to government business and service objectives, whether this support is measured by financial, economic, sustainability, social or suitability criteria.

This may be because of a lack of property planning or poor property asset management processes, but there are deeper influences at work that are at the core of public sector governance and of the public sector psyche that seem to ignore or minimise the significance and role of property as a ‘resource’, and as a factor of public service production.

These influences serve to inhibit the establishment of well-informed and expert property functions within governments, and are the principal causes of inefficiency and ineffectiveness in the value of property’s contribution to policy, financial and service outcomes.

1.1 The Property Asset Management Problem

The nature and use of government real property assets is diverse and varied.

The author has estimated the value of property assets in the Australian public sector at some $325 billion (see Table 1.1).

<table>
<thead>
<tr>
<th>Government</th>
<th>Property Asset Value ($b)</th>
<th>Total Asset Value ($b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth</td>
<td>21.52</td>
<td>293.74</td>
</tr>
<tr>
<td>New South Wales</td>
<td>78.60</td>
<td>249.56</td>
</tr>
<tr>
<td>Queensland</td>
<td>56.94</td>
<td>189.86</td>
</tr>
<tr>
<td>Victoria</td>
<td>53.64</td>
<td>119.61</td>
</tr>
<tr>
<td>South Australia</td>
<td>19.78</td>
<td>44.49</td>
</tr>
<tr>
<td>Western Australia</td>
<td>31.37</td>
<td>112.72</td>
</tr>
<tr>
<td>Tasmania</td>
<td>5.24</td>
<td>16.66</td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>9.04</td>
<td>19.45</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>3.36</td>
<td>5.33</td>
</tr>
<tr>
<td>Local Government¹</td>
<td>45.30</td>
<td>302.00</td>
</tr>
<tr>
<td>Total</td>
<td>324.79</td>
<td>1353.42</td>
</tr>
</tbody>
</table>

Table 1.1: Asset Values – Non Financial Public Sector²

² Source: Analysis of respective governments’ Budget Papers 2009/10 and Agency/Departmental Annual Reports 2008/9. It should be noted that the value of property assets has been extrapolated from the published data, as property asset values are not reported as individual items.
The only sources of published information are budget papers and the financial statements contained in annual reports. The author was unable to find any published source giving information on the public sector’s property assets, their management or performance.

The estimates of value have therefore been extrapolated from the author’s review of the 2009/10 budget papers and 2008/09 Annual Reports of the Commonwealth and State Governments, all of their departments and agencies, and public non-financial organisations.

This exercise revealed a major issue in the management of government property: a lack of asset information, knowledge, performance, reporting and, hence, accountability.

Property assets are not recorded and reported as a separate asset category, or by asset class. Property is consolidated under a single ‘Land and Buildings’ heading, which does not refer to an asset inventory, and shields asset type, method of valuation and asset inclusions and exclusions. Very little information is provided in the notes to financial statements.

Information on property condition and expenditure is similarly obscure.

Despite the importance of real property in terms of value, to the provision of public services and the cost of their annual upkeep and holding, there is limited transparency and accountability for the management of these assets.

The Australian public sector does not manage its property assets as strategic government resources or with any over-arching policy and governance at any level of government: federal, state or local. Management responsibility is fragmented and uncoordinated, and spread across the spectrum of bureaucracies and levels of government without coherent policies, strategies, procedures or standards (Seymour-Jones, 2009b).

This situation continues notwithstanding that the Australian public sector has attempted a variety of reforms to the way it manages its property assets over the past thirty years. However, these reforms have mostly been ad hoc and uncoordinated and have not always been motivated by the desire to improve public services. They have sometimes been as a result of compromise arrangements over control and the interests of individual stakeholders (Ibid.).

Despite efforts of reform and an international reputation to the contrary, the state of the management of Australia’s public property (and other) assets remains more akin to an administrative and operational function, rather than the management that would be expected of strategic government resources with a value in excess of $325 billion, and an annual maintenance expenditure of $6.5 billion.

This means that some twenty-four per cent of the nation’s total Non-Financial Public Sector (NFPS)\(^3\) asset value and some ninety per cent of the property assets applied to the health, education and social wellbeing of Australians are without strong whole-of-government asset management policies, governance, strategies and effective management programmes (Ibid.). The consequences of this continue to be evidenced by regularly reported asset failures in schools and hospitals, and public utilities and infrastructure that have resulted in loss of life, personal injury, and financial wastage across the country.

---

\(^3\) The NFPS comprises the General Government Sector (government entities that provide non-market goods and services primarily financed by taxes, e.g. hospitals and roads) and Public Non-Financial Corporations (providers of goods and services mostly financed through sales to consumers, e.g. state rail authorities and local transport operations).
All levels of government therefore face common clear and present dangers that threaten their financial sustainability, capacity to sustain the provision of public services, and the fabric, condition, efficiency and effectiveness of their property portfolios (Seymour-Jones, 2014a).

1.2 The Strategic Property Asset Management Context

‘Property Asset Management’ relates to the holistic and integrated strategic planning and management of property as a whole-of-government corporate and business resource. This makes it a subset of ‘Resources Management’, as are human capital and resources, plant and machinery, and information and communications technology (ICT).

This is distinct from Property Management, Facility Management, Engineering and Maintenance. These are subsets of Property Asset Management, and tools for the implementation of an organisation’s Property Asset Management strategy through individual asset, facility and workplace plans and programmes.

It will be seen that the management of property assets is not commonly appreciated within the Australian public sector as a strategic business and corporate resources function, with the sub-disciplines being mistaken as providing the strategic management of these assets.

For clarity, and for the avoidance of confusion, ‘Property Asset Management’ will be referred to as ‘Strategic Property Asset Management’ and is considered to be included in the collective term of ‘Asset Management’.

This thesis puts Strategic Property Asset Management into context, explains the distinctions, provides definitions for the separate disciplines, and identifies their place in the Resource Management hierarchy.

1.3 Thesis Background and Significance

The author is a Fellow of The Royal Institution of Chartered Surveyors. He has managed and advised upon the management of real property assets in the Asia Pacific region across the public and private sectors for some 35 years.

The author has witnessed attitudes towards the management of property that range from an administrative and janitorial function to treating property assets as strategic corporate resources.

He has spent the last decade specialising in the management of property assets in the Australian public sector.

This began at the New South Wales (NSW) Government where he acted as a consultant and in a senior management capacity between 2004 and 2007. He has also advised and consulted to the State Governments of South Australia (SA) and Western Australia (WA), the Local Government Professionals (NSW), the Municipal Council of Woollahra in NSW, and the Cities of Canning, Wanneroo and Albany, the Town of Port Hedland, and the Shires of West Arthur, Wagin, Lake Grace, Merredin, Pingelly, Goomalling, Gnowangerup, East Fremantle, Corrigin, Williams, York, Halls Creek, and the Pilbara, Wheatbelt East, and Southern Link Regional Organisations of Councils in WA.

His experience at NSW State Government prompted him to specialise in the management of public sector property assets, and encouraged him to examine the management of government property in greater depth, both in Australia and in an international context.
The author wishes to emphasise that where an opinion is expressed in this thesis, it is based primarily on the author’s research, underpinned by professional detachment, and supported by the author’s extensive industry involvement.

Initial ‘informal’ research into the Australian public sector revealed how little the management of property and its importance to the achievement of financial and service outcomes are understood in the public sector. It also revealed the lack of knowledge and research that exists into the management of public sector assets (ibid.).

These deficiencies exist across national and international jurisdictions.

“This (the management of government property assets) is a topic that, surprisingly, has not attracted sufficient attention of scholars and researchers, despite the importance of deploying the full range of government real property assets, in both mature and emerging economies, to achieve strategic public policy objectives” (Kaganova, McKellar, & Peterson, 2006a).

“Given the enormity of the challenge in addressing the topic of public property asset management from an international perspective, further investigation, research and practical experimentation are much needed” (Ibid, p. ix.).

This thesis seeks to narrow these knowledge gaps.

Francis Conway’s paper, presented in Chapter 2 of Kaganova and McKellar’s edited book, exemplifies these needs with regard to the Australian public sector, particularly the Australian Federal Government (Conway, 2006).

The author agrees with much of Conway’s paper. The Australian public sector had been addressing policies and frameworks in the management of its property assets for perhaps 20 - 25 years before Strategic Property Asset Management assumed its level of importance in the USA, UK and elsewhere.

It is partly for this reason that the Australian Federal Government is upheld as a leader in the era of the New Public Management paradigm and for the management of its property assets (Conway, 2006; Kaganova et al., 2006a; Male, 2006). The Labor Government (2007-2010) under Prime Minister Kevin Rudd had ambitions to reform the Australian Public Service to be the ‘world’s best’, and to promote a culture of ‘best practice’ (Australian Government, 2010).

Australian jurisdictions have also been highlighted by the RICS as leaders in Strategic Property Asset Management reform (Jones and White, ibid. ch.12, pp. 71-76).

Contrary to these views and efforts of reform and to promote excellence, this thesis’s research and the analysis of the gaps between the leading practice identified from this thesis’s case studies, and the level of asset management maturity exhibited by the Australian public sector, provides sufficient reason to question the reputations ascribed to Australia’s management of its property assets. This indicates that data and information used to form these conclusions have been collected from a distance and based upon the Australian public sector’s self-satisficing view of itself, rather than from any in-depth study and analysis of its asset management practices and outcomes.

Notwithstanding this, there is little doubt that the Australian public sector has influenced asset management practices in the developed world, notably the adoption of strategic asset management policies, frameworks and processes. However, Australian governments have lacked either an understanding of the wider strategic significance of assets and their management in a whole-of-government context; or the will, courage and leadership to integrate
them into the management of government business; or a combination of both. Indeed, there is clear evidence to show that Australian governments have actively fragmented property asset management responsibility to such an extent that they now have scant knowledge of, and information about their portfolios.

The significance of this thesis is that it addresses the management of government property assets from a holistic all-of-government policy, financial, economic and community perspective. This is done by assembling and consolidating current knowledge; providing empirical evidence gained from the author’s experience and observations; and proposing a basis for the adoption, implementation and continuing improvement of the management of public property as an essential contributor to government outcomes, effectiveness, efficiency and productivity.

This thesis shows that Strategic Property Asset Management is one of the most important of government corporate activities. It is government’s business fulcrum that connects community aspirations, corporate objectives, financial imperatives and service levels (Lyons, 2004b). It determines business, financial and service sustainability. It deals with the current state of governments and shapes their future state (UK Audit Commission, 2009). This is illustrated in Figure 1.1.

![Diagram of Strategic Asset Management](image)

**Figure 1.1: The Central Role of Strategic Asset Management**

Furthermore, this thesis establishes an important direct contextual relationship between the acceptance and adoption of a ‘leading’ practice in the management of government property and the public sector’s approach to, and reluctance to embrace and implement reform.

### 1.4 Theses Purpose and Aim

The principal purpose of this thesis is to close the awareness, research and knowledge gaps in the management of government property by:

- If such leading practices exist, to propose a leading practice and process for the management of government property assets as strategic resources and integrate strategic asset management into the corporate planning and reporting regime;
- Examining the reasons why the Australian public sector has not been successful in adopting good practice; and
- Providing a basis for its application in the Australian public sector through the involvement of academia (further research and formal learning), professional and public sector institutions, asset management practitioners, and public sector managers.
In so doing, this thesis will:

- Confirm the importance of property assets to the conduct of government business and provision of public services;
- Prove the absolute need to manage these assets as strategic corporate resources;
- Identify the gaps between leading practice and the barriers to their implementation by Australian jurisdictions at all levels of government;
- Identify the leadership and organisational requirements, political will and action required to address the issues from a whole-of-public sector perspective;
- Address the challenges to public sector culture, thinking and organisation to acknowledge current shortcomings; accept public property as ‘government’ resources rather than the possessions of departmental fiefdoms and ‘free goods’; and to understand the need for specialist skills and capacity in their management; and
- Lay out an academic, practical and professional basis and direction for continuing research, building a body of knowledge and the development of asset management educational programmes in public administration.
2 Research Method

The research method of this thesis reflects the paucity of research and literature into the management of government assets, and responds to the call by Kaganova, McKellar and Peterson for “further investigation, research and practical experimentation” (Kaganova, McKellar and Peterson, op. cit., p. ix).

2.1 Qualitative Study

Thus, this is necessarily a qualitative study that seeks to develop and consolidate a ‘leading practice’ hypothesis for the strategic management of government property assets; propose a model to enable the implementation of this practice in the Australian public sector; provide a body of knowledge as a basis for further research and on-going development of this model; and consider the need for education programmes in Asset Management as a professional public administration discipline.

The evidence, data and findings and conclusions, upon which the hypothesis for a leading practice model might be based, are largely derived from a series of case studies and reviews of asset management practices adopted by the following international and Australian jurisdictions:

- The United Kingdom Central Government (UK Government);
- The United States of America Federal Government (US Government);
- The Commonwealth Government of Australia (Australian Government);
- New South Wales State Government (NSW Government); and
- Local Government in Australia.

These case studies form the foundation of this thesis. Given the lack of knowledge and appreciation of Strategic Property Asset Management in the Australian public sector, it is important to present them in detail, as this may represent the first body of evidence and knowledge that has been assembled and consolidated for the strategic management of not only government property, but also public assets generally. It was this wider application for the strategic management of government assets that was adopted by Lyons in his report for the UK Chancellor of the Exchequer (Lyons, op. cit.).

The detailed case studies are contained in Appendices 1, 2 and 3.

2.2 Data and Information

Information and data has been obtained through:

2.2.1 Literature Reviews

These reviews cover professional and academic literature; journal articles and papers; independent reports from organisations that include the Organisation for Economic Co-operation and Development (OECD), the Australian Centre for Excellence in Local Government (ACELG), The Urban Institute Centre on International Development and Governance, The UK National School of Government, and the Australian Procurement and Construction Council (APCC); government and non-government organisation (NGO) publications and reports, audits, budget papers and annual reports and legislation; and conference papers, presentations and proceedings.
Notwithstanding the lack of in-depth investigation into Strategic Property Asset Management as a function of public administration, a number of papers and articles have been published in recent years showing that aspects of Asset Management are being acknowledged by jurisdictions as diverse as Botswana (Moseki, 2011), Malaysia (Abdullah, Abdul Razak, & Pakir, 2011), Indonesia (Hasbi Hanis, 2011), and Sweden (Andersson & Soderberg, 2011).

Papers such as these, although valuable in recording some of the operational and technical aspects of managing government property in particular jurisdictions (e.g. Property and Facility Management), do not address the management of property as a whole-of-government strategic resource.

Likewise, there is an abundance of instructional literature concerned with the professional and technical skills and techniques associated with Property and Facility Management. This thesis will not review these in detail, but will refer to them in their context as tools for the implementation of organisational asset management strategies.

2.2.2 Author’s Publications and Unpublished Articles and Papers

Prior and subsequent to the commencement of this thesis, the author has undertaken research on behalf of the University of Sydney and ACELG. He is also author of a number of published and unpublished papers and articles and speaks regularly at industry conferences. These are included in this thesis either in whole or in part.

He has also been a guest lecturer to postgraduate students at the Universities of Sydney and New South Wales, and has conducted instructional training in Strategic Asset Management on behalf of the Institute of Public Works Engineers Australasia.

2.2.3 Australian Public Sector Asset Data

In addition to information obtained from the Australian Bureau of Statistics, estimates of the value of public sector property assets have been extrapolated from a review of the 2009/10 budget papers and 2008/09 Annual Reports of the Commonwealth and State Governments, all of their departments and agencies, and public non-financial organisations. This was an intensive exercise carried out over a three-month period in 2010.

2.2.4 Empirical Evidence and Traditional Property Management Theory

Personal experience and observation are central to this thesis: experience of 35 years in the management of property assets in the private, public and consulting sectors; and observation of how Strategic Property Asset Management has developed both professionally and as a business tool, and how it has been applied in the public sector.

This thesis also pays considerable attention to traditional property management theory and the theoretical development of property management concepts. These are given equal consideration in the development of a ‘leading’ practice model.
3 The Importance of Public Sector Property and its Management

Governments are asset rich and depend upon a large variety of assets to provide public services and for their own administration (Carter, 2013).

Property is one of the public sector’s largest categories of assets and is the base asset from which all government activity is conducted. It is the second highest operating cost after human resources.

Government business covers all aspects of human activity, which is reflected in the characteristics and nature of public sector property portfolios, whether national, state, regional or local governments.

Government property portfolios are similar to corporate portfolios in that they reflect the production of an organisation’s goods and services, and support the conduct of the organisation’s business and business processes.

The business of government is to provide public services, including health, housing, education, social services and welfare, community services and activities, interest group support, tourism, transport and utility infrastructure and services, law and order, emergency services, conservation and heritage, social and economic planning and development, scientific research, and national defence.

The use and occupation of these properties is covered by all manners of holding and agreement – ownership, lease, tenancy, licence, and through the powers of compulsory acquisition and entry.

Given its purpose and use and nature, government property is largely held for strategic reasons and purposes. This means that there are seldom markets for government property, and property decisions are often subject to contextual and political influences rather than being made from a pure property perspective. Portfolios, stakeholders and issues are complex and specialised, are subject to competing priorities and limited financial resources.

This compounds the long lead times inherent in bringing property decisions to fruition, and puts a much greater emphasis on the need for property strategy and planning to be integrated with policy and service objectives.

Nevertheless, the public sector is in all respects a property business. It is in both the ‘property business’, which includes the design, finance, development, construction, marketing and management of land and buildings; and ‘business property’, which refers to its workplaces and from which it delivers services (Apgar, 2009).

The size and value of government property portfolios represent a considerable proportion of a nation’s wealth and balance sheet health. Governments therefore have the capacity to influence economic activity and move property markets.

In 2008, the book value of the UK government’s property assets was estimated at £370 billion, which represented some £6,000 worth of assets for every UK resident (Bichard, Carter (Lord), Grimstone, Jay, & Read, 2009). Also, every £1 spent by the public sector in construction contributes £3 to economic activity (Royal Institution of Chartered Surveyors, 2010). In Australia the Commonwealth, State and Territory Governments occupy over 4 million square
metres of leased office accommodation; have an annual rental bill of some $1 billion; and have all the major landlords in common (Government Property Group, 2007).

The proper and strategic management of these assets can both implement change in service delivery models and promote that change by challenging the traditional role of property and the accepted conventional wisdom of its management (Howarth, 2006). It therefore follows that property should play a lead role in a government’s internal level of productivity and efficiency, its financial sustainability and ability to meet changing community expectations.

Decisions relating to location, nature and type of property, and form of tenure and holding, will affect a government’s capacity to provide efficient and effective public services. The strategic management of these assets will release latent or ‘lazy’ capital for investment into community services and infrastructure (Jones & White, 2008).

Property affects and impacts upon all government policies and decisions, which means that it represents political, strategic, operational, financial and legal risks that could potentially threaten a government’s capacity to function.

Whilst some Australian government jurisdictions display a level of appreciation for the importance of their property assets, the Australian public sector as a whole either remains ignorant of, or is disinterested in the management of its property asset base, which is viewed by departments and agencies as a ‘free good’ and with a sense of individual territorial entitlement. It also exposes governments to the multitude of risks inherent in those described in the preceding paragraph.

This is true at all levels of government: federal, state and local. The Australian public sector does not treat property assets as strategic public resources that should be managed for the public good. The financial significance alone of Australia’s real property assets is characterised by the following:

- In 2009/10, the value of Australia’s NFPS assets is estimated to be in the region of $1.353 trillion. Some $325 billion (twenty-four per cent) of this is property. See table 1.1. (Details for each government are shown in Appendix 3.1);
- The annual maintenance expenditure for the year 2009/10 in respect of these assets is estimated at nearly $6.5 billion. (Refer to Appendix 3.1);
- Analysis of this financial data has revealed that the proportion of the value of property assets to total assets of frontline government agencies, such as Health, Education, and Social and Community Services, typically exceeds ninety per cent;
- The Commonwealth and State Governments occupy over 4 million square metres of commercial office accommodation alone; have an annual rental bill of some $1 billion; and have all the major landlords in common (Government Property Group, op. cit.).

These statistics support the earlier evidence that ‘corporate’ property is often the second or third largest operating cost of a business or public authority and can represent up to ninety per cent of an organisation’s total fixed assets on balance sheet (Omar & Heywood, 2010).

Property assets and their management as corporate resources are therefore crucially significant to governments. They have a direct bearing and impact on long-term financial planning and sustainability, and on the capacity to deliver public services and infrastructure.
4 Strategic Property Asset Management: the path to a public administration professional discipline

4.1 Introduction

This chapter shows that strategic management of government property is a function of the long-term planning and management of organisational resources. It is to do with government reform, integrated planning and reporting, and financial and service sustainability issues.

As referred to earlier, the origins and nomenclature of Strategic Property Asset Management have created misunderstanding and led to it being confused with, for example, Property Management, Facility Management, Maintenance Management, and Infrastructure Management. These are all part of the Asset Management family, but are subsets of Strategic Property Asset Management (Howarth, op. cit.).

Practitioners in these disciplines sometimes compound the confusion by describing themselves as ‘Asset Managers’ or ‘Strategic Asset Managers’.

This confusion is one of the principal reasons behind Australia’s lack of understanding and progress in the management of its public sector property assets as corporate resources. Property asset strategy is often considered as the maintenance and upkeep of individual assets, and seen to be the responsibility of Public Works, Technical or Engineering functions.

The Corporate Real Estate (CRE) discipline, which was developed in the private corporate sector, is the closest relative to the strategic management of government property assets.

Given the lack of research in, and understanding of the management of government property, and in order to understand its relevance to the public sector, the following sections examine the principles of the management of property, their origins as a professional discipline, and influence in the development of Strategic Property Asset Management as an integral part of business planning and delivery of outcomes.

Specifically, this chapter examines and provides definitions for Property Management, CRE, Facility Management, and Strategic Property Asset Management.

Figure 4.1 illustrates the influences of property management in the development of Strategic Property Asset Management.

![Figure 4.1: The Strategic Property Asset Management Continuum](image-url)
4.2 Property Management: The English Civil War, Thorncroft and Arnison

4.2.1 The English Civil War

CRE and Strategic Property Asset Management have their origins in the management of landed estates and of individual property assets.

The strategic management of property as a commercial and social resource can be traced to the effects of the heavy taxes imposed upon landowners following the English Civil War. This gave rise to a level of professionalism and a business-like approach to the management of real property for more efficient use, rental returns and preservation of individual prestige (Thirsk, 1985).

4.2.2 Thorncroft

The modern day principles of Estate Management, which have changed little since the 17th century, were defined by Michael Thorncroft in his book, ‘Principles of Estate Management’ (Thorncroft, 1965). He defined Estate Management as,

“The direction and supervision of an interest in landed property with the aim of securing the maximum return; this return need not always be financial, but may be in terms of social benefit, status, prestige, political power or some other group or group of goals.” (Ibid, p.3.)

Thorncroft added,

“Management embraces both direction or the overall control of policy, and supervision entails its implementation”; and

“The meaning given to estate is also wide and includes any interest in landed property giving rise to a measure of control”. (Ibid, p.3.)

Thorncroft’s definition contained three important elements, the significance of which is evident throughout this thesis:

- The maximum return need not be financial;
- ‘Management’ is defined as direction or control of policy;
- ‘Supervision’ is the implementation of direction and policy.

The idea of ‘return’ being something other than financial might be seen as an early reference to ‘triple-bottom line’ measures; and recognition that the management of property is undertaken at two distinct levels, i.e. as a strategic resource, and at an operational and technical level.

It has already been seen that little research has been conducted into the management of government property (Kaganova, McKellar and Peterson, op. cit.).

This situation has not changed in fifty years as Thorncroft, writing in 1965, noted, “The principles of estate management cannot be presented as a simple set of rules, partly because there has been too little research and methodical analysis of experience to formulate more than elementary generalisations….“ (Thorncroft, op. cit., p.3). Additionally, Thorncroft's view was that to present estate management in such way would oversimplify the complex problems inherent in it. Professional technical, legal and management knowledge and skills are not
enough alone, but need to be supplemented by good judgement, imagination and practical experience.

Howarth echoes Thorncroft’s principles in his research report for the UK Government’s Office of Government Commerce (Howarth op.cit.). Howarth’s description of the skills and competencies required for asset management and their scarcity in government (data management, asset performance management, strategic business planning, financial management, leadership, and an appreciation for the economic tools that ensure good financial decision-making) (ibid, pp. 23-25.), is an example of how little progress has been made by the UK public sector in the forty years between Thorncroft and Howarth’s writings.

Whilst Thorncroft considered the management of property and businesses in like terms, and with shared skills and characteristics, he stopped short of fully appreciating the management of property assets as an integral part of the management of an organisation’s total resources. He saw business management, i.e. the principles by which an organisation or department are managed, being separate and distinct from the specialist and technical skills of estate management. This is quite probably a reflection of the times, when the emphasis of business management was concentrated on reducing costs and achieving higher production through economies of scale.

However, Thorncroft did describe the fundamental activities of estate management as forecasting (decisions about the future); planning (the means of, and the availability of the means to achieve objectives); leadership; co-ordination (integration of effort and resources); and control (supervision and control of policy implementation).

These align closely with both the management of any enterprise and the present-day business processes for public sector Strategic Property Asset Management and their organisational requirements and enabling activities. These processes and activities are listed in Table 4.1 (Jones and White, op. cit.) and will be considered in detail in proposing the elements of leading practice.

<table>
<thead>
<tr>
<th>Business Processes</th>
<th>Organisational Requirements &amp; Enabling Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy development</td>
<td>Leadership;</td>
</tr>
<tr>
<td>Programmes</td>
<td>Culture;</td>
</tr>
<tr>
<td>Delivery</td>
<td>Customers (and stakeholders);</td>
</tr>
<tr>
<td>Review</td>
<td>Structure;</td>
</tr>
<tr>
<td>Change</td>
<td>Roles and responsibilities;</td>
</tr>
<tr>
<td></td>
<td>Resources and capacity;</td>
</tr>
<tr>
<td></td>
<td>Governance;</td>
</tr>
<tr>
<td></td>
<td>Data and information management; and</td>
</tr>
<tr>
<td></td>
<td>Sustainability (socially, economically and environmentally sustainable assets).</td>
</tr>
</tbody>
</table>

Table 4.1 Strategic Property Asset Management Business Processes, Organisational & Enabling Activities

Although brief, Thorncroft includes a chapter in his book covering the management of public estates (Thorncroft, op. cit., Ch.13, pp. 349 - 367). Apart from ownership, he identified that public estates share little in common. They are diverse in size, character, management organisation and policy objectives. They also vary in their extent of public control and accountability.
These observations are examples of the little change that has occurred in the management of government property in the fifty years between Thorncroft, Howarth, Lyons, Male and Kaganova et al, the latter noting that the management of public property is typically “highly fragmented with each category falling within a different jurisdiction or bureaucracy, or even with different policies and procedures within a given bureaucracy.” (Op. cit., p. 1.).

4.2.3 Arnison

Whilst Thorncroft acknowledged a social aspect to property, his principles for estate management concentrated on its legal and financial issues.

An important dimension has been added to Thorncroft’s social concept, which has also been incorporated into Howarth’s thinking (Howarth, op. cit.). This deals with the reasons that drive people to acquire property, and their psychological attitude towards its ownership. It considers the territorial traits of individuals, their relationships with others in respect to the ownership and occupation of property, and argues that relationship management should be the first principle of estate management (Arnison, 1988).

Arnison gave full recognition to Thorncroft’s work, but considered that Thorncroft took a largely economic and legal view of property with only passing references to social issues and none to the psychological and behavioural aspects of property ownership.

Arnison argued that property is a “social institution” along with the family, religion and the rule of law, which together control the conduct of society, bind communities and are the prerequisites for all other social activities, including commerce and politics, and the determination of personal happiness and success. The latter is manifested in the family unit and freedom from fear, which are nurtured by having ‘a place of one’s own’.

Strains on personal relationships are often a result of ‘domestic’ threats and intrusion into one’s personal space, which are reflected in the maxim coined by Sir Edward Coke (1552-1634), “For a man’s house is his castle, et domus sua cuique tutissimum refugium” (One’s home is the safest refuge of all) (Titelman, 1996).

This proposes that the emotions of individuals warrant the same attention and understanding by property managers, as do legal considerations and financial performance.

It will not be difficult to accept that behavioural characteristics apply equally to the attitude adopted towards property by the public sector. Property is commonly regarded as a ‘free good’ and any attempt to introduce organisational governance, policy and control over it threatens the power and authority of individuals and traditional departmental fiefdoms, which maintain a sense of perennial entitlement and ‘ownership’ over property.

This has been seen in the New South Wales Government, which, influenced by the New Public Management Paradigm in the 1990s, introduced a number of new ‘operational mechanisms’ driven by perceived changes in community expectations and technological advances.

These new mechanisms required senior public sector managers to think beyond traditional agency boundaries and adopt a whole-of-government or ‘cluster’ approach to service delivery and decision-making. This meant that department and agency heads would have to open their doors and allow others into their hitherto long-held ‘exclusive domains and stand back from so-called turf wars’ (Kruk & Bastaja, 2002).

Quite apart from the territorial threats that this presented, the change in thinking proved to be an almost insurmountable challenge for the NSW public sector in that it would also demand greater transparency of government process and accountability on behalf of public servants.
(This will be examined further when the New Public Management Paradigm is considered later in this thesis).

The implications for the management of government property in NSW would prove to be ‘almost revolutionary’, a phrase also used to describe the reform of property asset management in the US Federal Government (Venable, 2005).

Arnison’s primary principle for estate management is that it is ‘about people’ and their social behaviour. It therefore needs to reflect that no individual is entirely rational about property rights; and the innate territorial nature of individuals and groups, who will put up fierce resistance and hold long-lasting resentment when ‘their space’ is threatened by exclusion, separation or authoritarian behaviour. This is very relevant for the public sector where habitual ‘occupation’ often assumes the rights of ‘ownership’.

As the Strategic Property Asset Management discipline has matured, Thorncroft’s definition has retained its relevance. It refers to the *raison d’être* of property; the desired strategic outcomes; performance indicators and measurement; and the organisational governance and implementation of strategies to achieve outcomes.

The addition of Arnison’s psychological and behavioural principles has provided a valuable social dimension to Thorncroft’s commercial and legal principles. Taken together, they form the basis for all levels of the property management hierarchy and process.

4.3 Property Management: a professional discipline

4.3.1 ‘Professions’, ‘the Professional’, and ‘Professionalism’

“It seems evident that many of the most important features of our society are to a considerable extent dependent on the smooth functioning of the professions. Both the pursuit and the application of science and liberal learning are predominantly carried out in a professional context. Their results have become so closely inter-woven in the fabric of modern society that it is difficult to imagine how it could get along without basic structural changes if they were seriously impaired.” (Parsons, 1954) in (Ulrich, 2011).

There are libraries of literature on the concept of ‘the profession’ and ‘professionalism’, their place as institutions, and standing in a societal perspective.

It is not the societal view of ‘professionalism’ that concerns this thesis, but rather that there is an emerging profession, perhaps as an off-shoot of the property profession, upon which the operation of government and the sustainable provision of services are “to a considerable extent dependent”. The terms ‘professions’ and ‘professional’ are used to denote those with specialist knowledge in an area that requires a high degree of training and continuing practice (Ulrich, op. cit.).

This leads to standards of professionalism, and the notion of ‘good’ practice that is applied to it. ‘Good’ practice should not only cover the practices or methodologies based on the most recent “application of science and liberal learning”, but it should also include the quest for continuing improvement and new knowledge within a profession, and by the individual members of that profession.

In the absence of a truly professional approach to the strategic management of assets in the Australian public sectors, the term ‘good’ practice is often interpreted as, and replaced by, ‘best’ practice, which, in the author’s public sector experience, has become a finite concept or recognition of achievement.
The author contends that this has narrowed the meaning of ‘good’ practice, which implies a path to good outcomes, to mere procedure (prescriptive methodologies, or ‘the how’), without process (the transformation of inputs to outputs and outcomes, or ‘the what’ and ‘the why’), i.e. managerial and bureaucratic focus on professional input, rather than ‘good’ practice facilitating service objectives and good outcomes.

This brings the OECD’s disaggregated model for managing government performance into play, and links the strategic management of government assets to the need for specialist professional expertise (refer to Section 5.3).

A further result of the Australian public sector’s pre-occupation for an asset management ‘best’ practice is a growing fascination with, and reliance on ‘standards’ and certification by international bodies, which is seen as having scored the ‘best’ practice goal.

It would appear logical, therefore, that the provision of public services should be “to a considerable extent dependent on the smooth functioning of” the professional strategic management of government resources and assets.

This is supported by the finding from this thesis’s case studies that the strategic management of assets must be formally considered and acknowledged, by the public services of all levels of government, as a specialist professional corporate business planning function, rather than a series of professional technical activities.

4.3.2 The Property Management Profession

Property Management practice and governance differs across international borders. In the United Kingdom, ‘Property’ is considered as a profession in the same way as law, architecture and medicine, for example.

Property has its own governing body, the Royal Institution of Chartered Surveyors (RICS). The history of the RICS can be traced back to 1792, with the Royal Charter being granted in 1881.

The RICS regulates and promotes the property profession, maintains educational and professional standards, protects clients and consumers through a strict code of ethics, and seeks to be impartial in its advice, analysis and guidance. It currently has nearly 120,000 accredited professional members across the world (Royal Institution of Chartered Surveyors, 2014).

Property Management is associated with the management of land and buildings on behalf of owners and investors to obtain the maximum financial return.

The RICS describes Property Management as “the activity that ensures that land and buildings matters are dealt with so that they operate efficiently and effectively. In effect, it delivers the strategic asset management objectives for land and buildings. It is sometimes referred to as ‘operational’ and is the activity of undertaking the professional/technical work necessary to ensure that property is in the condition desired, in the form and layout and location desired and supplied with the services required, together with related activities such as the construction or acquisition of new property, the valuation of property, dealing with landlord and tenant and rating matters, all at an optimum and affordable cost. It also involves offering advice to decision-makers on the best ways of doing this. It has a customer orientation.” (Jones and White, op. cit.).

* Bold emphasis added by the author.
Whilst the RICS has a sizeable presence and membership in the Oceania region, of which Australia is part, Australia does not recognise ‘property’ as a profession in the same way as the UK. Although there are a number of organisations such as the Australian Property Institute, which mainly concentrates on the practice of property valuation, and which has a reciprocity agreement with General Practice Division of the RICS, there is little by the way of promotion and regulation of property as a true profession, either nationally or by the individual states and territories. In addition, and perhaps as a consequence, property in this sense receives little attention by the tertiary education institutions, with only a very few offering bachelor degrees in a full property curriculum.

This is not dissimilar to Howarth’s findings of the UK public sector, where he identified gaps between the non-business strategic roles assumed by public sector property professionals, and the lack of understanding of property asset performance on behalf of senior managers who have come from a government policy or operations background. Howarth noted that the latter largely view property “as a passive respondent to the business rather than as a contributor to future thinking.” (Howarth, op.cit, p.5). Howarth cited Professor Meziane Lasfer of the Cass Business School, “It is ironic that in Business Schools the management of property is rarely covered. Managers may think that since property management was not covered in their MBA course, there is no need to treat it as a cost asset and should not be discussed in the boardroom.” (Ibid.)

The disconnect between an effective national sponsorship of property as a profession and the lack of academic opportunity is a major cause of the inefficient and ineffective management of Australia’s public sector asset base.

4.4 Corporate Real Estate: building organisational value

CRE evolved in the USA as a response to wide-ranging changes in business environments in the 1980s and 1990s by developing traditional property skills and principles, and integrating them into the strategic corporate planning and management function.

Despite the tyranny of distance presented by the Atlantic Ocean, there are clear linkages between the principles of Thorncroft and Arnison and the development of the CRE discipline.

These linkages are the management of an interest in property; the direction and control of policy towards the use and management of property; the implementation of that direction and policy; the suitability of property to and for its intended use; and management of the social and behavioural aspects of individuals associated with property ownership and occupation.

In the case of corporate business property the primary measure of ‘maximum return’ is almost always financial, or at least financially based, whereas ‘corporate’ property decisions in other more socially-oriented sectors, particularly government, are very often subject to non-financial contextual influences (OECD, 2007). As envisaged by Thorncroft, this means their maximum return may be measured against indicators with a higher priority than financial economy or commercial profit, for example, the achievement of social, welfare and environment policies and objectives.

Although CRE is most commonly associated with private sector business property, the CRE management model also extends the strategic management and provision of services to all types of property, which are occupied by a multitude of users for a multitude of purposes under all means of ownership and tenure, which need not necessarily be places of work and production.

---

5 Cass Website accessed by Howarth on 12 October 2005.
6 The measurement of government outcomes is considered in Chapter 5.
In addition to business property such as office, retail and industrial premises, ‘corporate’ property can also include educational, health, recreational and sports, religious, agricultural, exploration and utilities facilities, research and development installations, entertainment, ports and transportation infrastructure, and telecommunications.

It uses Property Management and Facility Management as tools to implement and enable organisational property strategies that support the provision of services.

The corporate real estate model is as important and relevant to the public sector, non-government, and not-for-profit, religious and charitable organisations as it is to private sector institutions, enterprises and businesses.

With regard to government property, the model extends further to infrastructure, defence and security, emergency services, policing, justice and correctional facilities, civic and community centres, and land banks.

By positioning property as a strategic corporate resource, CRE integrates its planning and management into the corporate business process so that it directly contributes to productivity, financial sustainability and business and social outcomes. CRE is also increasingly being employed by corporates as a means of achieving their corporate environmental objectives and responsibilities.

Under-management of property, or merely managing, administering and maintaining an existing owned portfolio of individual facilities and properties, does not release the true underlying benefits or value that managing property as a strategic resource brings to an organisation.

The preface to ‘Strategic Management of the Fifth Resource: Corporate Real Estate’ recorded that, in 1981 and 1987, members of the Industrial Development Research Foundation (IDRF) based at Harvard University and Massachusetts Institute of Technology (MIT) examined how corporations were treating and managing their property portfolios.

This research showed that property was corporate America’s last under-managed resource. “Real Property Assets are not necessarily managed poorly due to faulty judgement but rather, in many cases, because they are not managed to their full potential. The concern is with lost opportunities due to actions not taken.” (Joroff, Louargand, Lambert, & Becker, 1993).

It was found that the roles of the four corporate strategic resources of capital, people, technology and information were being transformed to support businesses as corporate resources to a much greater extent than they had previously been managed (Ibid.). For example, the management of people was changing from a recruitment, payroll and locational function to the management of staff as ‘human resources and intellectual capital’ to be nurtured and developed for the mutual benefit of the individual and the organisation.

As a result of this finding, the IDRF undertook research into the potential of property representing a ‘fifth corporate resource’. At the time (1993), the IDRF concluded that a corporate’s real property (land, buildings and work environments) is “a powerful resource whose strategic value is just emerging.” (Ibid, p.11). This led to the establishment of the ‘CRE 2000 Program’, which was to integrate the management of “this fifth strategic resource into broader corporate thinking.”

It is interesting to note that the contextual environment in which the CRE 2000 Program research was carried out bears two similarities to that of this thesis.
Firstly, corporate America was already rethinking its property functions, which provided the IDRF research programme with a laboratory that contained a variety of ready-made and tested, and on-going corporate experiments; the field had “already reached a pivotal point in its development.” The development of the strategic management of government property in Australia, although not yet at such a pivotal point, does mean that the findings and conclusions of this thesis are largely evidence-based on current and evolving practices.

Secondly, the objective of the CRE 2000 Program was to record and position these experiences and on-going developments so that they would promote further learning, discussion and change. This is one of the aims of this thesis.

The IDRF research found that an increasing number of property executives were joining the senior management and leadership echelons of businesses, thus providing evidence of a growing understanding and awareness by corporate leadership that the treatment of property as a strategic corporate resource needed to become a practical reality. Also, property executives had begun to realise that their business is not ‘property’, “but the business of the business.” (Ibid, p. 21).

The role of property executives has therefore transformed from technical administrators to business strategists who work with business units and senior management to improve and enhance the performance of the organisation.

The IDRF identified five stages (Taskmaster, Controller, Dealmaker, Intrapreneur, and Business Strategist) in the transformation towards CRE development. Figure 4.2, adapted from the IDRF research, illustrates these stages together with their associated competencies (Ibid, p. 27).

CRE has three principal objectives:

- To align the organisation’s property portfolio with corporate and business objectives;
- The maintenance of asset values and the management of leases; and
- Customer (organisational and occupier) satisfaction, project delivery and execution of transactions.

Figure 4.3 describes the activities necessary to achieve these objectives and their place in the CRE hierarchy (CoreNet Global, 2005).

---

7 Intrapreneur: a corporate executive who develops new enterprises within the organisation.
Figure 4.2: Stages of CRE Development

- Taskmasters
  - Minimising Building Costs
  - Engineering Buildings
- Controllers
  - Standardising Building Usage
- Dealmakers
  - Matching Market Options
- Intrapreneurs
  - Strategic
- Business Strategists
  - Converging the Workforce

Technical
- Administrative caretaker role;
- Organisation of premises & facilities;
- Building maintenance;
- Scant portfolio knowledge;
- Value-neutral;
- Ad hoc, reactive;
- No mission;
- No contact with senior management;
- Technical skills.

Analytic
- Accounting controls;
- Cost savings;
- Business unit support;
- Property inventories;
- Property usage;
- Vacant space;
- Alternative uses;
- Space reduction;
- Market awareness;
- Accounting, analytical & interpretive skills.

Problem-Solving
- Problem-solving for business units;
- Value creation;
- Communications;
- Optimization of space;
- Performance measurement, benchmarking of cost & property services;
- Innovations to assist productivity & profitability;
- Interaction with business units;
- Negotiation & problem-solving skills.

Business Planning
- Business management principles;
- Participation in business unit strategic planning;
- Interaction with Human Resources & ICT;
- Demonstration of results & value proposition;
- Interaction with CFO & business unit heads;
- High-level property & business skills.

Alignment with Corporate Business & Financial Objectives
- Strategic Planning
- Capital Planning
- Portfolio Management
- Workplace Solutions

Maintenance of Asset Values & Lease Management
- Serving Business Units
- Acquisitions & Disposals
- Lease v. Own Decisions
- Mission Critical Assets

Customer Satisfaction & Project Delivery & Transactions
- Day-to-Day Services
- Tenant Management
- Property Operations
- Projects & Transactions

Figure 4.3: Corporate Real Estate Objectives
Research for this thesis has so far not revealed any single industry-recognised definition for CRE. However, the following is offered as a result of practice and research,

“Corporate Real Estate is the activity that aligns real estate strategy with business strategy, linking real estate decisions to corporate strategy to support and enhance the organisation's business objectives. CRE seeks to add value to a business by viewing real estate as a resource and business investment, and exploring the use of the workplace as a means to improve productivity.”

The author has been closely involved with the establishment or management of CRE departments and services at three global banks, all of which were in advanced stages of organisational and capacity and capability development at the time the IDRF research was being conducted; and all experienced the developmental progression shown in Figure 4.2 and shared the objectives and means of their achievement in Figure 4.3.

Some of this experience is described in Box 1.

Box 1: CRE Observations and Experiences

1. **HSBC**

Until the early 1980s, HSBC’s head office corporate property services were provided through the bank’s internal Property Department. Services were limited to technical and professional functions, i.e. architectural and design, project management, engineering, maintenance and repair, contract management, sales and acquisitions and leasing.

These services were largely reactive to the ad hoc operational needs of the bank, with few planning and reporting requirements.

Technical and professional advice and support was provided to the bank’s regional offices in Asia, the Middle East and Africa.

The Property Department was administered and managed by professional banking staff, assisted by technical specialists.

From the 1980s HSBC’s property services requirements grew in line with the bank’s growth and expansion as a major global financial institution; the re-development of its corporate headquarters building in Hong Kong, which has become an international architectural and engineering icon; and the rapid advances and changes in banking service delivery models, customer expectations, technology and communications.

HSBC transformed the Property Department into a separate legal entity, which took strategic responsibility for the planning and management of the bank’s worldwide property portfolio and property needs. A senior property professional was appointed as its Managing Director, who was directly accountable to the bank’s Board of Directors.

2. **Standard Chartered Bank (SCB)**

The transformation of the management of SCB property onto a strategic CRE footing was driven more by its perilous financial position in the early 1990s rather than through any progressive management policy.
The bank’s capital and deposit ratios had fallen to levels that were threatening the bank’s survival. The Bank of England required it to improve the condition of its balance sheet and management practices. A number of ‘white knight’ investors from Hong Kong provided substantial injections of capital into the bank.

Property was a significant item of operating cost, and the bank had extensive capital invested in its property holdings.

Like HSBC, the bank’s internal property services were limited to technical support functions, which were provided by a large Property and Works Department. This department was dissolved and the services provided through an outsourced facility manager. A new global CRE function was established to rationalise property holdings and be responsible for the development of property strategies and plans in consultation with business units as part of the bank’s corporate planning regime.

3. Bank of America

Bank of America (BA) was at the forefront of corporate America’s CRE ‘revolution’ through the 1980s and 1990s.

By the 1990s, BA had outsourced its entire property services functions in America to a single facility management service provider. Its internal head office CRE function in Chicago had been distilled to such a degree that its mission was entirely strategic and value enhancing to support and provide innovation to banking operations and services.

This model was extended globally with facility management contracts being awarded for Asia, Europe and the Middle East and Africa regional operations.

This meant that the management and provision of BA’s global property needs were outsourced to three facility management organisations, which the bank considered as ‘best of breed’ and ‘business partners’.

The BA global head of real estate reported directly to the bank’s President.

4.5 Facility Management: people, work and place

In 1982 the United States Library of Congress defined Facility Management as, ‘the practice of co-ordinating the physical workplace with the people and work of the organisation; it integrates the principles of business administration, architecture, and the behavioural and engineering sciences.’ (Rondeau, Brown, & Lapides, 1995).

The International Facility Management Association defines facility management as a profession that encompasses multiple disciplines to ensure functionality of the built environment by integrating people, place, process and technology. (International Facility Management Association, 2014)

In recognition of the confusion caused by the numerous and different local and international definitions of facility management, the Facility Management Association of Australia (FMAA) does not currently offer a definition as it is working with, inter alia, Standards Australia and the International Standards Organisation to create a single facility management definition (Facility Management Association of Australia, 2014).

Like CRE, Facility Management formally emerged as a professional discipline in the 1980s.
As described in the preceding section, CRE deals with the strategic management of an organisation’s property needs by linking it with the organisation’s business strategy.

Facility Management is associated with the terminology of the recession of the 1990s, for example, ‘reengineering’, ‘downsizing’, ‘restructuring’ and ‘outsourcing’. It is to do with the design and management of physical space (the workplace) in relation to people (employees) and work processes. It is not concerned with the management of facilities for profit, as a property manager would be, but rather its mission is to provide quality, cost-effective services to in-house ‘customers’ in support of their business plans (Rondeau et al, op.cit).

Facility Management is therefore more tactical in nature than CRE in that it supports and provides services to business units in relation to specific premises and facilities. This includes the direct provision, procurement and management of the following functions and services:

- Short (annual) and long-term facility planning;
- Facility financial budgeting and management;
- Interior space planning, specifications, and installation and space management;
- Architectural and engineering design;
- Furniture, fixtures and fittings;
- Management of construction, renovations, refurbishments, relocations and fit-outs;
- Operation, maintenance and repair of plant and machinery, building fabric, car parks, grounds, campuses and precincts;
- Utilities and telecommunications;
- Security;
- Cleaning; and
- Administrative support services such as catering, records management, fleet and transportation, travel and accommodation, mail services and document distribution.

4.6 Property Management, Corporate Real Estate and Facility Management

It was explained at the beginning of this chapter that Strategic Property Asset Management, Property Management, CRE and Facility Management are often confused and mistaken for each other.

The preceding sections have shown a commonality between Property Management, CRE and Facility Management in that they all deal with the built environment and are customer orientated. Their functions also crossover, and are often inter-dependent in the management and provision of services to a building, facility or workplace.

Practitioners claiming a hierarchical ascendency of one discipline over another sometimes exacerbate this confusion. This is particularly evident in the interpretation and application of the word ‘strategy’ in the property and business contexts with tactical measures being mistaken for strategies. This situation exists more between CRE and Facility Management,
where lines of function and responsibility can be blurred as they merge along the continuum (see figure 4.4).

Although CRE and Facility Management are both customer-orientated and have similar missions and objectives, they operate at different levels of an organisation.

CRE looks to contribute to corporate performance by developing strategies and standards that treat property as a corporate resource and shape portfolios that contribute to production and business performance. It is therefore ‘strategic’ in both a property and business context.

Facility Management is operational and ‘tactical’ in nature in that it deals with workplace functionality, and provides workplace solutions and property services to implement the organisation’s CRE strategy.

CoreNet Global, the USA-based organisation that represents and promotes CRE and CRE executives and managers, presents the difference between CRE and Facility Management in a ‘top-down’ (CRE) and ‘bottom-up’ (Facility Management) context. This is illustrated in Figure 4.4 (CoreNet Global, op. cit.).

![Figure 4.4: Facility Management – Corporate Real Estate Continuum](image)

### 4.7 Strategic Property Asset Management in the Public Sector

The introduction to this thesis set Strategic Property Asset Management in the context of a whole-of-organisation corporate management activity and as a subset of Resources Management.

This section will examine the role of Strategic Property Asset Management within an organisation and show how, although it is to do with property, it is set aside from the management, technical and transactional activities of Property Management, Facility Management and, to some extent, CRE.

Strategic Property Asset Management can and should be viewed as the public sector’s version of CRE, but which has perhaps been more widely integrated into the strategic planning and financial management process than its private sector counterpart.

There are a growing number of governments across the developed world, including the USA, Mexico, Canada, the Scandinavian nations, Germany and New Zealand that have implemented far-reaching reforms in the management of their assets. In many cases, these reforms would have been based on the models developed by the UK and USA governments,
both of which are presented as case studies in this thesis for the determination of leading practices.

This thesis uses the experience of the UK government to provide a definition and description of Strategic Asset Management and its application to property as this is the most extensively documented, and is considered to represent the closest parallel to Australia’s reform journey (Seymour-Jones, op. cit.)

Misconceptions and lack of understanding are common themes that are at the core of this thesis.

It is the corporate and whole-of-organisation context with which the strategic management of assets is concerned (Lyons, op. cit.). This is neither properly understood, nor does it receive the necessary recognition and attention (Howarth, 2006).

There is a common misconception and belief in government that Strategic Property Asset Management is engineering, maintenance, and property or facility management. These are technical and operational subsets of Strategic Property Asset Management that implement an organisation’s Asset Management Strategy (Male, 2006).

Howarth (op. cit.) put the distinction very succinctly when he wrote “There are therefore differences between the property management view of assets and the asset management view of property.”

During the 1990s and early 2000s, successive governments in the UK had under-invested in infrastructure, particularly in the national road network. In seeking alternative and new sources of capital, the Chancellor of the Exchequer commissioned Sir Michael Lyons in 2004 to assess the possibility of achieving £30 billion from asset disposals and £760 million per annum in savings by 2013 through better asset management. Lyons concluded that these targets were achievable (Lyons, op. cit.).8

Lyons (ibid.) said that “.... good asset management planning must complement an organisation’s strategic or business planning”. He also positioned responsibility for Asset Management with the Finance Director and for it to be regularly reported at board level. Significantly, this has formed the basis for the subsequent reform of asset management throughout the UK public sector and the development of a routemap to asset management excellence (UK Office of Government Commerce, 2006).

Lyons defined Asset Management, as “a key part of business planning, which connects, at a strategic level, decisions about an organisation’s business needs, the deployment of its assets, and its future business needs.” (Lyons, op. cit.).

Professor Stephen Male of Leeds University (Male, op. cit.) expanded on the Lyons definition of Asset Management by describing it as:

“A subset of Resource Management, and is the effective and efficient direction and utilisation of assets, both tangible and intangible, to sustain the business. This definition covers all asset classes including production, facilities, fleet assets and IT infrastructure, for example. This definition encapsulates the processes of:

---

In summary, Strategic Property Asset Management is:

- An activity that sees assets as key strategic resources;
- Involved with business, corporate and organisational objectives;
- Concerned with both non-financial as well as financial matters;
- Connected with the operational management of individual assets and asset categories;
- Concerned with service delivery and whole-of-asset life;
- Involved with planning on a medium and long term basis; and
- A corporate activity and not solely the province of property, engineering, construction and facilities professionals.

In concurring with the views of Lyons and Male, Howarth (Howarth, op. cit.) identified and recommended the following necessary skills for asset management:

- **Data Management** (asset registers; data accuracy; type, scope and analysis of data);
- **Performance Management** (KPIs, performance measurement and benchmarking; contract management; stakeholder management);
- **Strategic Business Planning** (business and service drivers and strategic thinking; asset strategy and management plans; risk management and project and programme management; sustainability);
- **Financial Management** (resource accounting; operating and capital budgets; whole-of-life costing; business case preparation and options analysis); and
- **Leadership** (capacity and capability building; change management; management of professional staff, contractors and consultants)

Howarth’s recommendations were made against the need to embed “asset management awareness and associated skills across government” focusing “on ensuring that asset management becomes an intrinsic component of mainstream strategic thinking and financial management”.

Howarth’s report included research into the professional skills already existing in government that were related to asset management, for example property management, facility management and finance. He found that these existed to a degree of experience and competence at a “tactical level” with managers seeing property as a “strategic function”, but
few understanding it as a means of “optimising the use of assets to benefit the service”. He also identified a noticeable lack of awareness of the strategic value of property assets at senior management level (ibid.).

It will be seen that Australia’s lack of progress in developing asset management capacity and capability closely resembles the lack of asset management awareness experienced by the UK government in the 2000s.

Although largely concerned with property assets, Lyons (op. cit.) applied his thinking to all categories of assets, roads, infrastructure and intangible, as did Male (op. cit.). Lyons, Male, Howarth and the Office of Government Commerce* (OGC) consulted the property profession and the finance sector widely in their research and for the development of a routemap towards excellence.

In addition to calling for a robust asset management and planning framework, Lyons (op. cit.) recommended that asset management skills and expertise be expanded and improved within the public sector. The property profession was used a base for the development and improvement of these skills.

The RICS had already been involved with local government in the management of property assets and was seen to represent a practice benchmark for other major asset categories.

The RICS has published RICS Public Sector Property Asset Management Guidelines: A guide to best practice for its professional members (Jones and White, ibid). (The author of this thesis was consulted on these guidelines and presented them on behalf of the RICS at their official launch in Australia).

As an offshoot to the guidelines, the RICS has also published a series of best practice guidelines for use in the management of local government assets (Royal Institution of Chartered Surveyors, 2009).

Howarth in particular, called for asset management to be recognised and treated as a profession in the public sector by recommending that it be developed through the government’s Professional Skills in Government programme and be included in the training and development for “all” staff (Howarth, ibid.).

The objective was to widen the awareness of asset management as a strategic corporate resource among senior managers, and to encourage strategic thinking amongst existing professional staff. One result of this has been the senior appointment of a whole-of-government ‘Head of Asset Management Profession’. The UK Audit Commission noted in its 2009 report on strategic asset management in local government that not investing in professional asset management skills and capacity is a ‘false economy’ (UK Audit Commission, ibid).

**4.8 Strategic Property Asset Management Definition**

The examination of the property asset-related professional and management disciplines in this chapter has explained the roles of each of them, identified their differences and positioned them in the Strategic Property Asset Management context. This has Strategic Property Asset Management at the core from which all planning and implementation activity is derived. This is shown in Figure 4.5.

---

9 Until 2010 the OGC was an independent agency within HM Treasury responsible for government efficiency, procurement, property, programmes and projects, and sustainability.
The following is offered as a single definition for Strategic Property Asset Management.

“Strategic Property Asset Management is a whole-of-organisation business activity that recognises property assets (land and buildings) as key strategic organisational resources. Together with Human Resources, Intellectual Capital, and Information and Communications Technology, Strategic Property Asset Management is an integral part of the corporate planning and reporting process. It seeks to ensure that the property asset base, which underpins and enables an organisation’s ability and capacity to achieve its goals and objectives, is optimally structured financially, functionally, and technically to support that ability and capacity.

“It sets the organisational framework, policy and management strategy under which the management of an organisation’s property asset base is governed.”

This definition embodies the principles of Lyons, Male and Howarth; it recognises Strategic Property Asset Management as a discrete element of Resources Management; and it acknowledges the importance and significance of property assets to corporate financial, business and organisational sustainability.
5 Measurement of Performance in the Public Sector

5.1 The Public Service’s Contract with the Community

The Executive Branches of all tiers of government should consider themselves as a ‘service industry’, perhaps the largest or most important member of the services sector, providing the widest range of services including, law and order, national security, economic management, infrastructure, education, health, recreation, information, and community wellbeing.

Not because of any political mandate given to governments of the day, public sector administration, the civil service, which is the permanent and professional branch of government, is responsible for not only providing the “frank and fearless advice” to its political masters, but also ensuring the provision and management of services to the public in the most appropriate and efficient manner.

Incumbent governments, although not always adhering to them, effectively have ‘contracts’ to enact their policies from mandates gained through the electoral process. It should follow, therefore, that the Executive Branch of government has similar ‘contractual’, if not moral obligations to the public for their performance.

The Values and Code of Conduct of the Australian Public Sector (APS) state, “Employees of the APS occupy a position of trust. They are entrusted by the Government and community to undertake important work on their behalf. With this trust comes a high level of responsibility, which should be matched by the highest standards of ethical behaviour from each APS employee.” (Australian Public Service Commission, 2016a)

The Australian Public Service Commission puts acting with integrity “at the heart of proffering frank and fearless advice; merit-based selection; independent and evidenced-based decision-making; efficient and effective resource management; ensuring trust among stakeholders; and, openness and transparency.” (Australian Public Service Commission, 2016b).

Although framed in the contexts of integrity and ethical behaviour, these should be considered as the basis of the APS ‘contract’ with the public that it serves. Because of this, the performance of the public service should be measured against levels of service and management, as would all service providers under the terms of their contracts.

Like any other public sector resource, such as people or monetary capital, the efficiency and effectiveness of the investment in property as a means of service delivery, and its deployment, use, utilisation, and management must be properly understood and measured. If it is not, governments and government agencies will only have a blurred and incomplete picture of their performance, financially, in service provision, and the management of themselves as corporate and business entities.

This would affect the ability of the public service to give the frank and fearless advice, make independent and evidence-based decisions, and manage resources efficiently and effectively, ensure trust among stakeholders, and be open and transparent. In effect, it would breach the ‘contracts’ between itself and both the government and the public.

It is often the case that the public service’s ‘contract’ to effectively manage property, one of its principal ‘resources’, as it is obliged to do under its integrity principles, is “a custom more honoured in the breach than in the observance”. \(^\text{10}\)

\(^{10}\) Hamlet, Act 1, scene 4, line 16. William Shakespeare (c1600) adapted in Yes Prime Minister, The Key (TV Episode 1986)
The author has observed the measurement of property management outcomes by the Australian Public Sector in all tiers of government. Concern for a lack (and in some case absence) of performance management in the form of meaningful indicators, measures and benchmarks or targets that are linked not only to asset performance, but also to the delivery of services that they support, led the author to research the measurement of outcomes generally in the public sector.

Of the factors that influence the monitoring of performance in the public sector, three have had (and have) a significant effect on the extent to which, and how governments measure performance. These are organisational culture and characteristics, empirical evaluation, and the availability of relevant and reliable data. All are inextricably linked, but are considered separately in the following sections.

Add to this, the press for reform, and demand for greater efficiency and transparency in governments across the world in the late-1980s through to the mid-1990s resulted in what became known as the New Public Management Paradigm. For reasons that include public sector culture, lack of data and performance measurement, this paradigm turned to paradox (Figure 5.1). This phenomenon is considered in section 5.4.

![Diagram](image)

**Figure 5.1: New Public Management Paradigm to Paradox**

### 5.2 Organisational Characteristics

The individuals responsible for its leadership and management define the characteristics of an organisation. Those characteristics that relate to culture, values, structure and governance dictate the way an organisation makes decisions; views, conducts and manages its business; responds to, accepts and implements innovation and change both internally and externally; and communicates within itself and with outside parties and stakeholders.

The following organisational characteristics and their effect on the management of property in the public sector are observed to be: (also refer to Table 4.1 above)

- The machinery and structure of government;
- Capacity, skills, expertise;
- Inter and intra-government, external and stakeholder communications and relationships;
- Roles, responsibilities, processes, procedures; and
- Governance and the notions of quality, performance, accountability and transparency in the management process and production of public services.

Research for this thesis did not reveal any literature that links governance and management practices and, by extension, culture and organisational behaviour to the management of property assets per se. However, related publications, particularly (Kruk & Bastaja, 2002), (Kaganova, McKellar, & Peterson, 2006b), (C Hood & Peters, 2004), (Male, 2006) and (DEGW & CoreNet Global, 2004), together with personal experience provide strong evidence that this is the case.

Thorncroft’s definition effectively provides a governance model for real property. He envisaged that management encompasses the direction and control of policy; and supervision is the implementation of policy.

This bears a close relationship to definitions for public governance which have been collated by Hill and Lynn (Hill & Lynn, 2004), who have cited definitions as “the general exercise of authority” (Michalski, Miller, & Stevens, 2001), where authority refers to systems of accountability and control; and “administrative practices that constrain, prescribe, and enable the provision of publicly supported goods and services” (Lynn, Heinrich, & Hill, 2001).

Hill and Lynn suggest that policy-makers, public managers, and professionals should ask questions of “less general political interest” concerning how public governance and management contribute to outcomes (Hill & Lynn, 2004).

It is significant that Hill and Lynn include ‘professionals’, as it expressly acknowledges their importance in public governance and management. This importance has been recognised in the USA, which, under Executive Order 13327, appoints professional Senior Real Property Officers to each federal agency; and in the UK, which has appointed a Chartered Surveyor as Head of Profession for Property Asset Management. The UK Audit Commission notes that not investing in skills and capacity in relation to property professionals is “a false economy” (UK Audit Commission, 2009).

With some exceptions, this research and the author’s experience have not uncovered a propensity for public administrations to take an introspective look at themselves, and ask the questions posed by Hill and Lynn. Indeed, there may well be an embedded reluctance to do so (Kruk & Bastaja, 2002). This leads to questions over structural management issues that might relate to, inter alia, the machinery of government, leadership, processes and systems, human resources, skills, capacity and expertise, and training and development. Research into the New Public Management Paradigm and managing change in the public sector (OECD, 2010), (C Hood & Peters, 2004), (Huerta Melchior, 2008), (Peteri, 2008) and (Schick, 2002), and how it has been implemented by governments over the past 15 to 20 years may provide answers to these questions.

Those governments that have asked questions have implemented strategic asset management reform programmes. The US Federal and UK Central governments publish material that describes the drivers behind this reform (United States General Accounting Office, 2003), (Lyons, 2004b), and the governance and administrative arrangements adopted
In its implementation ("EO 13327," EO 13327 2004) and (UK Office of Government Commerce, 2006). In the UK, the need to raise alternative forms of capital for investment in infrastructure was a prime driver for change.

The USA and UK governments also provide information on the progress, outcomes and benefits accruing from the changes in governance and Strategic Property Asset Management practices. Research for this thesis has uncovered similarities in the issues faced by these governments, their approach to Strategic Property Asset Management reform and implementation of change, and the ensuing results. These are summarised in Table 5.1.

<table>
<thead>
<tr>
<th>Element</th>
<th>USA</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sponsorship</strong></td>
<td>President: George W. Bush</td>
<td>Chancellor of the Exchequer: Gordon Brown</td>
</tr>
<tr>
<td></td>
<td>GAO Report to Congress (United States General Accounting Office 2003)</td>
<td>Leeds University (Male 2006)</td>
</tr>
<tr>
<td></td>
<td>OMB: Isomnory to Congress (Springer 2003)</td>
<td>HMT: (Richard, Carter (Lindt et al. 2009)</td>
</tr>
<tr>
<td></td>
<td>Government policy advisory role to CoreNet Global Board</td>
<td>Govt. Heads of Profession (2009)</td>
</tr>
<tr>
<td></td>
<td>Learning &amp; innovation relationships with e.g. Carnegie Mellon</td>
<td>Audit Commission: (UK Audit Commission 2009)</td>
</tr>
<tr>
<td></td>
<td>University, MIT, FM, NASFA (states’ FM), AAA, TWIN</td>
<td>Relationships with professional &amp; learning institutions; private</td>
</tr>
<tr>
<td></td>
<td></td>
<td>sector partnerships e.g. RICS, University of Leeds, FPO Occupiers,</td>
</tr>
<tr>
<td><strong>Governance Authority &amp; Policy Tools</strong></td>
<td>OMB (under EO 13327)</td>
<td>TWIN</td>
</tr>
<tr>
<td></td>
<td>Federal Real Property Council</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Asset Management</td>
<td>- Property Asset Executive Board: High Performing Property -</td>
</tr>
<tr>
<td></td>
<td>- Inventory</td>
<td>- Routemap to Asset Management Excellence (2006)</td>
</tr>
<tr>
<td></td>
<td>- Performance Measures</td>
<td>- Leadership &amp; Integration</td>
</tr>
<tr>
<td></td>
<td>- Information &amp; Systems</td>
<td>- Benchmarking &amp; Standards</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Skills &amp; Capability</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Review &amp; Challenge</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- PAM Boards</td>
</tr>
<tr>
<td><strong>Implementation and Management Authority</strong></td>
<td>GSA (government-wide policy, supply, technology &amp; public buildings)</td>
<td>Office of Govt Commerce (government-wide procurement, programmes &amp; projects; sustainability, estates)</td>
</tr>
<tr>
<td><strong>Outcomes</strong></td>
<td>Worldwide database &amp; KPIs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Reduction in buildings 07/08: 26,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Utilisation 07/08: +7m sq. m. (2.1%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Disposals 05-06: 02,029, annual savings: US$720m</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Value of disposed assets 04-08: US$77.7b. (2015 target: US$15b)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 5.1: Common Property Asset Management Themes – USA and UK Governments**

In 2009, the Australian Commonwealth Government embarked on a programme of reform in the Australian Public Service (APS) to “build the world’s best public service”. Following a report by KPMG (KPMG, 2009), the government issued a consultative document (Australian Government, 2009b), from which followed a definitive reform programme (Australian Government, 2010). The University of Sydney submitted a response to the consultative document, which was largely based on the author’s research into the management of Australian public sector property assets (Leifer & Seymour-Jones, 2009b). This reform programme should have had the potential to have a significant bearing on the management of real property, but it did not survive the change in leadership of the Labor Party, and hence Prime Minister, in 2010.

Anecdotally, there is a belief that reforming the public service did not sit well with, nor receive the support of key senior members of the Australian Public Service, which was responsible for the reform’s demise following the removal of Kevin Rudd as Prime Minister. This goes to the heart of public sector culture and its attitude towards performance, improvement, change, and
maintenance of the status quo. This is a prime example of the analysis of the public sector by Kruk and Bastaja (op.cit.).

Much of the literature into Australian public sector Strategic Property Asset Management is limited to government practices, guidelines and regulations, with scant research material in evidence. Two examples of the latter are a brief commentary accompanying the RICS guidelines (Bowyer, Gillies, Walton, & Warren, 2008) and a review of federal asset management in Australia contained in Kaganova and McKellar’s edited book (Conway, 2006).

However, Table 5.2 summarises the findings of the author’s research and direct professional experience in the public sector for the Australian Commonwealth and the New South Wales State Governments. This information shows that the Australian public sector has followed a decentralised and ad hoc approach to Strategic Property Asset Management and its governance, with little attention being given to managing and measuring its performance.

<table>
<thead>
<tr>
<th>Element</th>
<th>Commonwealth</th>
<th>New South Wales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sponsorship</td>
<td>None identified</td>
<td>None identified post 2005 (Dept of Commerce, State Property)</td>
</tr>
<tr>
<td>Knowledge</td>
<td>No studies/reports identified.</td>
<td>Government Property Group</td>
</tr>
<tr>
<td></td>
<td>ANAO reports (Australian National Audit Office 2001), (Australian National Audit Office 2002), (Australian National Audit Office 2003)</td>
<td>No identified formal interaction with industry, professional or learning institutions</td>
</tr>
<tr>
<td></td>
<td>No learning/skills development programmes</td>
<td>No learning/skills development programmes</td>
</tr>
<tr>
<td>Governance Authority &amp; Policy Tools</td>
<td>No integrated/co-ordinated high level governance.</td>
<td>No integrated/co-ordinated high level governance.</td>
</tr>
<tr>
<td></td>
<td>Dept of Finance &amp; Deregulation (minor property owner, manager of ownership framework, guidelines &amp; data)</td>
<td>- NSW Treasury, Total Asset Management Policy (NSW Government 2006)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Government Asset Management Committee</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- No board of control</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Legislation (NSW State Property Act 2006)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Premier’s Memoranda &amp; Treasury Directives &amp; Guidelines (NSW Government 2008)</td>
</tr>
<tr>
<td>Implementation/Management Authority</td>
<td>- Commonwealth Property Management Guidelines (Australian Government 2009)</td>
<td>LPMA, State Property Authority</td>
</tr>
<tr>
<td></td>
<td>- A Guide to the Australian Government Property Data Collection (Australian Government 2009)</td>
<td>- Property ownership and advisory services to agencies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Implementation of policy for generic property</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Individual agencies</td>
</tr>
</tbody>
</table>

Table 5.2: Australia: Decentralised and Semi-integrated Strategic Property Asset Management Models

These findings indicate that the organisational characteristics of the Australian public sector are consistent with the “turf war” mentality suggested by Kruk and Bastaja. Successive audit reports over a period of more than ten years have been critical of the management of these governments’ property assets (Australian National Audit Office, 2001), (Australian National Audit Office, 2002), (Australian National Audit Office, 2003), (NSW Government, 2005), (NSW Government, 2009) and (NSW Commission of Audit, 2012).

Research for this thesis has therefore established a direct and significant link between public governance, the management of property, government policy outcomes and, in turn, the extent to which government performs in the provision of public services.
5.3 Empirical Evaluation

The Organisation of Economic Co-operation and Development (OECD) strengthen and validate the conclusion of the preceding paragraph through its series of working papers on Public Governance.

In examining the measurement of government performance, the OECD, in its Working Paper on Public Governance No. 1, Towards Better Measurement of Government, said that, because of the size and significance of the public sector, it is a major contributor to growth and social welfare. Measurement of government performance therefore matters (OECD, 2007). In terms of the extent of the public sector’s interest, use and activity in property as a factor in the production of public services and welfare, its significance to the economy was established in Chapter 3 of this thesis.

The OECD working paper exposed a “persistent problem” with recommendations for public management reform (and, in the author’s experience, implementation of reform). The OECD noted that reforms are rarely based on empirical evaluations, and are based more on policy fads than evidence, and with pre-occupation and excessive claims of “best practice”.

The OECD’s research found an over-all very limited availability of data in all areas of its analysis of public management reforms, a situation that it described as “a troubling concern”.

In considering a framework for the measurement of government performance, the OECD “disaggregates” the public sector production process into six categories: revenues; and, as shown collectively in Figure 5.2, inputs (factors of production, which would include property); public sector processes, which are dependent upon organisational structure, governance, skills and expertise to manage production activity; the derived outputs; resulting outcomes, which will be subject to constraints or antecedents that contextualise government efficiency and effectiveness (Ibid). Much of the terminology used in this process mirrors that of Hill and Lynn’s definitions for public governance.

**Figure 5.2: Disaggregated Public Sector Production Process (OECD 2007)**

This model is intended for use in the macro-assessment of efficiency and effectiveness for comparison between OECD member governments on consistent units of analysis. Currently, the processes encompass budget practices and procedures, human resources, internal and external reporting, e-government readiness, and the role of the centre of government. Where the units of analysis are not clear or are inconsistent, they can be used as simple measurement categories that can be compared across jurisdiction and time. Given that real property, together with human resources, is the strongest common denominator across all government activity, this process can be directly related and applied to property assets in a number of areas:
- As an input that contributes to government outcomes;
- As an input that requires governance, control and management processes;
- As an asset, the performance, efficiency and effectiveness of which in relation to the achievement of government objectives, is measurable, manageable and reportable; and
- For intra and inter-government benchmarking of the above.

The OECD found that governments appear to limit their assessments of efficiency and effectiveness by relating only the harder elements of the input category directly to the outcomes, and to view these solely in a budgetary context. This leads to incomplete and unreliable data and information, which by-pass structural problems, and upon which isolated management decisions are made.

Decisions, therefore, can preclude assessments of the larger strategic picture, and can affect policies and performance of whole-of-government importance.

The disaggregated view of the process enables the analysis of each input to include the role played by public administration policy, structure, governance and management in its contribution to the production process. It also recognises outputs as a distinct category, separating them from outcomes, which are in turn subject to constraints and parameters before they are put into context.

The model would seem to provide support for, and a tool by which Hill and Lynn’s notion that public administrations need to ask questions as to how public governance and management contribute to governmental outcomes. It also exposes the issues of accountability and transparency in public administration to greater scrutiny.

Although the cycle and processes involved in the management of government property assets will be presented and discussed in detail later in this thesis, it is a convenient point to show the relevance of the OECD’s disaggregated approach to the Strategic Property Asset Management cycle and its organisational dependencies, as put forward by the RICS (Jones & White op.cit.). This is shown in Figure 5.3.
Figure 5.3: Asset Management Cycle, Processes and Supporting Organisational Requirements

A process for measuring the performance of property assets and their management already exists. This process fits the disaggregated framework for the assessment of government performance.

The principles of professional public sector Strategic Property Asset Management practice formally place the assessment and reporting of performance, and consequential actions for change and improvement, in the asset management process. This is not just measuring how individual properties are performing in terms of operational costs, for example, but also the success (or otherwise) of the overall Asset Management Framework, including strategies and plans, service delivery models, people, and aspects of the management of the organisation as a whole.

Performance measurement is undertaken for each stage of the process, and for each of the supporting organisational elements. This enables a full range of assessment beyond merely relating the *harder* elements of the input category to the outcomes, and assessing them in a budgetary context only.

Table 5.3, constructed by the author, shows how the performance of asset management might be assessed through the OECD disaggregated model. However, any measurement of the performance of the asset base and its system of management will be dependent upon, and only as good as the quality of the government’s service and business planning, which in turn relies upon accurate and reliable data and information (Ref. section 5.4).
<table>
<thead>
<tr>
<th>DISAGGREGATED ELEMENTS</th>
<th>PERFORMANCE OF THE ASSET MANAGEMENT SYSTEM AND THE ASSET PORTFOLIO</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inputs</strong></td>
<td>▪ Government Business and Service Objectives</td>
</tr>
<tr>
<td></td>
<td>▪ Methods of Service Delivery</td>
</tr>
<tr>
<td></td>
<td>▪ Levels of Service</td>
</tr>
<tr>
<td></td>
<td>▪ Data and Information</td>
</tr>
<tr>
<td><strong>Public Sector Processes</strong></td>
<td>▪ Leadership</td>
</tr>
<tr>
<td></td>
<td>▪ Culture</td>
</tr>
<tr>
<td></td>
<td>▪ Governance and Structure</td>
</tr>
<tr>
<td></td>
<td>▪ Roles &amp; Responsibilities</td>
</tr>
<tr>
<td></td>
<td>▪ Systems, Processes and Procedures</td>
</tr>
<tr>
<td></td>
<td>▪ Resources, Capacity and Capability</td>
</tr>
<tr>
<td><strong>Activities</strong></td>
<td>▪ Analysis</td>
</tr>
<tr>
<td></td>
<td>▪ Asset and Financial Planning</td>
</tr>
<tr>
<td></td>
<td>▪ Asset Programming</td>
</tr>
<tr>
<td></td>
<td>▪ Asset Delivery and Management</td>
</tr>
<tr>
<td></td>
<td>▪ Performance Measurement and Evaluation</td>
</tr>
<tr>
<td></td>
<td>▪ Change and Improvement</td>
</tr>
<tr>
<td><strong>Outputs</strong></td>
<td>▪ Asset Management Policy</td>
</tr>
<tr>
<td></td>
<td>▪ Asset Management Strategy</td>
</tr>
<tr>
<td></td>
<td>▪ Asset Plans</td>
</tr>
<tr>
<td><strong>Outcomes</strong></td>
<td>▪ Composition and condition of asset base</td>
</tr>
<tr>
<td></td>
<td>▪ Effectiveness of the asset base to support provision of public services</td>
</tr>
<tr>
<td><strong>Context – Antecedents and Constraints</strong></td>
<td>▪ Machinery of government</td>
</tr>
<tr>
<td></td>
<td>▪ Skills capacity and capability</td>
</tr>
<tr>
<td></td>
<td>▪ External and internal factors</td>
</tr>
<tr>
<td></td>
<td>▪ Public sector culture</td>
</tr>
</tbody>
</table>

Table 5.3: Assessing Asset Management through the OECD Disaggregated Model

In examining the performance measurement activity by 33 of its member countries, the OECD found the following (Table 5.4) (OECD op.cit.):
<table>
<thead>
<tr>
<th>AREA</th>
<th>AUSTRALIA</th>
<th>OTHER MEMBERS</th>
</tr>
</thead>
</table>
| Government Ministry / Body responsible for conducting evaluations | ▪ Ministry of Finance  
▪ Responsible Ministry, Department or Agency | 17 members also include the National Audit Body and/or the legislature |
| Types of evaluations conducted and the basis of evaluation | ▪ Type: On-going programmes only  
▪ Basis: Ad hoc only | 23 members also conducted post-programme, new initiatives, sectoral, and/or spending reviews  
In addition to ad hoc, 13 members conducted reviews on a systematic basis |
| Use of evaluations by / for: | | |
| ▪ Ministry of Finance | Rarely | Often / always: 9 members |
| ▪ Departmental budgeting | Rarely | Often / always: 9 members |
| ▪ Cabinet | Rarely | Often / always: 6 members |
| ▪ Legislation debate | Never | Often / always: 2 members |
| ▪ Strategic & budget setting | Often | Often / always: 15 members |
| Use of evaluation findings in negotiations with Ministry of Finance | Rarely | Rarely: 10 members  
Often: 12 members  
Always: 2 members |
| Follow-up on Evaluations | | |
| ▪ Formal follow-up processes in place | For some evaluations only | All evaluations: 3 members  
Some / a few: 20 members  
No: 3 members |
| ▪ Evaluation function / processes audited by supreme audit body | No | Yes: 16 members  
No: 10 members |
| ▪ Evaluations audited by supreme audit body | A few | All evaluations: 1 member  
Some / a few evaluations: 15 members  
No: 9 members |

Table 5.4: Summary of Performance Evaluation Regimes in OECD Member Countries

The OECD looked at the roles and responsibilities in the performance management systems of these member states. It found that Australia does not assign such roles and responsibilities within either Ministries or Departments, to the National Audit Body, the legislature, or to any external institution. In comparison, 22 other members assigned these roles and responsibilities to at least one these bodies.
5.4 The Collection, Management and Use of Data

5.4.1 The Need for Information and Data

Lonti and Woods built upon the OECD’s Working Paper by explaining the need to identify core data in relation to public sector efficiency (Lonti & Woods, 2008). Lonti and Woods put forward three principal reasons for the collection of core data:

1. To enable governments to compare institutional arrangements and performance;
2. To identify possible causes of variances in performance; and
3. To facilitate detailed analysis of the effectiveness of public sector reforms.

The second and, particularly the third reasons are relevant to the management of government property.

Performance variances would relate to monitoring the performance of property asset strategies and plans against objectives and targets, the performance of individual assets, and the effectiveness of the management framework governing their management. This relates to the ‘Performance’ element of the Asset Management Cycle shown in Figure 5.3 above.

Data for the measurement of the effectiveness of public sector reform is essential in the context of the management of government property. This thesis has shown the importance and significance of public sector property, not only to the management of government business and provision of public services and infrastructure, but also to property markets and national economic activity.

All tiers of Government in Australia have undertaken reforms in the way they manage, and how they govern the management of their assets. These are the subjects of the Case Study into the Australian Public Sectors contained in Appendix 3.

There is little data available to assist in evaluating performance in either of these areas, other than that collected by individual public entities for internal asset management purposes. Few efforts have been observed to evaluate the effectiveness of asset management reform.

These observations are in line with Lonti and Woods, who found that most data collected in the public sector, is on an ad hoc and irregular basis. They consequently proposed that core sets of data be collected regularly, and that the data collected be appropriate and reliable to allow identification of trends and evaluate performance effectiveness and efficiency.

Maintaining consistency with the Disaggregated Measurement Model, Lonti and Woods proposed that core data be collected by reference to the elements of the model.

With increasing pressure on governments to improve public sector efficiency and effectiveness whilst controlling expenditure, and the increasing public expectations for more and better services, it is important to be able to measure the performance of government agencies in terms of business, financial and service delivery performance. In so doing, governments will have the ability to measure the achievement of their objectives, and base policy, financial, organisational and service decisions on good information.

In the age of the technical ability to collect, collate, assimilate, analyse, and disseminate data in real time, governments are facing considerable demands for information, and transparency in the conduct of doing business. Data and information therefore have an important role in breaking down public service walls, and improving the accountability of both the public service and the political branches of government.
Notwithstanding this, Lonti and Woods said that studies into measuring public sector efficiency are “bedevilled by weak data” (Lonti & Woods, op. cit., p. 19).

This conclusion is certainly supported by this thesis, but there are further reasons in addition to the weakness of data that impede the measurement of efficiency.

In one of its series of ‘Insights’ articles for the Oil and Gas Industry, the consulting firm, McKinsey & Company, identified a number of causes of information shortfalls or “leakages” that occur when capturing data and moving them to where strategic and operational decisions are made (Martinotti, Nolten, & Steinsbo, 2016).

McKinsey & Company matched these leakage types with the elements of the data management process. Figure 5.4, reproduced from the ‘Insights’ article, illustrates the funnel effects of this.

![McKinsey & Company’s Data Leakage Funnel](image)

**Figure 5.4: McKinsey & Company’s Data Leakage Funnel**

This has many similarities with the Australian public sector. Irrespective of the level of quantity, quality, appropriateness, or reliability of data, data must still be processed into relevant information. It has been seen that governments have trouble in establishing and maintaining central repositories for data, or moving data across their systems networks. They are also not good at the consistent collection and aggregation of data, turning data into meaningful analyses and information, and, when they have information, they struggle to turn it into action and outcomes.

### 5.4.2 Property Asset Data and Information in Australian Public Sectors

Given that most government activities and services are conducted from real property, the performance of property assets, how they are used and managed, and the system of their management are crucial to the performance of government agencies. Knowledge of these assets from all perspectives (condition, suitability, functionality, amenity, and financial) is fundamental to assessing agency performance.
However, there is paucity of data and information in relation to property (and most asset classes) in all tiers of government in Australia (Leifer & Seymour-Jones, 2010). As noted by Leifer and Seymour-Jones, the Commonwealth Government's Department of Finance and Deregulation (DFD) establish reporting standards in relation to property office accommodation that other Federal Government departments are required to follow. The data categories maintained by the DFD were listed as follows:

“The property file is a Microsoft® Excel spreadsheet with data recorded against each of the following data elements for each property …

E01: Lease identifier
E02: Building identifier
E03: Street number/Building name
E04: Street name
E05: Suburb
E06: State/Territory
E07: Postcode
E08: Net Lettable Area
E09: Leased-out Area
E10: Total non-office area
E11: Workpoints
E12: Occupied workpoints
E13: Lease start date
E14: Lease end date
E15: Heritage status
E16: Building grade
E17: Agency comments”.

Leifer and Seymour-Jones went on to surmise that this level of data aggregation might be adequate for the oversight role of the DFD, but noted that the document, “Guide to the Australian Government Property Data Collection” fails to expand on the list, and classify or derive information from the list (Australian Government, 2009a).

In their conclusion, Leifer and Seymour-Jones emphasised the need for Property Management Information Systems in the public sector, together with a commitment towards its maintenance and ability to facilitate a life-cycle approach, rather than merely the maintenance of an “asset register to satisfy the need to report” (Leifer and Seymour-Jones op.cit.).

Australian governments show no consistency in the appreciation of the need for property asset data, policies for data collection, management and use, and selection of systems. There is much evidence, however, that the management of asset data is systems-led, based on what a system can do, rather than what is required from a system by the user.

Similarly, there is no evidence that governments in Australia share data, or co-operate in its analysis. Collectively, the State Governments are responsible for the management of over four million square meters of office space with a total combined annual rental turnover of $1 billion. They have all the major landlords in common, and yet they have not sought to cooperate to exploit the enormously powerful influence that they would undoubtedly wield within their office leasing markets (Government Property Group, 2007).

This situation works to the detriment of all tiers of government, and to individual jurisdictions. The situation exists despite a call from the Council of Australian Governments (COAG) in 2006 for “nationally consistent frameworks” to protect financial sustainability by managing
infrastructure through effective asset management and financial planning. (Seymour-Jones, 2014a) Seemingly, this bore the hallmarks of the Australian Federal and State Governments having learned from the UK Government’s Strategic Property Asset Management Reform Programme. (Refer to Appendix 1).

However, these frameworks, and hence the possibility of correspondingly consistent frameworks for the management of property data, did not materialise. This thesis ascribes this failure to a combination of the public sector’s lack of understanding of asset management, its culture and organisational characteristics, the desire to avoid examination and the potential for increased accountability and transparency, and ingrained attitudes of turf-protection.

5.4.3 Typical Standard Core Strategic Property Asset Management Data and Information Requirements

The typical standard core data sets for measuring and reporting on the effectiveness and efficiency of the management of government property, as identified by this thesis, are set out in Table 5.5. It is interesting, but of no surprise, that they can be easily distributed within an adaptation of the disaggregated public sector production process.
### Disaggregated Elements and Typical Standard Core Data & Information Requirements for Property Asset Management

<table>
<thead>
<tr>
<th>Antecedents &amp; Constraints</th>
<th>Processes</th>
<th>Outputs</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whole-of-Government Asset Management Policy &amp; Framework</td>
<td>Leadership</td>
<td>Policy formulation</td>
<td>Jurisdictionally consistent, well-understood, and professional approach to the management of property assets as government resources across all sectors of government</td>
</tr>
<tr>
<td>Asset Management Strategies (For Whole-of-Government and Individual Departments, Agenciees, and Arms-Length Bodies)</td>
<td>Gender &amp; management arrangements</td>
<td>Professional practices</td>
<td>Value for money</td>
</tr>
<tr>
<td>Asset Planning &amp; Programming</td>
<td>Government business and service objectives</td>
<td>Business practices</td>
<td>Improved asset knowledge</td>
</tr>
<tr>
<td>Asset Delivery and Management</td>
<td>Financial constraints</td>
<td>Human Resources processes</td>
<td>Resource Management culture</td>
</tr>
<tr>
<td></td>
<td>Business activity</td>
<td>Education &amp; training</td>
<td>Co-operation &amp; communication across government</td>
</tr>
<tr>
<td></td>
<td>Asset data from above</td>
<td>Integrity framework and governance establishment</td>
<td>Good governance</td>
</tr>
<tr>
<td></td>
<td>Key performance indicators</td>
<td>e-Government</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Asset Management Information System(s)</td>
<td>Reporting framework</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Business metrics</td>
<td>Reporting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial constraints</td>
<td>Data and information collection</td>
<td>Data and information collection</td>
</tr>
<tr>
<td></td>
<td>Skills constraints</td>
<td>Gap analysis</td>
<td>Avoidance of unnecessary capital expenditure</td>
</tr>
<tr>
<td></td>
<td>Technical constraints</td>
<td>Analysis of capital and operating financial requirements</td>
<td>Integrity, transparency, and accountability</td>
</tr>
<tr>
<td></td>
<td>Economic conditions</td>
<td>Performance management</td>
<td>Efficient and effective property portfolio</td>
</tr>
<tr>
<td></td>
<td>Asset Management Strategies</td>
<td>Strategic planning</td>
<td>Efficient and effective asset management</td>
</tr>
<tr>
<td></td>
<td>Financial and budgetary constraints</td>
<td>Organisational analysis</td>
<td>Long-term capital requirements</td>
</tr>
<tr>
<td></td>
<td>Legislation, and regulatory codes and standards</td>
<td>Identification of property needs and priorities</td>
<td>Improved and sustainable government services</td>
</tr>
<tr>
<td></td>
<td>Availability of skills, service providers, and materials</td>
<td>Human Resources processes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Market conditions</td>
<td>Risk analysis, mitigation and contingency planning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operating &amp; capital finance</td>
<td>Financial modelling and non-asset alternatives</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Property, legal, technical, operational, business, and financial professional skills, knowledge and advice</td>
<td>Minimal asset management staff</td>
<td></td>
</tr>
</tbody>
</table>

Table 5.5: Disaggregated Elements & Typical Standard Core Data & Information Requirements for Property Asset Management
5.5 Measuring Public Sector Reform

Much of this chapter has been concerned with the measurement of performance in terms of services, their quality, and the efficiency and effectiveness of their delivery. The third of Lonti and Woods reasons for the collection of core data is to facilitate detailed analysis of the effectiveness of public sector reforms.

This section looks at how the public sector views reform, why and how it implements reform, and if and how the outcomes of reform are measured, particularly with regard to the management of government property.

It was noted in the previous section that the Australian Commonwealth Public Sector might be averse to disturbing the status quo of its organisational composition. Given the innate characteristics of public administrations generally, it is quite possible that this might be because of the level of examination that the public service would necessarily have had to undergo for it to be transformed into “the world’s best public service”. Equally, it might purely have been too much of a threatening ‘turf’ issue.

It is also quite possible that it was a reaction to the manner in which, what would have amounted to wholesale reform of the public service was to be carried out; and the level and extent of internal engagement, consultation and communication undertaken by the government to explain the basis and rationale behind the reform to the APS.

The management of government property in Australia has been subject to numerous changes in organisational responsibility and function over the past three decades. For example, is it a public works function; and should it be centrally managed, and if so, by which government department?

In the midst of these organisational and functional debates, there have also been attempts, across all government sectors in Australia, to change the traditional thinking of the management of property and provision of property services from the operational activities of ‘property management’ and ‘facility management’, to a higher more strategic business resource management approach. This would require a revolutionary change in thinking, new skills, and large-scale reform in how property should be treated and managed as a strategic resource, and as a factor of service production and business support.

The author has observed these reforms in the state governments of New South Wales and Western Australia, and in the local government sectors of those states. The outcomes of these reforms have, in the main, not been successful; neither have their respective governments sought to measure or account for them.

The case studies in Appendix 3 describe the roads to reform of these governments, and their outcomes. However, there are common threads that provide the reasons for their varying lack of success.

Apart from, or in addition to, the public sector’s apparent reluctance to accept change, the author ascribes this lack of success to the “surprises and paradoxical effects” that have arisen from the features of the New Public Management reform paradigm (C Hood & Peters, 2004).

5.5.1 New Public Management

5.5.1.1 The Paradigm

There is an abundance of literature on the theory and development of New Public Management (NPM). However, the extent of its consideration for this thesis is confined to the
identification of its principles, the reasons for public sector reform, and why it resulted in “surprises and paradoxical effects”.

These will then be related to the outcomes of the efforts to reform the management of property in the Australian public sectors.

The adoption of NPM principles became fashionable with governments in many countries in the final two decades of the twentieth century. In essence, NPM was an attempt to break with, or at least correct the weaknesses of the traditional form of bureaucratic public administration (O’Flynn, 2007). O’Flynn cited Stoker’s description of NPM as encompassing “a critique of monopolistic forms of service provision and an argument for a wider range of service providers and a more market-oriented approach to management” (Stoker, 2006).

Hood set out the key components of NPM as (C. Hood, 1991):

- Hands-on professional management;
- Explicit standards and measures of performance;
- Greater emphasis on output controls;
- Disaggregation of units in the public sector;
- Greater competition in the public sector;
- Private sector styles of management practice; and
- Greater discipline and parsimony in resource use.

Writing in 2006, Kaganova, McKellar and Peterson (Kaganova et al) identified NPM as one of the major drivers behind reforms in the management of property assets (op.cit. pp. 6-7). Although saying that there was no formal definition for NPM, they identified the following as the “most commonly identified elements”, which are in line with those of Hood:

- Improved financial efficiency and cost effectiveness;
- Performance monitoring and incentives;
- Application of private sector management approaches;
- Decentralisation and reduced bureaucracy;
- Greater managerial authority in financial management; and
- Greater accountability and transparency.

Kaganova et al cited a literature review by Glore in 2001 that placed the United Kingdom, Canada, New Zealand, Australia, the Netherlands, and Sweden as the most advanced implementers of NPM. It was, however suggested that the reforms in property asset management in these countries were as a result of more general changes in public administration and the role of the public sector, and that countries that were just starting property management reform viewed it as part of wider change programmes in the public sector.

---

It is quite probable that this may have been the case in these countries. Indeed, this thesis does not put forward NPM as a driver for reform in either the UK or USA. It does, however, now show that there are very strong connections with property asset management reform in the Australian public sectors and the elements of NPM. Furthermore, the intervening years have allowed the outcomes of these reforms to be reviewed and assessed. It will be shown that they display the paradoxical effects of the NPM paradigm, which provide many of the reasons for Australia’s lack of success in implementing good practices in property asset management. (See Sections 5.5.3 and 7.1.5).

The characteristics of NPM were the concentration on results and managerial responsibility rather than administrative activity and the following of instructions; the economic principles of choice, contracting, competition, and corporate management; modern human resources and organisational management practices; and the importance of service delivery to the public.

Stoker summarised this as, “to dismantle the bureaucratic pillar of traditional public administration. Out with the large, multipurpose hierarchical bureaucracies, and in with the lean, flat, autonomous organisations drawn from the public and private spheres and steered by a tight central leadership corps.” (Stoker, op.cit. p. 46).

In Australia, O’Flynn noted that the NPM reforms of the 1980s “were heavily focused on internal reforms and corporate management. New practices included, corporate planning based on central goals; programme budgeting, management improvement programmes, contract employment for managers, central auditing, and performance monitoring of individuals. The key aims were to empower public servants and increase managerial quality.” (O’Flynn, op.cit. p. 354).

As NPM gained in dominance in Australia, the notions of ‘competition’ and ‘contracts’ increased in importance. This related to the public sector competing with the private sector in the provision of services. Much was outsourced on the basis that the private sector could perform with greater efficiency and effectiveness, and that government was taking more of a view of itself as a ‘facilitator’ of services. The use of contracts between government departments became common to define and govern relationships.

In the New South Wales Government, the Alliance Agreement between Treasury and the Department of Commerce for the management of the Crown Property Portfolio, and the subsequent outsourcing of the non-strategic property management functions of the portfolio by the Department of Commerce to a private sector service provider, are excellent examples of this, as are the unintended effects that ensued.¹²

A further example in the New South Wales Government was the establishment of a business services unit, NSW Businesslink, which offered data management, human resources management, accounting, and property and facility management services to government departments and agencies. This was in addition to the functions of the Department of Commerce, particularly as government’s de facto property manager. The effect of this was to pit government agencies in competition with each other as well as with the private sector. These internal conflicting roles are considered in Appendix 3.

5.5.1.2 The Paradox

In their article, ‘The Middle Ageing of New Public Management: Into the Age of Paradox?’, Hood and Peters analysed the “surprises and paradoxes associated with recent and contemporary public reforms”. They concluded that exploring the features of NPM reforms that

---

¹² Refer to Section 7.1.4
may have contributed to these paradoxical effects would help in understanding public sector reform (Hood & Peters, op. cit., p. 267).

Hood and Peters support evidence that the paradigm had turned to paradox in that reform can result in “cultural clashes or blind spots”, which “include paradoxes of organisational resistance to pressures for second tier change, variants on institutional self-reproduction paradoxes, and related ‘triumph of hope over experience’ paradoxes in which learning from error is somehow repressed”. Furthermore, it was observed that there is a tendency, common to both developed and developing countries, for one culture’s broad vision for change to be translated into something quite different when it passes to another level of the organisation or a different cultural environment. Hood and Peters referred to this as a “two-level cultural and social paradox” (Ibid. p. 272-273).

Examples of these unintended effects and cultural surprises are:

- Competition with the private sector and misplaced policy leading to significant monetary losses;
- The blurring rather than the intended greater delineation of management responsibilities in areas where the type of public service activity and/or its results are not easily identifiable or measurable;
- Measurement and benchmarking of outputs to an extent that it weakens the credibility of such exercises. There is also a danger that measuring performance can result in conformity rather than improvement and innovation;
- The retention and, in some cases the extension, of process controls by bureaucracies, which results in increased regulation and red tape, and decreased efficiency;
- Repeated introductions of the same reform, notwithstanding earlier failures13, quite possibly because of the influence of the interests of consultants in presenting the same ideas and advice in new packaging and jargon;
- Surprises when an unerring belief and trust in new information technology systems do not produce lower operating costs and greater service quality, despite previous experience to the contrary;
- Surprises when an unquestioning belief and trust in “best practice” status ascribed to standards, processes and procedures; and a quest for recognition through certification by accrediting organisations, is found to be misplaced;
- The continuance of ‘one-size-fits-all’ approaches to reform; and
- The introduction of reforms based on minimal research and evidence-based learning.

5.5.2 Change in the Public Sector

Change is “context-dependent” (Huerta Melchor, op. cit. p. 9). Huerta Melchor noted that public sector reforms are complex, often unpopular, resisted, risky, and require time to produce results and show their benefits. This thesis has already shown that the likelihood of the latter being evidenced is small, due to the limited measurement and reporting of performance and results.

13 This serves as a reminder of Albert Einstein’s view of insanity as, “doing the same thing over and over again and expecting different results.”
Huerta Melchor identifies eight factors that lead to resistance to change in the public sector (Ibid, p. 16):

- Lack of coherence of the reform and its relationship with other initiatives can result in confusion and opposition, i.e. reform for reform’s sake;
- Fear and uncertainty;
- Negative implications perceived by individuals and groups;
- A failure to explain the rationale behind the reform to all affected and touched by it, i.e. winning hearts and minds;
- Forced and imposed of change;
- Different interpretations of the change by people at different levels of the organisation, i.e. the “two-level cultural and social paradox” of Hood and Peters;
- Not considering the effect of the reform on people in the change process; and
- Insufficient information and communication causes uncertainty and distrust.

Drawing upon Huerta Melchor’s paper, Charbit and Vammalle identified the reform challenges faced by public administrations, and put forward possible policy tools to address them. These are reproduced in Table 5.6 (Charbit & Vammalle, 2010).

<table>
<thead>
<tr>
<th>Key Challenges</th>
<th>Possible Policy Tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bridging information gaps and developing a clear roadmap with measurable intermediary targets and final outcomes</td>
<td>Independent systems of expertise and preliminary evaluations</td>
</tr>
<tr>
<td>Creating support for the reform: citizens and civil servants</td>
<td>International organisations</td>
</tr>
<tr>
<td>Building on leadership and political commitment to the reform</td>
<td>Debates and consultation strategies</td>
</tr>
<tr>
<td>Overcoming resistance to change and creating ownership feeling for reforms</td>
<td>Seize the moment: take advantage of crises</td>
</tr>
<tr>
<td>Capacity and knowledge</td>
<td>Intermediation bodies (unions, associations etc.)</td>
</tr>
<tr>
<td>Avoiding policy reversals</td>
<td>Experimentation</td>
</tr>
<tr>
<td>Evaluating reform and assessing success</td>
<td>Training and public administration schools</td>
</tr>
<tr>
<td></td>
<td>Communication</td>
</tr>
<tr>
<td></td>
<td>Evaluation mechanisms</td>
</tr>
<tr>
<td></td>
<td>Independent and permanent institutions</td>
</tr>
</tbody>
</table>

Table 5.6: Public Sector Reform Challenges and Policy Tools

5.5.3 The NPM Paradigm and Property Management Reform

Reform of the management of public sector property by Australian governments bears many of the hallmarks of the NPM paradigm and paradox, and of the issues faced in introducing change in the public sector.

This thesis offers the adoption of the principles of NPM by the Australian public sectors as the basis for reforming the management of public property assets, and the ways in which they
were implemented, as reasons and explanations for the resulting “surprises and paradoxical effects” that have been observed in practice by the author.

It will be seen that these surprises and paradoxical effects stem from a lack of understanding of the importance of property to governments, and the many roles property plays in all aspects of national, regional, and local sustainability, as a strategic resource essential to the efficient and effective operation of all areas of government.

The reasons for this relate to context, i.e. organisational culture, the lack of information and data, and the lack of performance measurement, all of which can be attributed to viewing property as a free good with perpetual and unalienable rights of occupation and control, and as a permanent operational necessity.

These are the very real barriers to transforming the management of property from a passive bureaucratic process, to actively managing it as one of the three traditional classical factors of economic production to obtain Thorncroft’s “maximum return”. In this context, NPM also sought to introduce the fourth factor of production, entrepreneurship (or ‘intrapreneurship’, as identified by the IDRF in its CRE 2000 Programme, as one of the advanced stages of development towards full CRE maturity. Ref. Section 4.4)

5.6 Summary of Findings and Conclusions

The finding and conclusions of the measure of public sector performance are summarised in Box 2.
Box 2: Measurement of Performance in the Public Sector: Summary of Key Findings and Conclusions

- The public sector has implied service level obligations with their communities.
- Performance in efficiency and effectiveness must be measured, and measured against levels of service and management, and not solely in budgetary terms. This blurs assessments of the broader strategic issues.
- A disaggregated process enables the assessment of the softer elements, e.g. policy, structure, and governance; separates outputs from outcomes; and considers contextual influences.
- Performance measurement is dependent upon organisational culture, information and data, empirical evaluation, and governance.
- Public sectors often have ‘protectionist’ and territorial cultures; collect data on an irregular and ad hoc basis; assess the harder input elements; measure in monetary terms; and have varying policy provisions and governance requirements over performance measurement and reporting.
- Australia compares poorly to other OECD countries in all aspects of performance measurement.
- Property and its management are major inputs to service delivery.
- The Australian public sectors do not measure the performance of these inputs.
- The Asset Management cycle and processes provide the basis for disaggregation of the elements, which would contribute to the measurement of the efficient and effective delivery of service outcomes.
- Reform is often resisted in the public sector, and their outcomes rarely analysed or measured.
- Attempts to reform the management of property assets by all tiers of government in Australia have been consistent with the principles of NPM.
- Reasons for their lack of success are also consistent with the characteristics of the NPM paradox, and the problems of introducing change in the public sector.
6 The Search for a Leading Practice in Public Sector Strategic Property Asset Management - Case Studies: United Kingdom Central Government and Federal Government of the United States of America

6.1 Introduction

It has been established that the public sector is often confused over the meaning of Strategic Property Asset Management and under-estimates its importance to the provision of public services, infrastructure and a government's financial and fiscal standing. It has also been shown that, because of the limited research and documented experimentation, there is a 'knowledge gap' in the practice of Strategic Property Asset Management, whether good practice or otherwise.

This and the following chapters seek to narrow the 'knowledge gap' and propose a leading practice for the strategic management of government property through case studies into the UK and USA. Detailed versions of these are contained in Appendix 1 and Appendix 2 respectively.

Chapter 7 analyses the case studies undertaken on a number of Australian jurisdictions, namely the Australian Commonwealth Government, the Government of New South Wales, and the Local Government Sector. These case studies are contained in Appendix 3.

The preceding chapter provided a definition for Strategic Property Asset Management through research undertaken into reviews and reports sponsored by the UK Central Government and from subsequent practice guidance published by the RICS. This definition provides the base proposition upon which the identification of a leading practice is founded.

6.2 The Need for a Strategic Approach

The drivers for a strategic approach to the management of their property assets were common to the governments of both the USA and UK.

These drivers revolved around a general malaise in the management of property leading to disrepair and large renewal and replacement funding requirements; changing service delivery models; fragmented control; and a need for asset inventories and an understanding of the asset base, its use and functions, and whether it offers value for money and contributes to the public purse.

The UK and US Governments began to understand the importance of their property assets during the 1990s, but it was not until the early part of the 2000s decade that real and significant changes were introduced. These changes were remarkably similar in principle, and occurred almost simultaneously for like reasons.

6.3 Case Study: UK Government

6.3.1 Research method

- The research for this case study has covered a wide and detailed range of literature in the form of independent and academic studies and reports, professional standards and guidelines, government strategies, policies and procedures, government reports and audits, journal articles and conference proceedings.
This research has identified four principal studies and events, which provide a clear and chronologically traceable path to the development of Strategic Property Asset Management in the UK public sector. They provide the core of this case study, and are supported and supplemented by a number subsequent reports, events and recorded outcomes.

Using the Lyons Report (see following sections) as the origin for this development, figure 6.1 illustrates the places occupied by the four studies and events in the UK’s path to adopting and implementing a strategic approach to the management of property.

Figure 6.1: UK Government – path to Strategic Property Asset Management

6.3.2 Drivers of Asset Management Reform

In mid-2004, the UK Chancellor of the Exchequer, Gordon Brown, commissioned Sir Michael Lyons to conduct a study into the management of public sector assets. Lyons submitted his report, Towards Better Management of Public Sector Assets (the Lyons Report), to the Chancellor in December 2004 (Lyons, ibid.).

Although Sir Michael was asked how asset management might be improved to contribute to the Government’s objectives of securing asset sales of £30 billion and to achieve efficiency savings, there were a number of fundamental and underlying drivers for the study that were prompted by a period of change in which public services were evolving and being delivered in a new context of public expectation.

This change was characterised by increased public demand in the scope, efficiency and quality of services; an increasing focus on improving efficiency and value for money; the continual development of new technologies; the need to redress what was seen by the government to have been a past under-investment in infrastructure; and the clustering of public services and new ways of their delivery. The latter was forcing change in the association of services with particular types of buildings, when and how services were delivered, and when they were available (Lyons, ibid, p.15.)

Lyons noted that the public sector asset base, which had a value of £658 billion, was the foundation upon which public services depends. The asset base, therefore, should continually develop to reflect and support the evolution of the public service. Additionally, the emerging trends represented a need and opportunity to re-consider what constituted a public service, how it delivers public value, and how the management of public assets should respond to support public service delivery models.
With particular reference to the government’s objective of redressing the imbalance in infrastructure investment, Lyons saw asset management as having an integral role in this. He identified a number of alternative sources of capital through the identification and sale of surplus assets; involving the private sector in asset ownership and management; managing assets to realise their real, underlying and hidden value; and the proper and full utilisation of retained assets.

6.3.3 The Lyons Report: a foundation for leading practice

6.3.3.1 The Chancellor’s Brief
The Chancellor of the Exchequer commissioned Sir Michael Lyons “to conduct a brief study into the management of public sector assets and how that might be improved to contribute to the Government’s objective of securing £30 billion of asset sales and achieving further efficiency savings.” (Lyons, 2004a).

6.3.3.2 Benefits of a Broad Approach
Notwithstanding what may have been considered as a fairly narrow brief, Lyons took a broad approach to his examination of asset management to ensure as wide as possible contribution to greater efficiency. He therefore gave additional scope and value to his remit by considering the following five areas, which he saw as essential elements of the study:

- Lyons sought to contextualise the £30 billion disposal target in terms of what it meant, its importance, how it related to Government’s aims and objectives, and whether it related to any wider economic and social objectives, e.g. social housing;
- Quantify the efficiency gain by looking at the scale of the existing asset base and the potential for disposals; the potential for efficiency gains from improved management of retained assets; and how further benefits might accrue from more private sector participation;
- Assess whether incentives encourage good asset management;
- Determine whether the public sector has the right skills, systems, practices and capacity, and whether they are effectively deployed;
- Assess whether the public sector co-ordinates and co-operates across jurisdictional and administrative boundaries.

Although the primary focus was on the management of land and property, Lyons also considered intangible assets such as intellectual property, the radio spectrum and government shareholdings. He looked at government in its fullest context, which included general government, Non-Departmental Public Bodies, local authorities, public corporations, and private assets supported by government funds.

In so doing, Lyons highlighted two things: the significance of land and buildings and their management as strategic government resources: and the need to take account of the contextual settings of their use and importance in the provision of public services, i.e. government policy, inter and intra government co-operation, and the machinery of government through which policy is delivered.

Lyons shaped his report and proposals for the improvement of public sector asset management with the foresight and understanding that they would have wider policy implications in their implementation. They were designed to complement established government policy objectives that impact the management of assets.
It is not so much the concern of this case study that The Lyons Report concluded that the Government’s asset sales and efficiency targets could be met, but rather the asset management conditions necessary to achieve them.

Lyons identified two degrees of asset management: “good” and “better” asset management (Lyons 2004b, p.29), which this thesis proposes as the leading authority that has led to the management of government property assets in a true strategic sense.

6.3.3.3 **Good Asset Management and Better Asset Management: the move to Strategic Property Asset Management**

*Good* Asset Management improves the delivery of government services by aligning the asset base with an organisation’s goals and objectives.

*Better* Asset Management releases resources, generates revenue and improves value-for-money.

With regard to real tangible assets, Lyons concluded that, to estimate realistic quantifiable benefits of improved asset management, entails the analysis of:

- The characteristics of the asset base and the likely potential for future asset disposals; and
- The likelihood of further efficiency savings and economic benefits through *better* asset management of retained assets.

In addition to these quantitative benefits, Lyons also describes potential qualitative benefits from *better* asset management in the form service improvements and the transfer of risk.

Lyons concluded that “readily attainable gains” would be achieved through:

- A co-ordinated approach to asset management planning across government, especially when departments are rationalising their asset bases as part of efficiency or locational reviews;
- Mandatory recording of vacant space and accommodation needs in a centralised database;
- Government standards in areas such as space use and design; and
- A system of governance overseen at the highest levels of government.

6.3.3.4 **Key Findings and Recommendations of the Lyons Report**

6.3.3.4.1 **Findings**

Whilst Lyons found encouraging signs across government, particularly in the areas of on-going asset management-related reform and at the local government level, his report made it clear that much improvement was needed to managing assets as strategic organisational resources. Lyons described asset management as “a key part of business planning, which connects, at a strategic level, decisions about its business needs, the deployment of assets, and its future investment needs.” (Ibid, p.6.).

Lyons provided evidence of a lack of “strategic profile” in asset management in that:

- Asset management was not fully integrated with strategic planning for resource allocation, investment needs and the Government’s efficiency programme;
There was little involvement in asset planning at central government and departmental board levels;

There was an inconsistent approach to the treatment and management of assets across the public sector;

There were few examples of inter-departmental co-operation;

On-going maintenance of assets was not receiving sufficient attention;

There was a dearth of asset management expertise; and

Opportunities were not being explored to extract the maximum value from assets through the involvement of the private sector.

6.3.3.4.2 Recommendations
Lyons framed his recommendations in three categories, for which he saw important roles for the Treasury, the Office of the Deputy Prime Minister, and the Office of Government Commerce. These categories were:

- Creating a rigorous asset management and planning framework;
- Delivery of efficiency gains; and
- Deployment of asset management expertise.

Table 6.1 summarises these recommendations.
Consistent with the recommendations of the Lyons Report, the role of the OGC was extended to include the integrated management of the Central Civil Government Estate. The OGC subsequently commissioned a research project into the management of the CCGE, the principal elements of which were the Leeds Report and the Howarth Report. These are considered in the following sections.

**6.3.4 OGC Research Project: University of Leeds – Improving Property Asset Management in the Central Civil Government Estate (“the Leeds Report” or “Leeds”)**

**6.3.4.1 Introduction**

The Leeds Report was commissioned by the OGC to provide a framework for improving property asset management across the CCGE (Male, op. cit.). It is the foundation on which the management of the CCGE has been managed since 2006. As such, it is an essential resource in defining a leading practice for Strategic Property Asset Management.

Leeds built upon the principles of the Lyons Report, and proposed a programme and methodology for the implementation of the Lyons recommendations. It also provided a validation to the Lyons conclusion that the operational savings and capital targets would be achievable with the adoption of the Lyons recommendations. However, Leeds emphasised that the successful implementation of the Lyons recommendations would depend upon co-ordinated action and co-operation between key stakeholders, led by the Treasury, and assisted by the OGC. OGC’s role would be to “embed enhanced property asset management in central civil government.” (Ibid, p.25).
The Leeds research indicated a clear relationship between property assets, business strategy, service delivery, finance, information technology, and organisational change.

### 6.3.4.2 Scope and Objectives of the Report

Its terms of reference were:

- To provide a baseline assessment of the current status and practice of property asset management in central civil government, and the development of a blueprint for excellence in managing the estate;
- To suggest a central governance structure, including the Office of Prime Minister, the Cabinet Office and Treasury, that sets a property asset management policy framework across the civil estate; and
- To provide an estimate of the potential efficiency gains achievable if the report's recommendations were to be adopted.

The objectives of the study were:

- To provide an assessment of the existing asset base and ‘Property Asset Management’ practices in the CCGE;
- To provide a vision for excellence in ‘Property Asset Management’;
- To construct a maturity matrix of ‘good practice’ in Property Asset Management;
- To estimate potential efficiency gains from better management of the property portfolio; and
- To provide options for intervention strategies by Government.

### 6.3.4.3 Research Approach

The approach adopted by Leeds to the study was framed and guided by the following principles:

- Leeds placed ‘Property Asset Management’ within a hierarchy of strategic and operational management functions under Strategic Resource Management, as shown in Figure 6.2;
Leeds saw ‘Property Asset Management’ as “a structured, holistic and integrating approach for aligning and managing over time service delivery requirements and the performance of property assets to meet business objectives and drivers within a central government organisation”;

Property assets were defined as land and buildings and infrastructure, used by an organisation regardless of tenure, which exist to enable and support service delivery.

Property Asset Management involves the management of assets across their useful lives, from identification of need, to design and construction, operations and maintenance, and disposal. This process encompasses two interacting components of management:

- **Strategic**: medium to long-term assessment of organisational property needs; and
- **Operational**: on-going short-term management of individual assets.

Recognising the importance of property as a strategic resource in terms of both its value and in the production of public services, Leeds considered that its management must be strategic in nature, and integrated with the management of all other resources, i.e. human resources, information and communications technology, and finance.

As such, the management of property (and all other resources) must give recognition to the context of the public sector, including its complexity, and the structure and machinery of government.

Leeds, therefore, approached its study by analysing the CCGE by reference to the areas and sectors of government in which it is comprised. Government property was divided into two categories, ‘operational’ (property that supports and enables service delivery); and ‘administrative’ (property that supports the machinery of government, such as office accommodation).

### 6.3.4.4 Research method
The methodology employed comprised interviews; reviews of literature and government reports; workshops; interaction and sharing with other OGC projects; industry consultation and expert advice; and the experience and knowledge of the research team.
6.3.4.5 Findings of the Leeds Report

6.3.4.5.1 The CCGE and Structure of Government
Leeds found the Government's structure to be complex, decentralised and diverse.

Leeds identified nine organisational models that delivered government outcomes. These comprised 910 public bodies under the control of 23 government departments.

A significant proportion of the CCGE was found to be outside the control of government departments, but within the control of executive agencies. This fragmented government structure reflected an equally fragmented, decentralised and non-strategic approach to Property Asset Management.

6.3.4.5.2 Excellence in Property Asset Management
Leeds defined the characteristics of Strategic Property Asset Management, developed frameworks for its practice and process, proposed standards to measure an organisation’s capacity and capability maturity in the management of property assets as strategic resources, identified the required skills, framed a generic Property Asset Management Plan template, and defined characteristics for organisational and governance arrangements.

6.3.4.5.3 Criteria and Processes
Leeds put forward the following criteria within a ‘top-down’ policy framework, and a ‘bottom-up’ needs approach as prerequisites for excellence:

- **Top-Down**
  - Leadership
  - Governance
  - Policy
  - Structure
  - Roles and Responsibilities

- **Bottom-Up**
  - Strategy Implementation
  - Organisational Performance
  - Asset Performance: Effectiveness
  - Asset Performance: Efficiency
  - Service Performance: Delivery Enhancement
  - Audit and Review

The top-down elements set the governance and policy framework. The bottom-up elements provide information on portfolio performance, and how it contributes to service delivery requirements.

These would be linked through strong communication and a robust reporting regime.

Leeds set down the following criteria to be considered when developing a Property Asset Management Framework:

- The organisation’s strategic direction and associated business strategy;

- Property Management activity, i.e. investment, maintenance, disposal, acquisition, renewal and refurbishment, and land issues;
- Programming and Project Management; and
- Management of both organisational and technological change.

Furthermore, Leeds said that ‘good’ Property Asset Management must comprise treating property as corporate resources; managing property on a whole-of-life basis, and against service levels; measuring performance; assessing and managing risk associated with asset failure; and continuous improvement.

6.3.4.5.4 Strategic Property Asset Management Outcomes, Integration Principles, and Benefits

Table 6.2 summarises the Leeds Report’s key desired outcomes, integration principles, and benefits that the strategic management of property would be expected to provide.

<table>
<thead>
<tr>
<th>Outcomes</th>
<th>Integration Principles</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Improved stakeholder satisfaction</td>
<td>▪ Acceptance of strategic planning for property as an essential part of organisational resources planning</td>
<td>▪ Better management of the asset base</td>
</tr>
<tr>
<td>▪ Clear management and assessment methodologies</td>
<td>▪ Budgets include full costs of property operation and maintenance</td>
<td>▪ Improved accountability</td>
</tr>
<tr>
<td>▪ Regulatory compliance</td>
<td>▪ Integration with whole-of-government policy frameworks</td>
<td>▪ Measurement and reporting of performance</td>
</tr>
<tr>
<td>▪ Improved corporate management and governance arrangements</td>
<td>▪ Consideration of non-asset solutions</td>
<td>▪ Inter-departmental / agency, and jurisdiction benchmarking</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Informed management of risk</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Improved financial efficiency</td>
</tr>
</tbody>
</table>

Table 6.2: Property Asset Management Outcomes, Integration Principles, and Benefits

6.3.4.5.5 Property Asset Management ‘Best’ Practice

In looking for a vision for excellence in Property Asset Management, Leeds developed the following two frameworks through which it presented a proposition for ‘best’ practice:

1. Corporate Planning Framework

This framework places the management of property assets into the corporate planning process, which comprises strategic, tactical, and operational level of planning. Figure 6.3 illustrates this framework.
Leeds listed asset knowledge, property asset management organisational capabilities, and having corporate objectives for property asset management as essential to ‘best’ practice.

2. Strategic Property Asset Management Framework
This framework, shown in Figure 6.4, is designed to support and enable the strategic planning for property assets within the Corporate Planning Framework. It governs the development of property strategy and the delivery of assets through the three levels of planning, i.e. strategic, tactical, and operational.

Leeds provided for performance audits and reviews at all stages of the framework, the results of which would be channelled into the improvement planning process.
6.3.4.5.6 Assessing ‘Excellence’ in Strategic Property Asset Management

Leeds saw the heterogeneous nature of property portfolios as a key issue in designing the extent of an organisation’s property asset management function, and the shape of its structure. There would therefore not be one single solution to suit all situations.

Recognising this, Leeds put forward the following guidelines to assist organisations to determine appropriate levels or standards of property asset management that suit their particular situations:

- The extent of regulatory compliance required;
- Deficiencies in levels of service provided through the portfolio measured against customer satisfaction;
- The nature of the property portfolio;
- Consequences of the occurrence of assessed risks; and
- The level of skills required to manage the portfolio.

Leeds also proposed a series of generic steps in the management process for government property.

This process, shown in Figure 6.5, subordinates the strategic and operational management of property to services, methods of service delivery, levels of service, and effect on service performance.

[Image: Figure 6.5 Property Asset Management Process]

Leeds developed a Property Asset Management Maturity Matrix to enable government organisations to assess their property asset management capacity and capability. The matrix contains the following set of seven factors against which an organisation can be measured:

- Property Assessment Management Policy;
• Roles and Responsibilities;
• Communication;
• Asset Management Planning;
• Asset Acquisition and Disposal;
• Operations and Maintenance; and
• Performance Review.

The matrix provides five levels of transition towards excellence for each of the factors: Unawareness, Awareness, Knowledge, Competence, and Excellence. Descriptions are provided for each of the factors and their corresponding levels of transition.

The full matrix is contained in Section 3.2.7.2 of Appendix 1.

**Note:** An adaptation of this matrix was adopted by the RICS, and included in its ‘Public Sector Asset Management Guidelines’ for professional practitioners (Jones and White, op.cit. p.42).

**6.3.4.5.7 Property Asset Management Skills**

Leeds identified strategic business planning, leadership, performance management, financial management, data management, an appreciation of property and its contribution to business planning, and an understanding of the economic and analytical tools required to ensure good decision-making as the essential skills for Property Asset Management.

These recognise Property Asset Management as a strategic resource management function, and represent an extension or departure from the traditional professional property skills normally associated with the management of property.

**6.3.4.5.8 Generic Asset Management Template**

The template developed by Leeds contains eight sections, Introduction, Aims and Objectives, Roles and Responsibilities; service Delivery Objectives, Current Assets, Options Appraisals, Programming, and Review and Challenge. Table 6.3 provides an outline of the template.
<table>
<thead>
<tr>
<th>Plan Sections</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction</td>
<td>A description of the context within which the plan is prepared and how it links with corporate business and strategy.</td>
</tr>
<tr>
<td>2. Aims &amp; Objectives</td>
<td>A description of the organisation’s mission and the strategic property asset management goals.</td>
</tr>
<tr>
<td>3. Roles &amp; Responsibilities</td>
<td>PAM’s organisational and governance arrangements.</td>
</tr>
<tr>
<td>4. Service Delivery Objectives</td>
<td>The organisation’s service delivery needs together with forecasts for future property needs to meet service demand.</td>
</tr>
<tr>
<td>6. Options Appraisal</td>
<td>Identification of priorities with a summary of financial implications of future property needs, including options for non-property asset solutions.</td>
</tr>
<tr>
<td>7. Programming</td>
<td>Plans for the implementation of acquisitions, disposals and maintenance strategies, which take project management, procurement and supply chain considerations into account.</td>
</tr>
<tr>
<td>8. Review &amp; Challenge</td>
<td>Review and evaluation of the performance of the entire property asset management process and system.</td>
</tr>
</tbody>
</table>

**Table 6.3: Generic Property Asset Management Plan Template**

**Note:** The RICS developed a similar template for its professional practitioners. This is reproduced at Table 6.4 (Jones and White, op.cit. p.12).
| Purpose and expectation of the strategy | • Why does the organisation have an asset strategy?  
• How does it fit with other planning documents and the overall business process? |
|-----------------|---------------------------------------------------------------|
| The organisation’s goals and objectives and the organisation’s major business drivers (service/policy delivery/production and financial) | • What is the organisation seeking to do, making sure that those business drivers that have asset implications are highlighted?  
• The key directions and aspirations of the organisation  
• Organisational mission, vision and values  
• Key organisational objectives (internal and external) |
| The organisation’s financial context | • Overall financial position of the organisation  
• Financial outlook  
• Financial context for asset decision making |
| The gap between where the asset base is now and where the organisation wants it to be, i.e. the implications for assets | • What the business drivers mean for the asset base  
• Gap analysis  
• Approach to closing/eradicating the gap |
| Asset goals and objectives and the organisation’s vision for its asset base over the next, say 10 years | • Explicit statement of asset goals and objectives  
• The overall approach to the use of assets  
• Key themes  
• How the asset base will help delivery of the business objectives |
| Critical success factors | • Drawn from the asset goals, objectives and vision  
• This will form the basis for future performance measurement |
| The approach to each category of the asset base (i.e. the gap analysis and the way the gap will be closed or narrowed – in effect, this charts out the strategy itself) | • The way in which the organisation will approach and decide upon the future of each part of the asset base by category |
| Broad resource implications of the strategy, particularly financial (in some parts of the public sector this is referred to as the ‘capital strategy’ for assets) but also ICT, HR and procurement | • Capital implications  
• Recurring (resource/revenue/current) expenditure implications  
• ICT implications  
• HR implications  
• Broad investment and divestment strategy for assets  
• The overall approach to sourcing and procurement |
| Performance management for assets | • The performance measures to be used, drawn for the critical success factors  
• The performance management system  
• Current performance and key historic trends |
| Organisational arrangements for asset management | • Structural issues  
• Roles and responsibilities  
• Governance and decision making  
• Relationships with stakeholders  
• Corporate processes for asset management  
• Data management  
• Capacity management |
| Strategic action and milestones | • The main actions that will be taken over the next year to deliver the strategy  
• Some will be actions to develop the strategy  
• Some will be actions to implement asset change  
• Some will be actions to implement organisational change |

Table 6.4: Content of An Asset Management Plan (including the Asset Strategy) (Jones and White, op.cit. p.12)
6.3.4.5.9 Organisational and Governance Characteristics
Given the complexity and fragmented nature of the CCGE, Leeds acknowledged the challenges of changing or reforming the approach of managing property from a technical and operational function, to the strategic management of a whole-of-government resource that is integrated with the corporate business, strategic planning, and reporting process.

Good and appropriate governance models and organisation structures are essential to meeting these challenges.

For the CCGE, Leeds proposed the establishment of a Property Asset Management Board within each government department. This board would be responsible and accountable to the department’s Senior Executive Board, through which property and fiscal matters would be reported to Ministers, Permanent Secretaries, Treasury, and the OGC.

These boards would co-ordinate the strategic and operational aspects of managing property across the department’s member agencies. They would have a policy function for the strategic management of property, and be responsible for ensuring the implementation of policy and strategy decisions.

6.3.4.6 Output of the Leeds Report: A 'Blueprint' for a Routemap to Excellence
Implementing such a routemap would represent significant change and reform across central government, and throughout government departments and agencies.

Leeds identified the following factors as being essential considerations for the planning and development of this routemap:

- Sponsorship and commitment at the very highest levels of government from the Prime Minister’s Office and Treasury;
- Understanding the two levels at which the CCGE should be managed, Strategic (at the management Board and Property Asset Management Board levels); and Operational (at the estates level and below);
- Organisational capability at all levels from the Executive and Property Asset Management Boards through the organisation;
- Individual capabilities;
- The CCGE is managed through a decentralised structure of government and fragmented departmental system;
- A period of engagement, communication, information, planning, resourcing, and transitioning would be required for the creation of a roadmap project, and governance arrangement encompassing the whole-of-government for the management and implementation of the project; and
- Acceptance that a period of possibly up to eight years may be required before strategic thinking in the management of property becomes the accepted norm.
6.3.5 OGC Research Project: “Improving Asset Management in Government Departments – A report on improving the capability and capacity of managing property assets in central civil government” (“the Howarth Report”, or “Howarth”)

This was the second of the research projects commissioned by the OGC, and was conducted at the same time as the Leeds study. The Howarth and Leeds Reports were published within two months of each other in 2006.

Both Howarth and Leeds relied upon each other to a considerable extent, which exemplifies the co-ordinated and committed approach of the OGC.

Howarth’s task was to investigate the existing level of asset management expertise and capability within the CCGE; and to recommend a strategy for improvement.

6.3.5.1 Findings of the Howarth Report

The Howarth Report consolidated its findings into the following three areas:

6.3.5.1.1 Organisational Change

It is clear that Howarth agreed with Lyons and Leeds in that strategic asset management is a structured, holistic, and integrating approach to aligning property assets to business and service objectives.

In the context of the organisation, Howarth said that asset management is about how property assets provide opportunities for organisational change, as much as how organisational change affects and effects property assets.

This shifts the management of property from an operationally reactive function, to a proactive strategic role with an increasing focus on outputs and benefits as opposed to inputs and costs.

6.3.5.1.2 Skills and Capabilities

Howarth’s investigation into the property and facility management skills in the CCGE revealed the following principal findings:

- Despite finding good experience and skills at the tactical and operational levels of managing property, the numbers of suitable property management staff were considerably less than a decade earlier;
- The diversity of estate management models and management structures concentrated the more experienced and qualified staff in the larger portfolios;
- Managers viewed property management as a strategic function in property terms only, without recognising its value in the provision of services, and realisation of government objectives;
- A lack of awareness on behalf of senior departmental and agency managers, and of property professionals of the value that a strategic approach would bring.

6.3.5.1.3 Property Asset Management in Government

Howarth found that support services, the category within which many senior managers view property, are not sufficiently important to be considered in in decision-making for future business needs. This is despite property being the second largest expenditure item behind human resources.
Howarth summed this up by saying, “There are therefore differences between the property management view of assets and the asset management view of property” (Howarth, op.cit. p.12).

6.3.5.2 Howarth’s Recommendations
The recommendations of the Howarth Report were presented within the following two themes:

6.3.5.2.1 Property Assets as Strategic Resources

- Raise awareness of property as strategic resource among senior civil service management through their development programme;
- Property Asset Management be recognised as a professional competency within the Professional Skills in Government Framework; and
- The appointment of a Head of Asset Management within central government as a champion for professional asset management, in the same way as heads for other professions are appointed.

6.3.5.2.2 Development of Asset Management Skills and Competencies
Howarth recommended that the OGC formally identify strategic asset management skills and competencies, and develop training programmes. Howarth recommended that the OGC concentrate on the following broad areas:

- Data management and analysis;
- Management of performance;
- Strategic business planning;
- Financial management; and
- Leadership.

6.3.6 The Office of Government Commerce: High Performing Property – Routemap to asset management excellence

The OGC launched its routemap to asset management excellence, ‘High Performing Property’, in late 2006 (UK Office of Government Commerce, 2006). This was based on the recommendations of the Leeds and Howarth reports, and set the framework and direction for improving strategic asset management in the CCGE over a six to seven year programme.

6.3.6.1 Target Outcomes
The target outcomes of the programme were:

- A rationalised fit-for-purpose portfolio;
- Property Asset Management is to be accepted and managed as a strategic element of business and service delivery;
- Performance information and data are to be the foundations for improvement through the setting and adoption of relevant benchmarks and standards;
- Improved stewardship and accountability for portfolio management and performance;
- Twenty per cent annual efficiency savings; and
- £1 billion to £1.5 billion in property expenditure savings by March 2013.

### 6.3.6.2 Key Routemap Directions

Consistent with the recommendations of Leeds and Howarth, the routemap defined the following four key areas of direction:

- Leadership and Integration;
- Benchmarking and Standards;
- Skills and Capacity; and
- Review and Challenge.

Together with their associated objectives and individual actions, these are set out in Table 6.5.

<table>
<thead>
<tr>
<th>Key Direction</th>
<th>Objectives</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leadership &amp; Integration</strong></td>
<td>Integration of Property Asset Management with strategic business delivery</td>
<td>In the Centre of Government</td>
</tr>
<tr>
<td></td>
<td>Sponsored and led at Executive Board level</td>
<td>In Government Organisations</td>
</tr>
<tr>
<td></td>
<td>Defined standards and benchmarks</td>
<td>Set standards</td>
</tr>
<tr>
<td></td>
<td>Integrated and co-ordinated property strategies to deliver government-wide policies</td>
<td>Integrate departmental strategies with government-wide initiatives</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Confirm governance arrangements</td>
</tr>
<tr>
<td><strong>Benchmarks &amp; Standards</strong></td>
<td>Property Asset Management capability measured against the Capability and Maturity Matrix</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Set workspace and building operation efficiency and effectiveness benchmarks</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Establish government-wide benchmarking</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strong, strategic central co-ordination of the portfolio</td>
<td></td>
</tr>
<tr>
<td><strong>Skills &amp; Capability</strong></td>
<td>Include Property Asset Management in Government Professional Skills programme</td>
<td>In the Centre of Government</td>
</tr>
<tr>
<td></td>
<td>Recognise Property Asset Management as a government profession</td>
<td>In Government Organisations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Obtain maximum capability</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Promote career path development</td>
</tr>
<tr>
<td><strong>Review &amp; Challenge</strong></td>
<td>Monitor and challenge performance at the centre and in departments and organisations through standards and benchmarks, and audits (internal and by National Audit Office)</td>
<td>Challenge levels of performance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Support from National Audit Office</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Annual performance reports</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Use of KPIs and performance monitoring</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Internal auditing</td>
</tr>
</tbody>
</table>

Table 6.5: High Performing Property – Key Directions, Objectives and Actions

75
6.3.6.3 Government-Wide Property Database: e-PIMS
The provision and management of a central database for property was a key action specified by ‘High Performing Property’.

In 2005, all Central Civil Departments were mandated to use the electronic Property Information Mapping Service (e-PIMS) to provide a central register of all property operations and land interests.

Through the OGC, individual departments were given access to e-PIMS to allow cross-departmental searching for vacant space and demand for space over the whole CCGE. Since 2009, government departments occupying CCGE property have been required to record their property information on e-PIMS for all property owned, used, controlled, occupied, or planned for occupation.

e-PIMS acts the central register of all government property holdings, including projections of future property needs, vacant and future properties. It allows government departments to manage their own portfolios and property transactions, and is designed to support the efficient management of the CCGE across the whole-of-government.

e-PIMS holds historic and current information to a high degree of detail for the following categories of property:

- All freehold and leasehold office properties occupied or controlled by departments, irrespective of whether the property is actually used or occupied;
- Any properties occupied or managed under Private Finance Initiative contracts;
- All other owned and/or used properties such as, hostels, depots and laboratories;
- Surplus, sublet or vacant properties;
- Undeveloped land;
- Serviced or temporary offices; and
- All forward commitments to property.

The database is structured in departmental clusters and families.

Using data from e-PIMS, the Government Property Unit’s Benchmarking Service measures the portfolio’s performance against benchmarking and standards criteria used in the private sector. The OGC’s annual report to Parliament includes the results of the CCGE’s performance. (See section 6.3.7 below).

6.3.7 Outcomes of Property Asset Management Reform in the UK Government Central Civil Government Estate

Under the Climate Change Act 2008, the Government is required to report annually to Parliament on progress made in improving the efficiency and environmental sustainability of the CCGE. This report, ‘The State of the Estate’, covers the following four priority areas:

- Reductions in the size of the overall estate;
- Increases in efficiency of the use of administrative offices;
- Improvements to the environmental sustainability of buildings; and
- Ensuring new property acquisitions are within the top quartile of energy performance.

The following have been identified as key results of the UK Government’s reform programme:

### 6.3.7.1 Departmental Accountability

Improved accountability for the management of property was reported in the 2012 ‘State of the Estate’ report.

“The importance of effective property asset management in this varied landscape is now well established with board-level property champions in departments accountable to permanent secretaries for Property Asset Management across the department and its arm’s-length bodies. Property Asset Management boards (or their equivalent) have responsibility for leading integrated strategic management across the total property portfolio in a department” (UK Office of Government Commerce, 2013a).

### 6.3.7.2 Performance Outcomes


#### 6.3.7.2.1 Efficiency and Economic Outcomes

Table 6.6 summarises the efficiency and economic benefits derived from the OGC’s ‘High Performing Property reform programme between 2007 and 2012.

<table>
<thead>
<tr>
<th>Key Indicator</th>
<th>2007/08</th>
<th>2012</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of the CCGE (m² million)</td>
<td>12.05</td>
<td>9.22</td>
<td>- 2.83 (23.5%)</td>
</tr>
<tr>
<td>Number of Holdings</td>
<td>7,935</td>
<td>5,583</td>
<td>- 2,353 (29.7%)</td>
</tr>
<tr>
<td>Operating Cost p.a. (£ billion)</td>
<td>3.55</td>
<td>2.64</td>
<td>- 1.61 (38.2%)</td>
</tr>
<tr>
<td>Vacancy Factor (%)</td>
<td>2.4</td>
<td>3.00</td>
<td>+ 0.6 (25%)</td>
</tr>
<tr>
<td>Cost per Full Time Equivalent (FTE) p.a. (£)</td>
<td>4,536</td>
<td>5,324</td>
<td>+ 788 (17.3%)</td>
</tr>
<tr>
<td>Av. Area (m²) per FTE (Government Standard = 10 m² – 12 m²)</td>
<td>14.5</td>
<td>13.0</td>
<td>- 1.5 (10.4%)</td>
</tr>
</tbody>
</table>

*Table 6.6: CCGE Efficiency and Economics Outcomes (2007 – 2012)*

Perhaps of most significance is the annual savings in operating cost of £1.61 billion. This figure exceeds the original target of £1 billion to £1.5 billion by £0.14 billion to £0.61 billion.

#### 6.3.7.2.2 Sustainability Outcomes

Sustainability outcomes are summarised in Table 6.7.
<table>
<thead>
<tr>
<th>Key Indicator</th>
<th>Outcome (2012)</th>
</tr>
</thead>
</table>
| Greenhouse Gas Emissions      | ▪ Reduced by 12% from 2009/10 baseline  
▪ £40 million in energy and fuel cost savings                                            |
| Reduction in Waste            | ▪ £4.7 million savings since 2009/10                                                                                                         |
| Water Consumption             | ▪ Reduced by 3% since 2010/11  
▪ £4.2 million in savings                                                                 |
| Energy Performance            | ▪ 44% (4 out of 9) of buildings added to the CCGE procured from within the top quartile range                                           |

Table 6.7: CCGE Sustainability Outcomes (2012)

6.3.8 On-going Organisational and Governance Development and Reform

In 2010, responsibility for the OGC was transferred to the Cabinet Office as part of the government’s Efficiency and Reform Group (ERG), which has a mandate to ensure that departments co-operate in the reduction of waste, and in improving accountability.

The ERG is accountable to an Efficiency Board, which is chaired by the Minister for the Cabinet Office.

Property functions have been combined into one unit, the Government Property Unit (GPU). As part of the ERG, the GPU reports to the EPG’s Minister and Chief Secretary.

The GPU has central oversight of policy and strategy for all government land and property, and works in collaboration across government. It also operates the Benchmarking Service.

6.4 Case Study: USA Federal Government – the path to Property Asset Management Reform (2003 – 2015)

6.4.1 Introduction

This case study has been composed from a review of literature in the form of independent and academic studies and reports, professional standards and guidelines, government strategies, policies and procedures, reports and audits, journal articles, conference proceedings and discussions with staff of the U.S. Government General Services Administration’s (GSA) Office of Government-Wide Policy, and the GSA’s Public Buildings Service Division. Appendix 2 contains this case study in detail. Figure 6.6 summarises the chronology of the development of the management of US federal government property since 2003.

Figure 6.6: Management of US Federal Government Property Since 2003

2003 Government Accountability Office  
- Testimony to Congress  
- Federal Real Property designated as "high-risk"

2004 Office of Management & Budget  
- President's Management Agenda  
- Asset Management included in 'top 6' core activities for management of federal resources

2004 Executive Order 13327: Federal Real Property Management  
- Policy  
- Reform Framework  
- Federal Real Property Council & General Services Administration

2005 + Progress & Results  
- FRPC Annual Reports  
- GAO "High-Risk" biennial reports & updates to Congress
6.4.2 The Federal Real Property Portfolio

The Government Accountability Office (GAO) defined real property as facilities; land; and anything constructed on, growing on, or attached to the land.

In analysing the portfolio, the GAO relied upon data supplied by the GSA, which it described as “unreliable and of limited usefulness”. The GSA represented the only available source for property data.

The worldwide portfolio is diverse and complex, and was defined to include military bases, office buildings, embassies, prisons, courthouses, hospitals, schools, stores, housing, border stations, and parks. In 2003, this was estimated to comprise some 333 million square metres of built area. It was also estimated that the federal government owned approximately 636 million acres of land, which represented twenty-five per cent of the county’s total acreage.

6.4.3 Federal Real Property: a “high-risk”

In January 2003 the GAO added Federal Real Property (FRP) to its series of High-Risk Areas to Government (U.S. General Accounting Office, 2003)\(^\text{16}\).

In a letter to the President of The Senate, and Speaker of the House of Representatives designating FRP as a high-risk area, the Comptroller General of the United States gave the following “long-standing problems” as the reasons for designating FRP as a high-risk area (Comptroller General of the United States, 2003):

- Excess and underutilised property;
- Deteriorating facilities;
- Lack of property data, and its reliability;
- A predominance of high-cost leased property; and
- The persistent problems of competing stakeholder interests, budgetary disincentives, poor capital planning, and a lack of a strategic government-wide focus on property issues.

The GAO saw these factors as having multi-million dollar cost implications, and the potential to seriously threaten the ability of government agencies to accomplish their missions. It also recognised that redressing the situation would require “high-level attention and effective leadership by both Congress and the administration” (US General Accounting Office, op.cit. pp. 2-3).

The issues were considered to be of such a scale that a comprehensive and government-wide transformation strategy should be put in place to deal with them. It was thought that this should include consultation with the private sector, as it should learn from the lessons and leading practices of both public and private sector property reforms.

The GAO said property should be regarded as a valuable resource in the same way as capital, people, and information and technology. Furthermore, the GAO called for a new approach to the management of federal property in that it should respond to the delivery of services, technology, public expectations, sharing opportunities, and security.

\(^{16}\) The GAO is an independent authority, known as “the congressional watchdog”. The GAO works for the United States Congress by supporting it in the improvement of performance and accountability of the federal government.
The deficiencies in the management of the federal property portfolio, including “material weaknesses” in financial systems, information and data, and reporting, were the reasons put forward by the GAO in 2003 for not being able to certify the US Government’s consolidated financial statements for five consecutive years, 1997 – 2001 (Ibid. p. 27)\textsuperscript{17}.

The GAO described the management of federal real property as reflecting “the business model and technological environment of the 1950s”, which had failed to respond to the size and objectives of government, changes in technology, working environments, services and their delivery models, the post-2001 security environment, and how government interacts and communicates with the public.

### 6.4.4 Financial Implications

The GAO’s report examined the financial implications that the state of the management of the portfolio was having on the government. The following are examples of the GAO’s findings:

- The Department of Defence alone was spending up to $4 billion per annum on maintaining eight million square metres of surplus property;

- Together, the Department of Veterans Affairs and the Department of Energy were spending over $100 million per annum to maintain and secure more than 1200 properties that were either surplus or vacant, and which did not have plans for their future use or disposal;

- The value of maintenance backlogs in the Departments of Defence, the Interior, and State, and in the GSA portfolio was estimated to exceed $180 billion.

This was affecting properties of national significance, health and safety, employee recruitment and attention, productivity, and government’s public image.

### 6.4.5 Reforming the Management of the Federal Real Property Portfolio

#### 6.4.5.1 The President’s Management Agenda

The issue of the management of the Federal Real Property Portfolio (FRPP) was added to the President’s Management Agenda (PMA) in January 2004\textsuperscript{18}.

The PMA considered the following six core activities as necessary for the effective management of the federal government’s resources:

- Improved financial reporting;

- Financial systems;

- Asset management;

- Grants management

- Audit requirements; and

- Strengthening internal controls.

---

\textsuperscript{17} This situation was on-going at the time this research was completed.

\textsuperscript{18} The PMA was established in 2001 within the Office of Management and Budget as a framework for improving financial performance, and giving direction for achieving the President’s improvement goals.
The management of the FRPP was placed at the highest level of the PMA under President George W. Bush. This policy has continued throughout the two terms of President Barack Obama.

6.4.5.2 Executive Order 13327 – Federal Real Property Asset Management
Within three months of the management of the FRPP being place on the PMA, President George W. Bush signed Executive Order (EO) 13227.

By establishing the Federal Real Property Council (FRPC), EO 13227 provided the policy setting, and governance direction for the future management of the FRPP.

EO 13227 also established the position of Agency Senior Real Property Officer (SRPO), and defined the role of the GSA in supporting the FRPP.

6.4.5.3 Federal Real Property Council
The FRPC was established as part of the Office of Management and Budget (OMB) to provide guidance to government agencies on the development of asset management plans, and to assist in facilitating their success.

The FRPC was assigned the following functions:

- Assist SRPOs to develop and implement agency asset management plans;
- In conjunction with the GSA, to establish performance measures to determine the effectiveness of federal real property management; and
- Act as a ‘clearing house’ for property asset management best practices.

6.4.5.4 Senior Real Property Officers
SRPOs were to be assigned to all executive branch departments and agencies.

The position of SRPO is a senior professional position requiring extensive experience and skills in the strategic management of property.

The principal roles of the SRPOs are to develop and implement asset management plans of their assigned agencies, ensure property assets support the agency’s strategic goals and objectives, and ensure they are managed on the principles of the FRPC.

6.4.5.5 General Services Administration
The GSA is responsible for supporting government agencies in implementing EO 13227, and providing support to the FRPC.

The GSA provides guidance on real property issues, publishes performance measures and standards, maintains the federal government’s property database; and manages the uniform reporting of property information across government.

6.4.6 Results and Outcomes
In summary, the following changes to the portfolio have occurred between 2005 and 2013:

- The number of federal buildings and structures has reduced by 105,000;
- Area occupied has reduced by 26 million square metres (seven per cent);
- Over 183,000 assets have been disposed, releasing a value of $6.7 billion, and reducing annual costs by $2.05 billion;
- In total, annual operating costs across the portfolio increased by 15.4 per cent between 2009 and 2013.

Notwithstanding this apparent progress, the reform programme has not produced the level of results expected. In addition, concerns remain over the reliability of the data used in compiling these metrics.

Federal Real Property remains a high-risk area of government business. Successive GAO reviews have noted a lack of progress in improving the management of the portfolio (U.S. Government Accountability Office, 2005, 2007, 2014, 2015). In its 2015 report, the GAO reported that the federal government "continues to face long-standing challenges in managing its real property".

The GAO particularly identified unreliable data, and the manipulation and interpretation of data by agencies as key reasons for the accuracy and consistency of the portfolio remaining suspect, and the reporting of inaccurate inventory and outcome information.

---

19 Costs for Structures not included-reported
20 By all methods of ‘disposal’
7 Case Study: The Australian Public Sectors

7.1.1 Introduction

This case study is based on a series of the author’s published and unpublished papers and research (Leifer & Seymour-Jones, 2009a, 2010, 2012; Seymour-Jones, 2008a, 2008b, 2009a, 2009b, 2014a, 2014b). These have been compiled from the author’s personal experience, a review of literature in the form of independent and academic studies and reports, professional standards and guidelines, government strategies, policies and procedures, reports and audits, journal articles, and conference proceedings.

Appendix 3 contains a detailed account of the development of property asset management (and the management of other asset classes) between the early 1980s and 2016 for the federal, state and local levels of government in Australia.

7.1.2 The Australian Public Sector Overview

7.1.2.1 Commonwealth, State and Territory Governments

Notwithstanding the similarity between issues and pressures, the Australian Commonwealth, and State and Territory Governments have apparently not only paid little attention to the changes and development of Strategic Asset Management practices of other major OECD jurisdictions, and the lessons learned from them, but have also evolved their property asset management policies and methodologies in isolation of their own jurisdictions and experiences.

There is, however, an irony in that, since 2006, state and territory governments have sought to impose practice regulation and standards over the management of local government assets.

There has been little or no collaboration or communication between the state governments despite their often-common political complexions, and the presence of organisations such as the Australian Procurement and Construction Council, which facilitates programmes for the Government Property Group (See Section 7.1.2.1.4). The intellectualisation of the role and significance of property assets in Australia has been minimal.

The Commonwealth Government opted-out of the Government Property Group and pursued its own direction entirely. There seems to be a notion within the Commonwealth Government that, because a large proportion of property assets were sold in the late 1990s, there is little need for strong over-arching asset management governance and policy and asset management strategies, other than those provided through a ‘framework’ and guidelines.

There are a number of observations and comparisons to be made in the way each government has approached the management of its property assets, but it is the area of high-level asset management governance, policy and strategy that is of the most significance.

7.1.2.1.1 Asset Management Governance and Policy

Research published in 2004 by DEGW in association with CoreNet Global showed that seventy-two per cent of Australian Corporations do not have a rigorous formal strategic process for the management of property assets; and that it is the public sector that has the lowest level of engagement with management and the highest level of ad hoc planning (DEGW & CoreNet Global, 2004).

Senior bureaucrats have been responsible for the development of asset management policy, which, for most of Australia’s public sector, now includes some form of process guidelines. However, process cannot be considered as policy, and the gaps between policy and the
development of property asset management strategies, their implementation, management, and the achievement of results remain as wide as ever. There are three main reasons for this:

- Asset management policy is often made because it is seen as something akin to a necessary evil that is part of modern business practice. It is there because it should be there and, in an age of increasing voter demand for better services and value for money, public administrations need to project an image of efficiency and effectiveness.

The management of property assets, as a specific function within Total Asset Management (TAM) policy and process, is largely confined to office and associated non-operational assets. Schools, hospitals etc. are considered as specialised assets, and are included within the general TAM programme. However, for example, the NSW TAM programme only requires a specific property plan for office accommodation.

The results of a search of the federal, state and territory government websites for Total Asset Management / Asset Management Policy / Strategic Asset Management are shown in Table 7.121.

<table>
<thead>
<tr>
<th>Government</th>
<th>2009</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth</td>
<td>Refers to NSW Government TAM policy</td>
<td>No reference to TAM Commonwealth Property Management Framework</td>
</tr>
<tr>
<td>New South Wales</td>
<td>Detailed policy manuals issued by NSW Treasury</td>
<td>Detailed policy manuals issued by NSW Treasury</td>
</tr>
<tr>
<td>Queensland</td>
<td>Building Policy; and Framework for Management of Government Office Accommodation issued by Dept. of Public Works.</td>
<td>TAM Plan Framework under Department of Infrastructure, Local Government and Planning</td>
</tr>
<tr>
<td>South Australia</td>
<td>No information</td>
<td>Premier and Cabinet Circular 114 Government Real Property Management Policy, October 2010</td>
</tr>
<tr>
<td>Western Australia</td>
<td>Strategic Asset Management Framework issued by Dept. of Treasury and Finance</td>
<td>Strategic Asset Management Framework issued by Dept. of Treasury and Finance</td>
</tr>
<tr>
<td>Tasmania</td>
<td>Developing Strategic Asset Management Plans – Dept. of Treasury and Finance</td>
<td>Developing Strategic Asset Management Plans – Dept. of Treasury and Finance</td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>No information</td>
<td>No information</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>No information</td>
<td>No information</td>
</tr>
</tbody>
</table>

Table 7.1: Government Asset Management Policy

With the possible exception of New South Wales and Queensland, these publications represent a series of asset management processes, which are backed by general

---

statements and theoretical explanations of asset management practice. However, all share the following characteristics:

- They are seemingly restricted to a very limited category of property assets, i.e. office and associated corporate accommodation. In New South Wales for example, the value of owned assets in this category is no more than $500 million against a total value of real property assets of $78.6 billion. Thus, the great bulk of property asset portfolios may not be subject to rigorous management practices.

- There is little in the way of whole-of-government policy, effective governance, implementation and enforcement.

- They invariably originate from within government treasuries and departments of finance, are described as guidelines, and have a variety of oversight committees.

- It is difficult to obtain information on the success of these guidelines, the work of the committees, and the performance of asset management strategies.

  - Policy is often affected by public sector politics. Organisational and governance issues are frequently subject to negotiation and compromise with the result that responsibility and accountability rarely lies with a single entity, and is blurred and undefined.

  - Mid-level career civil servants with limited strategic vision, professionalism, exposure to developing industry techniques; and management, business and organisational skills are often responsible for the management of property portfolios. These, together with the political environment, and inappropriate organisational and reporting structures, have led to inaction, resistance to change and protection of personal fiefdoms. The prospect of improvement and change represents threat rather than opportunity.

As a consequence, few processes have been put in place by the policy-makers to ensure or require that policy be translated into whole-of-government and individual agency strategies, and for results to be monitored and reported. The real opportunities for gains in efficiency and effectiveness are almost always missed.

7.1.2.1.2 Asset Management Planning, Asset Performance and Risks
The ad hoc approach by the Australian public sector to the management of property assets, and the absence of a strong policy and well-thought out and managed strategies to support policy, exposes governments to a number of potentially serious risks, namely:

- Higher operating costs and maintenance backlogs, which may require additional funds or capital expenditure to rectify;

- Property that is not the best fit for the purpose for which it is used (non-aligned with business and service objectives) in terms of for example: location, access, size, efficiency, services, technical specification, condition, image and branding;

- Costly and wasted opportunities in co-location of public services;

- Poor quality accommodation impacts upon the performance, recruitment and retention of staff;

- Inaccurate asset inventories, incomplete data, poor systems and data management have resulted in excessive and unnecessary expenditure.
Poor information inhibits the ability to plan, and forces agencies into hasty and inappropriate property decisions. This is often the case with regard to lease details that have not been recorded, inaccurately recorded or mismanaged. This greatly increases the risk of missing critical dates such as lease expiries, rent reviews and options, or even the opportunity for carpet replacement and other commercial obligations of landlords.

There are examples of property, whether owned or leased, which has simply not been recorded in any asset inventory or property management system. Similarly, there have been instances of property details that have not been removed from system records following disposal or vacation upon lease expiry. This has led to expenditure on utilities, for example, continuing to be made on premises in which government no longer has any obligation or interest. It can also mean that on-going budget funding will be allocated to such phantom properties.

- Insufficient and inefficient use of capital: failure to invest when required and the retention of vacant, under-utilised and inappropriate assets; and unnecessary acquisition of property assets. This also results in wasted expenditure on operational management and maintenance;

- Inefficient sourcing and procurement of skills, capacity, property, and construction and property support services;

- Inappropriate governance and lack of financial control, transparency and accountability; and

- An inability to formulate and implement meaningful and long-term financial, economic, social, and environmental sustainability policies and programmes.

Evidence of these outcomes is presented in the case studies contained in the appendices.

7.1.2.1.3 Capacity and Capability Development

Both central government departments and front-line agencies have been reluctant to seek the advice of consultants, industry, or learning institutions regarding the formulation and implementation of property asset management policy, relevant organisational structures, or property strategies.

The use of private sector advice and experience has been limited to operational and tactical management activities, i.e. out-tasking.

Nevertheless, where this advice has been sought, mostly by the local government sector, it has generally been provided in the form of policy and strategy documents prepared by a consultant, as the required outputs or deliverables under contract scopes of services, and within short contract timelines. In New South Wales and Western Australia, there is plenty of evidence that these have been prepared as generic documents, and not related to the needs and circumstances of individual councils. There has therefore been little in the way of any lasting or on-going development of organisational capacity and capability.

There is increasing evidence that the political, social, financial and accountability pressures that governments now face mean that the public is less influenced by political dogma or ideology; but rather by how effectively and efficiently governments manage themselves, and deliver and manage services to their communities, not just through new infrastructure, but also
through the *smart* management of existing assets. (In other words, how wisely taxes are spent and value-for-money accountability).

This requires a change in the traditional capacity of, and capabilities within public administrations. No longer can the combination of the career civil service ‘all-rounder’ and ‘generalist’ management approach, and ‘time served’, prevail as the criteria for advancement. Neither, too should the NPM system of placing private sector ‘expertise’ into senior public sector positions be considered as a panacea to bridging the public sector’s capacity and capability gaps.

Collectively, capacity and capability is merely one of many facets in reforming the management of government assets from operational and technical functions, to a whole-of-organisation activity integrated with the strategic planning and management of resources. It will require leadership from within public service administrations to promote this as an administrative necessity (rather than as a political issue), which will require a number of electoral cycles to accept and embed.

Learning from the examples set by the US and UK governments, these pressures should be used to spike the interest of public sector leaders, and to stimulate change in the management of government property, and all other asset classes.

7.1.2.1.4 The Australian Procurement and Construction Council (APCC) and the Government Property Group

Given the right mandate, authority and resources, the APCC would have considerable potential to influence this change.

Since its establishment in 1967, the APCC has been the foremost voice responsible for promoting good procurement, construction and asset management policy for the Australian, State and Territory governments, and the New Zealand Government. The APCC reports to the Australian Procurement and Construction Ministerial Council (APCMC), comprising Ministers with direct responsibilities for procurement and construction matters. The APCMC is part of the Council of Australian Governments (COAG) Ministerial Council.

The APCC describes itself:

“As a national reference point for both government and industry on best practices, principles and emerging issues in procurement, construction and asset management disciplines.”

“The APCC collective maximises opportunities to leverage off one another and provides leadership in these disciplines to improve and implement new and evolving procurement practices in ways that will deliver service benefits to the Australian and New Zealand communities.

“The APCC forum is a catalyst for knowledge sharing, intelligence gathering and has the information networks to draw on for innovative business solutions for jurisdictions to deliver expected targets, savings and outcomes. The APCC collective continues to strengthen relationships with government partners and other stakeholders to promote a consistent and coordinated national approach to government procurement.” (Australian Procurement & Construction Council, 2014).

As part of its asset management role, the APCC facilitates the work of The Government Property Group (GPG).
Membership of the GPG is composed of representatives from the property management area of all state governments with the exception of Tasmania, which it is believed to have foregone its membership for cost reasons. The Commonwealth Government has chosen not to be represented in this group.

The GPG seeks to provide national leadership on government property matters. However, despite the committed efforts of the APCC, the GPG membership has produced little in the way of national leadership on any property matter. For example, collectively the GPG members are responsible for the management of over four million square meters of office space with a total combined annual rental turnover of $1 billion. They have all the major landlords in common, and yet they have not sought to co-operate to exploit the enormously powerful influence that they would undoubtedly wield within their office leasing markets.22

One exception to this is in the area of sustainability for which, in September 2007, the APCMC asked the GPG to develop a National Framework for Sustainable Government Office Buildings in liaison with the National Framework for Energy Efficiency (NFEE). As a result of the lack of action and communication between member representatives, the APCC together with the representatives of the Government of Queensland have had to motivate and drive the production of this framework within the GPG.

The APCC is a highly respected organisation with an international reputation, and the GPG should be excellently placed to raise the awareness of the significance of property asset management at the very highest levels of the Commonwealth and State Governments.

However, until all governments are prepared to address the issue of asset management at policy and strategic levels, and the GPG includes the participation of the Commonwealth Government, this group will continue to fail in the provision of national leadership on government property matters.

7.1.2.1.5 Public Sector Real Property Financial Indicators
Asset value and expenditure on maintenance are the only financial indicators available that are common to all governments across the Australian public sector.

The level and detail of this core data and information does not support any meaningful performance measurement, analysis, and reporting regime for asset efficiency, return on investment, cost-in-use, condition (and renewal and replacement intervention points), and, by extension, the effectiveness of assets in the provision of services for which they are employed, and the subsequent effect on levels of service and government’s ability to deliver them.

7.1.2.1.5.1 Asset Values (including Local Government Sector)
Table 7.2 summarises the value of real property assets for each government’s non-financial public sector. Details for each government are presented at Appendix 3.1.

---

22 The author led the NSW State Government delegation at the 2007 GPG Annual Conference in Darwin, NT.
<table>
<thead>
<tr>
<th>Government</th>
<th>Value of Real Property Assets $000</th>
<th>Value of Total Assets $000</th>
<th>Notional Allocation of Maintenance Expenditure (2% of Value) $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth</td>
<td>21,516,943</td>
<td>293,740,000</td>
<td>430,000</td>
</tr>
<tr>
<td>New South Wales</td>
<td>78,600,424</td>
<td>249,560,000</td>
<td>3,856,000$\textsuperscript{24}</td>
</tr>
<tr>
<td>Queensland</td>
<td>56,937,905</td>
<td>189,860,000</td>
<td>1,138,758</td>
</tr>
<tr>
<td>Victoria</td>
<td>53,640,000</td>
<td>119,610,000</td>
<td>1,072,800</td>
</tr>
<tr>
<td>South Australia</td>
<td>19,781,000</td>
<td>44,490,000</td>
<td>395,620</td>
</tr>
<tr>
<td>Western Australia</td>
<td>31,372,904</td>
<td>112,720,000</td>
<td>627,458</td>
</tr>
<tr>
<td>Tasmania</td>
<td>5,235,000</td>
<td>16,660,000</td>
<td>104,700</td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>9,043,284</td>
<td>19,450,000</td>
<td>180,866</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>3,363,059</td>
<td>5,330,000</td>
<td>67,261</td>
</tr>
<tr>
<td>Local Government</td>
<td>45,300,000$\textsuperscript{25}</td>
<td>302,000,000</td>
<td>6,040,000</td>
</tr>
<tr>
<td>Total</td>
<td>324,790,519</td>
<td>1,353,420,000</td>
<td>9,627,463</td>
</tr>
</tbody>
</table>

Table 7.2: Australian Public Sector – Summary of Real Property Assets & Maintenance Expenditure (Non-Financial Public Sector)$\textsuperscript{26}

This information was obtained through extensive and concentrated research, which examined both the consolidated 2009-2010 Budget Papers and Financial Statements for the Commonwealth, State, and Territory Governments and each of their individual departments, agencies, and authorities; the Australian Bureau of Statistics; and the 2007-2008 Annual Reports of all individual government agencies for supplemental information.

Information for the Local Government Sector was obtained through the author’s research paper presented at the 2014 Australian Centre of Excellence for Local Government Research Forum (Seymour-Jones, 2014a).

As far as possible, every effort has been made to analyse each government’s data on a consistent basis such that the ascribed values reflect those for corporate, strategic and operating land and buildings. Adjustments, exclusions and inclusions include:

- Information for land and building values is presented in aggregate together with values for plant and equipment. It is not possible to isolate this data in any further detail; and

- Where it is clear that asset values are heavily weighted against land and buildings, e.g. infrastructure, roads, resource assets, ports, vehicles, rolling stock etc., these agencies and authorities have been omitted.

It is estimated that the resulting value of $324.791 billion represents some twenty-four per cent of the total asset value of the nation’s Non-Financial Public Sector.

The proportion of the value of the real property assets of frontline government agencies, such as Health, Education, Housing, and Community and Social Services, to their total asset value is typically in excess of ninety per cent.

$\textsuperscript{23}$ Analysis of NSW expenditure used as a basis.
$\textsuperscript{24}$ Actual budgeted expenditure.
$\textsuperscript{25}$ Estimated at fifteen per cent of total asset value based on typical proportion of real property asset and infrastructure asset values.
$\textsuperscript{26}$ Source: respective governments’ Budget Papers 2009-10, and Annual Reports 2007-08.
It is reasonable to conclude that approximately one quarter of the nation's total NFPS asset value and some ninety per cent of the property assets applied to the health, education and social wellbeing of Australians are without strong over-arching asset management policies, strategies and effective management programmes, beyond the processes and guidelines identified in Section 7.1.2.1.1.

7.1.2.1.5.2 Maintenance Expenditure

Table 7.2 also contains an estimate of the expenditure each government makes on the maintenance of these assets.

New South Wales reported a lump sum figure for maintenance expenditure in its 2009-10 Budget Papers of approximately $3.9 billion, which represents some 2.7 per cent of the value of the New South Wales real property assets. However, this figure was not reported in any further detail, with no information on how the expenditure was distributed either across the asset base, in relation to expenditure type, or whether it was planned or reactive maintenance.

In the absence of any identifiable comparable data, a figure of two per cent has been used as a basis to apply notional maintenance expenditure across the remainder of the public sector. This more closely reflects the public sector’s general tendency to under-spend on maintenance.

Notwithstanding compliance with accounting standards, reporting of the detail of maintenance expenditure is minimal. No information was found for any Australian jurisdiction beyond that presented by New South Wales.

Experience of previous efforts to obtain this detail from within the New South Wales Government has shown that maintenance expenditure items are not reported or analysed. Additionally, it is believed that it is the practice of government treasuries and finance departments to apply Consumer Price Index (CPI) increases as a process for the determination of agencies’ annual maintenance budgets.

This leads to the following conclusions:

- Up to $4 billion of public money was to be expended by the NSW Government on maintenance in 2009-10 without full and proper transparency and accountability;

- There are no strong over-arching asset management policies, maintenance strategies and effective management programmes in place (beyond guidelines) to manage expenditure on the maintenance of approximately twenty-four per cent of the nation’s total NFPS asset value, and some ninety per cent of the property assets applied to the health, education and social wellbeing of Australians;

- Funds are being allocated to and expended on the maintenance of under-utilised and/or vacant assets;

- There are significant maintenance backlogs, the rectification of which would require substantial additional funding and the allocation of capital expenditure;

- Little attention is given to lifecycle costing and maintenance planning;

- The ability to implement truly effective and sustainable environmental management practices in government buildings is seriously compromised; and
The management of risk is impaired, with the health and safety of public sector employees and visitors to government property potentially put in jeopardy.

Although not the subject of a detailed case study for this thesis, Box 3 contains aspects of research undertaken by the author into the management of property by the State Government of Western Australia.

**Box 3: State Government of Western Australia – Property Metrics**

In 2011/12, the state government estimated the following in relation to its property assets:

- **Replacement Cost**: $25 billion
- **Annual Maintenance Costs**: $300 million
- **Proportion of Maintenance Costs**
  - Planned: $120 million (40%)
  - Reactive/Breakdown: $180 million (60%)
- **Value of Maintenance Backlog**: $1.2 billion, growing at $110 million per annum

An analysis of these figures is shown in Table 7.3 below.

<table>
<thead>
<tr>
<th></th>
<th>$ Per capita of WA Population</th>
<th>% of WA Gross State Product</th>
<th>% of WA NFPC Net Asset Value</th>
<th>% of Replacement Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Replacement Cost:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$25 billion</td>
<td>12,500</td>
<td>13</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td><strong>Annual Maintenance:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$300 million</td>
<td>136</td>
<td>0.15</td>
<td>-</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Maintenance Backlog:</strong></td>
<td></td>
<td>0.5</td>
<td>5</td>
<td>4.8</td>
</tr>
<tr>
<td>$1.2 billion</td>
<td>600</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 7.3 Government of Western Australia – Property Metrics

These figures give strong indication of a deteriorating property asset base, and an increasing financial liability on the state. They also pose threats to public services and the government’s ability to maintain levels of service.

Commitment to maintenance at 1.2 per cent of replacement cost is well below the industry benchmark of 2% - 2.5%. The level of the backlog reflects this.

There is a $60 million gap between planned ($120 m) and reactive ($180 m) maintenance.

The industry benchmark for this ratio is planned maintenance (65%) to reactive maintenance (35%), which would change the expenditure profile to $90 million in favour of planned maintenance. This would significantly improve the value of maintenance expenditure, and decrease the rate at which the backlog is growing.

This situation indicates a lack of financial management and prudent management of asset-related risks.

It is interesting to note that it was in September 2013 when Standard & Poor’s Global reduced its credit rating for Western Australia form AAA to AA+. Moody’s Investor Service followed in August 2014 by lowering its rating from AAA to AA1. Moody’s further revised its rating down to AA2 in February 2016.
7.1.2.1.5.3 Other Property Expenditure

Expenditure in respect of operating leases for real property is aggregated within the General Operating Expenditure of the public sector’s financial statements, and it has not been possible to isolate property rental and lease costs.

However, the Commonwealth Government reported that a sum of $2.232 billion was to be expended on operating leases during 2009-2010. This figure will relate to all types of leases, including property, plant and equipment, vehicles etc.

Expenditure on property leases will be significant, as the Australian Procurement and Construction Council has recorded, through its work with the Government Property Group that, for offices alone, the public sector occupies some 4 million square metres of rented accommodation at an annual rental cost of approximately $1 billion (Government Property Group, 2007).

In 2007 the Crown Property Portfolio of the New South Wales Government held some two hundred office leases with private sector landlords in sixty-five buildings at an annual rental of approximately $160 million. (See Section 7.1.4.1).

Similarly, there is no information relating to the costs incurred in the procurement of outsourced property advice and services, and property and facility management contracts.

7.1.2.2 Local Government Sector

The asset management issues identified through this thesis at the local government level of the public sector very much mirror those of the Commonwealth and State Governments, which stem from a lack of property knowledge and a poor understanding of the strategic and operational importance of property, and other asset classes, in the provision of public services.

The Local Government Sector is considered in depth in Section 7.1.5.

7.1.3 The Australian Commonwealth Government – a chequered history

7.1.3.1 Overview

The Commonwealth Government’s history in the management of its property assets is probably the most chequered of the Australian governments. Its malaise is characterised by a general indifference towards property assets at senior levels of government, lack of expertise and experience, a dearth of asset data and information, an absence of governance and accountability, and poor decision-making.
Appendix 3 provides a detailed account of the various stages in the development of the Commonwealth's attitude towards the management of its property assets.

These models have see-sawed from shared responsibility between agencies and a central authority in the 1970s, to a centralised model in the early 1980s, to decentralisation and commercialisation (user-pay arrangements) to the mid-1990s, to property divestment and management deregulation in the late-1990s, and the current role of the Department of Finance (Finance).

This thesis has found no material evidence that these changes were made in the context of any serious attempts at reform, but rather changes being made on whims and the management fashions of the day (for example, NPM), and ultimately in the late 1990s, the government's expression of a preference not to own property.

It will be shown in the following section that the criteria set by the government for the ownership of property were heavily biased towards producing leasing outcomes.

This policy has effectively outsourced and exposed the provision of office accommodation and other 'generic' property requirements to the property market. In this respect, the changes made through the 1980s and 1990s seem to reflect the tenets of Thatcherism, and the principles of NPM, with its resultant cultural clashes, blind spots and unintended effects.

There is evidence that the attitude of indifference has continued to prevail into the second decade of this century. During 2009, the author conducted formal research on behalf of the University of Sydney (the University) into the management of property assets in the Australian public sectors. On 28 January 2010, the author, together with Dr. David Leifer from the University, presented the findings of the author's research into the management of the Commonwealth's property assets to senior members of Finance's Commonwealth Property Review Branch. This presentation included a review of leading practices that were being developed internationally.

It was hoped that the government might find value in this research in relation to its on-going review of the management of property across Commonwealth departments, and the Prime Minister's desire to reform the Australian Public Service into the world’s best (Australian Government, 2009b, 2010). In the event, minimal interest was taken in the University's research, which was not pursued any further.

Much of the evidence of the Commonwealth’s approach to managing its property portfolio is provided through audits carried out by the Australian National Audit Office (ANAO). These have been critical of Finance in particular, and of the system of property management in general. Given Finance’s on-going property management functions, the latter criticisms can also be seen as being directed at Finance.

7.1.3.2 Department of Finance – disposal of the domestic estate
Finance was responsible for the disposal of the Commonwealth’s domestic estate, principally office accommodation having a value of $1.254 billion.

Finance was severely criticised by the ANAO for its advice leading-up to the sales, the conduct of the disposal programme, and the terms upon which sale and leaseback transactions were agreed (Australian National Audit Office, 2002).

The ANAO brought particular attention to the following:
The unrealistically high hurdle rate of return of fifteen per cent (against independent professional advice of eleven per cent as an upper level) as the rate of return required for ownership of a property to be retained. This “overwhelmingly favoured the divestment of property over retention.” (Ibid. p.12);

Rents agreed in a number of leaseback arrangements were found to exceed market levels by between seven and seventeen per cent;

The re-measurement by the purchaser of the building occupied by the Department of Foreign Affairs and Trade under leaseback arrangements showed a thirty-eight per cent increase in net lettable area. This resulted in an increased rental liability of $6.3 million over the initial rental period; and

The ANAO was concerned that the whole-of-lease-term costs in the sale and leaseback transactions could result in negative financial returns to the Commonwealth within the lease periods.

The ANAO’s analysis of the sale and leaseback of the building housing the Australian Geological Survey Office Headquarters revealed a negative Net Present Value (NPV) of $95 million. The calculation provided to the Minister by Finance showed a positive NPV of $43 million.

The recommendations for improvement made by the ANAO were dismissed by Finance without explanation.

7.1.3.3 Department of Finance – property management
Since the disposal of the domestic estate, Finance has been the central government agency responsible for the ownership and management of the residue of this portfolio, (excluding Department of Defence (Defence) property), which is estimated to represent a mere five per cent of the value of the Commonwealth’s property-related assets. The ANAO’s analysis of the sale and leaseback of the building housing the Australian Geological Survey Office Headquarters revealed a negative Net Present Value (NPV) of $95 million. The calculation provided to the Minister by Finance showed a positive NPV of $43 million.

Figure 7.1: Commonwealth Government Distribution of Property-Related Assets by Value

27 The term "property-related assets " is used as it has not been possible to distinguish between leasehold improvements, (such as fit out, furniture and equipment), and land and buildings.
Management of the balance of Finance’s owned portfolio is undertaken through the department’s Property Branch. The portfolio includes commercial office buildings, law courts and other special purpose properties, heritage buildings, residential property, and vacant land.

Government departments and agencies are not required to locate in Finance-owned property. The Property Branch operates as part of the property market, competing with private sector landlords and the agents that represent them.

Within this environment, the Property Branch is required to achieve the following levels of performance:

- Achieve a commercial rate of return on the portfolio;
- Maintain the condition of the portfolio to industry standards;
- Meet the future needs of tenant agencies as agreed by Government;
- Contain its management costs within market benchmarks;
- Pay dividends from operations; and
- Make equity repayments to the Australian Government from any divestment of property.

These criteria are open to wide interpretation but, in any event, given that the Property Branch’s market is limited to government departments, its ability to compete with private sector landlords, and achieve the required levels of portfolio performance is severely compromised and restricted.

The combination of this and the absence of any real whole-of-government property governance and strategy, results in government-owned space remaining vacant whilst agencies pay rental (on average at ten per cent above market rates) to private sector landlords (see below).

A somewhat fatalistic view of this was expressed to the author and Dr Leifer during their visit to the Property Branch in January 2010 in that Finance considers this situation as representing a successful outcome of allowing market forces to determine the right property solution. Whereas, in reality, it would appear that Finance is not achieving at least the first four of its property management performance objectives.

There is a discernible belief within Finance that, because there are so few properties remaining in the Commonwealth’s ownership, and property asset management is devolved to individual agencies, any need for whole-of-government property asset strategies has diminished. This strongly indicates that leased properties are not considered as assets since they are operational in nature, and would not appear on the Commonwealth’s financial asset register.

The flaws in this thinking have been long-exposed by the ANAO.

In 2001, the ANAO conducted an audit into the Commonwealth’s Management of Leased Office Property (Australian National Audit Office, 2001). Forty-four agencies participated in the audit. These agencies occupied 1.7 million square metres of office accommodation, eighty-five per cent of which was located in metropolitan and city areas. Defence declined to take part in the audit.
The ANAO noted and reported the following

- Nationally, the Commonwealth is a significant occupier of leased office accommodation. It was estimated to occupy up to ten per cent of available leased office space in metropolitan Australia, and may well be the single largest occupier of leased office accommodation across the country;

- Each Commonwealth agency, irrespective of size or function, is responsible for managing its property. They are therefore required to address complex property lease issues, including strategic planning, lease negotiations, and contract management.

More than seventy per cent of leases were for terms of less than five years, and many did not distinguish between net or gross rental terms.

All agencies were paying rentals in excess of benchmark levels. The Commonwealth had the largest influence on the Australian Capital Territory market, but was paying ten per cent above market rates.

Seventy-nine per cent of leases contained provisions for rent review. Ninety-four per cent of these precluded downward reviews.

It is significant that it was Finance that considered the inclusion of upward only rent review clauses as standard commercial practice. Of the leases reviewed by this audit, thirty-seven per cent were for properties previously owned by the Commonwealth. All contained upward only rent reviews; and all were negotiated by Finance on the sale and leaseback arrangements from the sale of the domestic portfolio.

- Seventy-six per cent of agencies did not have a strategic property plan;

- After the cost of labour, property expenditure is the next largest single item of agency overheads.

In the 1999–2000 financial year, the cost to the Commonwealth was in excess of $485 million in rent and outgoings.

- The amount of space leased is generally above the benchmark range of fifteen to twenty five square metres per person.

This indicated to the ANAO that some agencies might have been renting space in excess of their needs and/or utilising existing space inefficiently. The effects of this would be higher than necessary payments of rent and outgoings.

The ANAO estimated that, during the 1999–2000 financial year, the agencies responding to the audit paid nearly $100 million in rent and outgoings for the above-benchmark space held. This represented more than twenty per cent of the Commonwealth’s total annual rental cost.

- The deregulation and decontrol of the management of the Commonwealth’s property assets has had significant negative effects on the efficient and effective conduct of its financial affairs and business and, in consequence, the provision of public services.

In 2003, the ANAO conducted a further audit into the management of Commonwealth property (Australian National Audit Office, 2003). The audit found that the Commonwealth had made little progress in property management. It made particular note of the following:
There was inadequate property planning and control to identify long-term property needs, and define property objectives and priorities;

There was minimum consideration of property-related risks, and their affect on the delivery of services;

A lack of formal property management policy and procedural documentation;

There were no processes to measure and report upon property performance;

There was very limited property data and information, and no basis for benchmarking with other organisations.

There has been, therefore, a clear reluctance on behalf of Finance to go beyond its frameworks and guidelines to promote a robust and disciplined whole-of-government approach and governance over property ownership, allocation, occupation, and management. (Refer to Appendix 3 for the Commonwealth Government Property Framework).

7.1.3.4 The Commonwealth’s Property Legacy
The history of the Commonwealth’s lack of a strategic and transparent approach to the management of its property has left the federal government with the following legacy:

An unsubstantiated all-of-government policy towards property ownership, and a severely diluted base of strategic property holdings;

Inflexible property holdings resulting in reduced business and service provision agility;

An inappropriate reliance upon and exposure to property leasing markets with a potential for landlords to cartel and manipulate the markets;

An uncoordinated approach to the market though self-competition;

Loss of resources and skills, which has resulted in an over-reliance on the private sector for the management and provision of property services. There is evidence to suggest that, in some cases, this reliance is almost total;

Ill-defined roles and responsibilities, and lack of accountability;

A multiplicity and duplication of systems, processes and procedures, and varying standards of management;

Loss of a centralised database, and inaccurate asset registers;

Asset registers that are not reconciled to financial systems;

Non-transparent property dealings and financial loss;

No formalisation and analysis of whole life costs in decision-making;

No baseline cost and performance standards, nor monitoring of outcomes;

Inadequate financial management and asset management systems;
- Minimal reporting; and
- Poor documentation on asset acquisitions and disposals.

### 7.1.3.5 Conclusion

The approach by the Commonwealth Government to the management of its property assets shows a number of the characteristics of NPM, particularly the decentralisation of the management of property assets to individual departments and agencies to ‘let the managers manage’, and the attempt to apply private sector management practices.

In the case of managing corporate property assets, the decentralisation of this function was contrary to the thinking of the time, when the principle of ‘Corporate Real Estate’ was taking hold on an international scale.

The fact that, in two of its audits, the ANAO found it necessary to provide definitions for ‘property management’, both of which were in line with the thinking of the day, strongly indicates that the Commonwealth, represented by Finance, was either unaware of, or did not understand the changes that were occurring in the corporate sector at that time, i.e. the development of ‘Corporate Real Estate’ for the management of ‘the fifth resource’ as a central corporate business function (ANAO, 2001 op.cit. p. 28; ANAO, 2003 op. cit. p. 11.).

The legacy, described in Section 7.1.3.4 above, represents the ‘unintended effects’ of the Commonwealth’s approach to the management of its property assets since the late 1990s.

It was not until 2009/2010 that the Commonwealth Property Review Branch of Finance was charged with developing a Property Management Framework to improve the governance, planning and whole-of-government co-ordination of property management across agencies, and improving the efficiency and effectiveness of property management across government.

This Framework was not released until late 2015 (Australian Government, 2016). Any effectiveness that this framework might have is yet to be tested. Nevertheless, it will most likely require strong leadership and some ‘frank and fearless’ advice for it to make any substantial difference to the current situation.

However, an initial reading of the framework would suggest that it represents a consolidation of earlier processes and arrangements, without effectively addressing the key over-arching whole-of-government issues of strategy, governance, transparency, and accountability.

### 7.1.4 New South Wales State Government: some good theory, not so good in practice

This case study is an example of the effect of public sector organisational context, culture, influence, and conflict on attempts to introduce strategic whole-of-government reforms in the management of NSW Government property.

#### 7.1.4.1 Background: Specialist & Generic Property

In 2011, the total value of the NSW Government’s Non-Financial Public Sector (NFPS) property assets was in the region of $80 billion, annual maintenance expenditure was some $1.6 billion, and the annual cost of leased office accommodation was approximately $400 million.

Like the Commonwealth Government, the NSW Government broadly divides its property portfolio into two categories, generic and specialised.

---

28 Refer to Section 4.4 and Box 1 in Section 4.4
The management of the vast majority of these assets, mostly specialised property such as schools and hospitals, has not been subject to any effective form of over-arching governance, policy, control, strategy, or standards.

The NSW generic portfolio comprises the following property types and uses:

- Offices;
- Warehouses;
- Depots;
- Car parks; and
- Certain categories of land.

The value of this portfolio in 2011 amounted to some $640 million, which was less than one per cent of the total value of NFPS property assets.

The generic portfolio was divided into two sub-categories, namely:

- Property or premises (owned or leased) occupied by a single government agency; and
- Single properties (owned or leased) occupied by more than one department or agency (multi-occupied property). These properties came under the effective ownership and control of the Department of Treasury (Treasury) through the Crown Property Portfolio (CPP). (See Section 7.1.4.2.4).

It is only the latter that have been subject to any attempt at management on a whole-of-portfolio basis. The management of the balance of the generic portfolio (until 2010/11) and all specialist property is devolved to the individual occupying agencies. However, agencies are still required to report to, and effectively obtain approval from Treasury for the planning for these properties as part of the budget process, via the requirements of Treasury’s Total Asset Management Framework (TAM). (See below and Appendix 3).

7.1.4.2 Management of NSW Government Property – no ‘whole-of-government’ outcomes approach, and the power and influence of Treasury

Since 1992, the management of government property has undergone a number of changes.

As these have largely been limited to the narrow generic category of property, few have been adopted for any whole-of-government strategy-based reasons for reform that view property holistically as an organisational resource essential to the operation of government, and provision of public services.

As a result, management of government property remains ad hoc, and fragmented in policy, governance, structure, and capacity and capability (DEGW & CoreNet Global, 2004).

Appendix 3 traces these changes in detail.

A dominant feature of these changes has been the power and influence of Treasury.

---

29 In 2007/08, this was estimated at 140,000 square metres of owned, and 660,000 square metres of leased office accommodation.
30 Note: not ‘whole-of-government’.
With the exception of the establishment of the State Property Authority (SPA) in 2006 (see Section 7.1.4.3), Treasury has been the only body to initiate policy relating to the ownership and management of government property.

Although the change process has sought to introduce good practices to the management of generic property on a ‘whole-of-portfolio’ basis, it has not been a process of reform. The interests of Treasury’s budget and financial planning functions have largely driven the changes. They have not gone to the essence of strategic asset management reform, and all that entails, on a ‘whole-of-government’ basis.

The following sections describe the key actions taken by Treasury in relation to its control of government property, and their overall effects, between 1992 and 2002.

7.1.4.2.1 Total Asset Management Framework
In 1992, as part of the TAM Framework, Treasury introduced the following in relation to office accommodation occupied by government agencies:

- Agencies were required to include strategies for office accommodation, which were to form part of their annual TAM submissions; and
- A requirement for agencies to refer proposals for all new office leases and lease renewals to the Property Services Group of DPWS for approval. This was the first attempt to control space utilisation.

Treasury introduced further requirements in 1997, which were aimed at introducing a disciplined practice into the management of office accommodation; achieving savings; promoting a centralised approach to office accommodation planning and property disposal; and concentrating agencies on the amount of space being used. These included:

- Setting an office space utilisation target of 18 m² per person;
- Submission of facility plans for all new office leases to DPWS for approval;
- All disposals over $3 million to be handled by DPWS; and
- Submission of annual Office Accommodation Strategies to DPWS for review.

7.1.4.2.2 Government Asset Management Committee
In 1998 Treasury was instrumental in establishing the Government Asset Management Committee (GAMC). This was an attempt to exercise control over government-occupied office accommodation through the formation of a senior and high-level body whose terms of reference included providing advice to the Budget Sub-Committee of Cabinet. Inter alia, this advice included the appropriateness of agency asset management strategies, accommodation issues involving more than one agency, office accommodation strategies for metropolitan and regional areas, and major property investment decisions.

Although the Director General of the Department of Premier and Cabinet acted as the chair of GAMC, it was effectively controlled by Treasury through the provision of the Secretariat and through a Senior Officer Sub-Committee, which considered all matters, and attached comments and recommendations, before they were referred to the committee.

GAMC had no permanent, independent or professional executive officers that were expert in the management of assets; and took few policy initiatives of its own. In effect, it performed little
more than a review and rubber-stamping role, and showed a reluctance to enforce policy over government agencies.

7.1.4.2.3 Office Accommodation Lease Negotiation and Management


The framework, known as Premier’s Memorandum 02-09, included property management principles that agencies were required to comply with, and assigned roles and responsibilities for the management of this property category. These requirements were additional to the strategic planning requirements of TAM.

The Government Leasing Service (GLS) was formed in the same year as a unit within State Property. The GLS was mandated to implement Premier’s Memorandum 02-09 by managing government office lease negotiations in ‘markets of most exposure’, principally Greater Sydney and the larger metropolitan areas of the state, such as Newcastle and Wollongong.

However, the GLS role did not extend to the negotiation of head leases held by the CPP in these markets. As head lessee of multi-agency occupied premises leased in the same building, the CPP was mandated to manage their negotiations.

Furthermore, Treasury also now required agencies to carry out lease versus own analysis for investment proposals, and submit business cases to GAMC (effectively Treasury) for approval in support of locating in core central business district locations.

These measures were aimed at a more controlled management of leased office accommodation by co-locating agencies to enable lease rationalisation, and to test the viability for agencies to relocate to regional New South Wales.

Somewhat naively, Treasury publically announced government’s preferred locations (south Sydney and Parramatta, for example) for agencies that needed to be in the Sydney Metropolitan area. Anecdotally, it was thought by the GLS that the public nomination of these locations alerted the markets to the coming demand for offices, which resulted in inflated rentals until supply could equalise the increased demand.

7.1.4.3 Effects of Treasury’s Influence

Notwithstanding the fragmented nature of the management of government property, the combination of the government-wide requirements of TAM that applied to all agency assets, and Treasury’s control of generic property through its influence over GAMC, Premier’s Memorandum 02-09 and the GLS; ownership of the CPP; and the terms of its Alliance Agreement with State Property (see below), effectively placed Treasury in control of policy and its implementation over all government property.

Government was apparently happy for Treasury to develop this control and influence, which it has exercised for financial and budgetary purposes. Whilst essential from this efficiency perspective, it leaves little room for the management of property assets from the perspective of effectiveness, which is the real reason for their existence, i.e. how they are employed and managed as resources for the achievement of whole-of-government objectives and service outcomes.

It is evident that, in the context of the management of government property resources at least, the ‘effectiveness’ element of the term ‘efficiency and effectiveness’ has become overshadowed by the ‘harder’ financial measures of the performance of assets, which
themselves have been limited to capital expenditure and related to occupation targets, such as area occupied by full time equivalents, and portfolio vacancy levels.

As has been established throughout this thesis, there is paucity of property data. This is particularly so for the whole-of-life cost of government property beyond the initial capital costs of development and construction.

It is the political nature of public sector financial management that its horizons are limited to the three or four year electoral cycles of government. As such, governments concentrate expenditure on infrastructure capital projects that attract the attention of the electorate, with little priority given to the on-going operational financial burdens that they create. These operational property management costs, which include maintenance, staffing, administration, utilities, outsourced contracting etc. are rarely assessed, managed or recorded in sufficient individual detail to be capable of measurement and reporting.

Additionally, the author does not believe it frivolous or cynical to suggest that, to defend their budget allocations and property territories, agencies would not be happy to expose either the detail of their property operating costs, or the level of their asset management capacity and capability that any such analysis might reveal. It is not uncommon, across the public sector as a whole, for agencies to ‘manage’ their maintenance budgets to supplement other areas of expenditure, particularly in times of fiscal constraint when Treasurers call for ‘efficiency dividends’ without reducing services or their quality.

For New South Wales, this raises two issues. The first is the cultural ‘turf’ issue (Kruk and Bastaja, op. cit.). The second concerns the OECD’s conclusion that governments limit their assessments of efficiency and effectiveness by viewing them solely in a budgetary context. (OECD, op. cit.).

The NSW Government’s approach to managing its property assets is symptomatic of turf-protection and the extension of influence. Treasury has the policy, financial and planning turf, whilst individual agencies retain a sufficient level of protective independence and control over the occupation and management of their property fiefdoms and functions.

The decisions leading to this situation show few signs of having considered or assessed the larger property and government services picture. They will have had consequential negative “effects on policies and performance of whole-of-government importance” (ibid.), and the resulting fragmentation of responsibility will have led to a lack of property management transparency and accountability over some $80 billion of property assets.

This is evidenced by Treasury’s TAM framework, which, although referring to “better planning and management of the State’s physical asset base”, and purporting to “focus on agencies’ results and services plans”, provides no means to monitor or evaluate property’s effectiveness and efficiency in supporting government’s results and services outcomes, either centrally or by individual agencies (NSW Government, 2006).

Adopting a disaggregated view of the process, as proposed by the OECD (ibid.), would enable the NSW Government to carry out a wider evaluation of the performance of property in the delivery of services and achievement of government objectives. This goes to the root of the public sector’s raison d’être, which, however, does not seem to have been a priority for the NSW Government.

The devolved and fragmented responsibility for the management of property in New South Wales allowed government agencies and entities to develop their own independent in-house property management organisations and technical skills. Examples of this are the large
property and facility management departments maintained by NSW Maritime, Roads and Transport Authority, Sydney Harbour Foreshore Authority, NSW Police, the Departments of Education and Health, and the Attorney General’s Department. All coveted their territorial and property management ‘empires’, and none were disposed to engage or consult with other areas of government in the management of their property portfolios. There was particular animosity between NSW Police and Treasury when Treasury, through SPA, attempted to exercise control over the management of the Police property portfolio in the early 2000s.

It also resulted in the development of separate property-owning authorities, and property and facility management service providers from within central government agencies. These included:

**The Crown Property Portfolio**

In 2002, The NSW Treasury established the Crown Property Portfolio (CPP) under its ownership.

The CPP comprised government-owned office buildings, which were occupied by multi-agencies. Occupation of these properties was on a landlord – tenant basis under Memoranda of Understanding between the CPP and tenant agencies.

In addition, the CPP was the named leasing entity when government leased office premises in the open market for multi-agency occupation. Agencies also occupied these properties on the same Memorandum of Understanding arrangements, with the CPP as head lessee.

At the time ownership of the CPP passed to the SPA, and SPA assumed responsibility for the leased accommodation, the portfolio comprised 970,000 square metres and included the following:

- Commercial Property: 400,000 square metres
- Non-Commercial Property: 570,000 square metres
- Freehold Sites: 66
- Leasehold Sites: 49
- Head Leases: 200+
- Annual Head Lease Rental: $160 million
- No. of Memoranda of Understanding: 475
- Value of Owned Property: $500 million
- Annual Operating Expenditure: $15 million
- Annual Capital Expenditure: $50 million

Also included within the CPP was a portfolio of miscellaneous properties, which were classified as ‘strategic’. In effect, these were a hotchpotch of properties that were owned but not

---

31 The Crown Property Portfolio had no relationship with Crown Land.
32 Although formed by Act of Parliament in December 2006, it was not until April 2008 when SPA’s mandate was finally settled through the issuance of Premier’s Memorandum M2008-06, which set out principles for the management of government property (NSW Government, 2008; “State Property Act,” 2006). Ownership of the CPP portfolio, and head leases were transferred to SPA between 2009 and 2010.
occupied by government. Some were strategic holdings, such as the Sydney Opera House car parks, and the Sydney Fish Markets; some were considered as having ‘state (or political) significance’, for example Strickland House in the Vaucluse suburb of Sydney; and some were provided to not-for-profit organisations at concessional or peppercorn rentals.

**NSW Department of Commerce**

In 2002, the Department of Public Works and Services (DPWS) was dissolved.

The DPWS consisted of three units: Projects, Facility Management, and State Property. Projects and Facility Management were service providers to government agencies offering alternatives to acquiring services from the private sector.

These were absorbed into the newly formed Department of Commerce (DoC) where they were operated as separate businesses, and required to provide financial returns to the DoC, which in turn had financial targets to return to Treasury’s Consolidated Fund.

Under some forceful and turf-war driven leadership, State Property took a life of its own within the DoC33. This resulted in State Property offering duplicate services in the areas of Project and Construction Management and Facility Management from within the same parent organisation.

Under an Alliance Agreement with Treasury, the Corporate Real Estate division of State Property was responsible for the management of the CPP, including property and facility management, tenant management, financial management (including receipt and payment of rentals), all leasing activity, management of new developments, project management, acquisitions and disposals.

The Alliance Agreement also required State Property to maintain a Government Property Register for generic property, to advise Treasury on property management policy, to review the strategic office accommodation plans of government agencies and report upon them to Treasury, and to enforce Treasury’s property-related policies under TAM and Premier’s Memorandum M2002-09 (NSW Government, 2002).

The multi-functional and often conflicting nature of the DoC’s responsibilities created confusion and conflict, not only for government as a whole but also within the DoC itself, its business unit, State Property, and within the Corporate Real Estate division of State Property (see Section 7.1.4.4 below).

**NSW Businesslink**

NSW Businesslink was established as a government-owned company in 2003 to offer shared services to government agencies in financial, information and communication technology, human resources, and property management to government agencies34.

Table 7.4 illustrates the NSW Government’s fragmented approach to the management of its generic property from the 1990s to the early part of this decade.

---

33 It was at this time that Robyn Kruk who, as Director General of the Department of Premier and Cabinet, and Annette Bastaja wrote about turf-war mentality in their paper, *Emerging directions in public sector management in New South Wales* (Kruk & Bastaja, 2002).

34 NSW Businesslink was dissolved in 2013 as it could no longer be sustained as a financial going concern (NSW Auditor General, 2013).

7.1.4.4 From State Property to the State Property Authority: a true reform?
Superficially, because of the Alliance Agreement with Treasury, the fortunes of State Property would appear to have been aligned with, and dependent upon Treasury. The events leading to the establishment of SPA would show this to be the case, but not in the way intended by State Property.

It was mentioned earlier that State Property had a strong leader in the early 2000s. It was the ambition of this individual for government to take a holistic approach to the management of property by proposing wholesale and far-reaching reforms to bring the ownership and management of all government property assets under a single authority, the State Property Authority, which was to be established from the existing State Property unit of the DoC.

There were a number of factors that would influence the outcome of this reform: neither Treasury nor the Department of Premier and Cabinet had been sufficiently engaged to sponsor and support such a reform; the lack of organisational management, communication and change management skills at the most senior level of the Department of Commerce and State Property; State Property’s already existing internal conflicts; and State Property’s lack of corporate real estate and property management skills, systems, and processes and procedures.

In essence, central government was neither ready for, nor disposed to consider such a far-reaching reform. State Property did not possess the resources skills or expertise to implement it (see below): and State Property was in such a state of conflict and divided loyalties, which generated either opposition from within, or a ‘wait-and-see’ attitude by its senior management.

---

35 The author had arranged for Mr Chris Coneeney, Senior Real Property Officer at the US General Services Administration to conduct a Property Asset Management forum for the NSW Treasury directorate on 4 July 2005 (Coneeney, 2005). Mr Coneeney described the US Federal Government’s path to reform, and the outcomes that were being produced. It was clear that there was little appreciation for how this might benefit the management of the NSW property portfolio.
7.1.4.4.1 State Property
In 2004, State Property was organised in three divisions: Project Management, Ministerial Projects, and Corporate Real Estate (CRE).

Project Management and Ministerial Projects were separately managed and resourced entities, but performed identical functions. This resulted in duplication of staff and systems; inconsistent processes and procedures and reporting; and inefficient use of office accommodation. It also created internal turf wars.

It is the CRE division, and the influence exercised by Treasury over State Property through the Alliance Agreement, with which this section is primarily concerned.

Although there were some attempts to broaden its government client base by offering services to other departments and agencies, CRE’s principal purpose was as a service provider to Treasury under the scope and terms of the Alliance Agreement. These included the provision of property and building management, and capital project management services to the CPP; management of the GLS; and Strategic Asset Management advice and oversight.

CRE’s project management role was the cause of additional friction within State Property, and further management and resource inefficiencies and differences in processes. Because the parties to the Alliance Agreement were Treasury, as principal, and State Property (not CRE) as service provider, the Project Management division of State Property considered this to be an invasion of its territory.

It was the combination of the deteriorating internal relationships, and its almost total dependence and reliance on Treasury for its raison d’être, that CRE became to see itself as a quasi or de facto department of Treasury, acting as its portfolio manager, policy adviser, compliance watchdog and, at times, arbiter and policeman over agencies’ property matters. This further enflamed the internal conflicts and turf wars within State Property.

7.1.4.4.2 Corporate Real Estate Division
Figure 7.2 illustrates CRE’s structure. It shows that, although CRE is part of State Property, its effective reporting line is to Treasury. Similarly, the Strategic Asset Management (SAM) section took its instructions from, and reported directly to Treasury. These three sections operated independently with little communication between them.

Figure 7.2: CRE Structure
The Portfolio Management section managed the day-to-day operations of the CPP, including the management and negotiations of leases with the private sector as head lessee. With the exception of the payment and receipt of rentals, all property and building management functions were outsourced to a professional property management company.

Notwithstanding this, CRE continued to maintain the full resources required for a large property management organisation. It maintained an information system for the CPP, and an equivalent staffing structure to ‘manage’ the outsource service provider. Figure 7.3 shows the extent of this duplication, which created considerable difficulties for the service provider.

Two separately managed leasing responsibilities was further cause for friction within CRE, and confusion in the property market. Government could not present a unified leasing function to the market, and it was not uncommon for the GLS and CPP to compete with each other in the negotiation of leases. The GLS operated in a much wider market, had professional lease negotiators, and had a superior knowledge of market conditions.

The role of the SAM section was to provide Treasury with policy advice, undertake regional locational studies, maintain the Government Property Register, and assess agency facility management plans and property locational business cases required by Treasury under TAM, and monitor, oversee, and enforce the provisions of Premier’s Memorandum 02-09. SAM had a direct relationship with, and reporting line to Treasury, which all but separated it structurally and organisationally from CRE and State Property.

This was the organisational, relationship and cultural contexts within which State Property sought to initiate whole-of-government strategic property reforms.

7.1.4.5 State Property Authority

7.1.4.5.1 A Disturbed Beginning
The eventual incarnation of SPA was a result of a struggle lasting some two years between the DoC and Treasury. This led to the departure from government of SPA’s original proposer, which resulted in the broader whole-of-government concepts of reform either being dropped completely, or being watered-down to apply to generic property only.

SPA was formed by Act of Parliament in December 2006 (“State Property Act,” 2006). The transfer of the CRE division, its staff and functions from State Property effected SPA’s formation.
There was a hiatus of nearly two years between formation and the appointment of a permanent Chief Executive Officer (CEO). SPA was managed by four interim CEO’s, including an official of Treasury, during this crucial period.

Until a permanent CEO was appointed by Treasury, SPA’s new objectives and functions were to be performed and managed by the same management staff and resources without a Business Plan or Statement of Business Intent, a settled leadership and structure, and without any assessment of required skills and expertise, planning, change management and implementation programmes.

A further complication was that, despite SPA’s enabling legislation, its operating policies, principles and mandate had not been agreed between the DoC and Treasury for the necessary approval by Cabinet.

Notwithstanding these effects of the turf war between DoC and Treasury and SPA’s area of responsibility being limited to generic property, SPA’s objectives and functions, and eventual mandate and operating policies and principles, began to represent and resemble genuine aspects of strategic property asset management reform.

7.1.4.5.2 Objectives and Functions
The State Property Act 2006 (ibid) provided SPA with the following objectives and functions:

Objectives:

- Improve operational efficiencies in the use of properties of government agencies, particularly generic properties (such as offices, warehouses, depots and car parks);
- Manage properties of government agencies in a way that supports the service delivery functions of those agencies;
- Provide advice and support within government on property matters; and
- Operate at least as efficiently as any comparable business, consistently with the principles of ecologically sustainable development and social responsibility for the community (including the indigenous community).

For perhaps the first time the NSW Government had formally defined objectives for the management of its property assets that gave direction and had meaning and purpose. They coupled operational property efficiency with government service delivery outcomes, included a whole-of-government advisory role, and provided business, ecological, and social benchmark performance indicators.

Functions:

- Hold, dispose, acquire property;
- Manage, maintain, improve & develop property;
- Arrange sharing of facilities;
- Advise the Treasurer on efficient use of property;
- Advice to the Treasurer on transfer of property to SPA and on budgeting measures; and
Advise the Treasurer as directed.

These functions were clear and unambiguous. However, they did not refer to or clearly reflect or express the softer elements of SPA’s objectives, i.e. the support of service delivery, the wider advisory objective, and the ecological and social community principles.

The advisory functions were defined in favour of Treasury, which ensured its continued level of influence and control over both property and the functioning of SPA, and the retention of a budgetary focus.

7.1.4.5.3 Mandate

SPA’s mandate was eventually released in April 2008 through Premier’s Memorandum M2008-06 State Property Authority and Government Property Principles (NSW Government, 2008).

The sphere of SPA’s mandate did not extend beyond that of State Property in that it was similarly limited to generic property. However, it was expanded to include all of the General Government Sector and Public Trading Enterprises. It did not include State Owned Corporations.

It is particularly significant that the ownership and management of all government-owned office accommodation was to be vested in SPA. This included the CPP and all accommodation separately owned by individual government agencies. In addition, SPA would become the government’s sole entity to act as lessee for all office leases with private sector landlords.

Existing office property leases were to be transferred into the name of SPA.

SPA would undertake the negotiation and management of all lease negotiations, including lease renewal and rent reviews, for generic property in the Sydney Metropolitan Area. This would consolidate the previous dual leasing functions of CRE into a single leasing unit.

Agencies would pay commercial rentals to SPA under Memoranda of Understanding and Service Level Agreements.

SPA’s mandate strengthened the powers of the CRE strategic asset management functions in the following areas:

- SPA was to undertake reviews of all government agency generic property portfolios, and develop Property Strategy Implementation Plans in conjunction with agencies by 2011;36
- All acquisitions and disposals of generic property were to be endorsed by SPA; and
- SPA was nominated as government’s preferred agency to manage and conduct acquisitions and disposals.

7.1.4.5.4 Property Data

SPA continued with CRE’s responsibility to maintain a whole-of-government database for generic property, the Government Property Register. This was the sole central repository for all NSW Government property data.

The collection and management of this data reflects the ‘data leakage’ characteristics described in Section 5.4.1.

---

36 The author developed the methodology for these reviews.
These deficiencies were exposed during the implementation of transferring ownership of agency property into SPA, and SPA replacing agencies as head lessee in respect of leased office accommodation.

This entailed the transfer of a substantial portfolio from multiple agencies. It was estimated that the addition of these properties would increase the area under SPA's management by some 800,000 square metres, eighty per cent of which was leased from private landlords.

The management of all aspects of the CPP property data, including for leases, inventory, financial and budgetary control, and operations and maintenance was of a high standard supported by appropriate systems.

Conversely, the management and maintenance of the Government Property Register, which was carried out separately by CRE's Strategic Asset Management section, was managed without the same rigour, quality and accuracy, on an independent and unrelated system. The rationale for separate systems was that, because the Government Property Register was the property of Treasury, its contents were confidential and restricted.

Therefore, in addition to data that might be maintained by agencies, central government maintained two separate property databases. These were evidently the objects of information and data turf-protection caused by the internal conflicts and mistrust within one organisation.

The Government Property Register relied upon the Office Accommodation Strategies submitted to Treasury by agencies as part of their TAM plans as the sole source of generic property data.

The Portfolio Management and GLS areas of SPA were granted access to the Government Property Register to obtain data relating to the properties to be vested and transferred into SPA. This had dual purposes. Firstly as a due diligence exercise; and secondly, to determine the resources, planning and logistics requirements for the transfer of management of these properties into SPA.

In terms of the accuracy of lease data, some sixty per cent of these records were found to be incorrect, out-of-date, or contain records of leases for properties no longer held by government.

7.1.4.6 Outcomes of Reform
The success or otherwise of these reforms is perhaps best measured by two reports of the NSW Auditor General in 2005 and 2009, and by the Interim Report of the NSW Commission of Audit into Public Sector Management in 2012.

These reports are described in detail in Appendix 3. Summaries of their findings are presented below.

7.1.4.6.1 NSW Auditor General Reports: “effective asset management is a key measure of the quality of management and stewardship of a government”
In 2005, the NSW Auditor General examined NSW Treasury’s efforts to implement asset management reforms, improve asset management practices in the public sector, and the progress made by three sample agencies (the Department of Corrective Services, NSW Fire Brigades, and the Powerhouse Museum) towards the better management of their asset portfolios (NSW Government, 2005).

The Audit Opinion stated, “effective asset management is a key measure of the quality of management and stewardship of a government” (ibid, p.2.).
Apart from holding considerable significance, in that it shows the importance of asset management is understood at such an influential level of the NSW Government, it also confirms that, in the view of the Auditor General, asset management effectiveness is capable of being measured. This supports the earlier conclusion in Chapter Five of this thesis that, with a robust service and business planning regime and good data, the performance of assets can and should be assessed as an indicator of whole-of-government performance.

This audit concluded that, although progress had been made in strategic asset management, “a lot of room still exists for improvement” on behalf of both government agencies and Treasury (ibid.). The audit specifically identified the following necessary areas of improvement for agencies:

- Identify all assets that are critical to service delivery, and include them in their TAM plans;
- Specify the contribution that assets make to services;
- Develop performance standards to assess asset suitability, remaining useful life, and potential for disposal;
- Assess the risks that assets pose to service delivery, and how to manage those risks; and
- Implement asset management systems capable of providing and filtering information on asset condition, maintenance. Performance and useful life.

The audit noted that Treasury has taken a one-size-fits-all approach to TAM, which overwhelms smaller agencies with fewer resources. The audit estimated that over thirty per cent of agencies have assets worth less than $10 million, but have the same planning and reporting requirements as those with large portfolios.

The audit found that not all TAM plans contained an Asset Strategy. Those that had Asset Plans were not linked to corporate strategy or service standards, nor did they include all assets that were essential to service delivery.

This shows that agencies consider their assets as operational fixtures rather than as strategic resources in the same manner as human, financial and technical resources. Asset Management, therefore, would be driven by technical and maintenance criteria, which would put the composition, appropriateness, functionality, sustainability, and efficiency and effectiveness of entire portfolios in doubt.

Furthermore, it is not surprising that the audit found that asset performance standards had not been developed and that risks affecting asset performance had not been assessed; the impact of maintenance on asset and service performance had not been considered; agencies did they assess the impact on services if asset funding was not received; and asset management systems, data and information were inadequate.

In relation to Treasury’s application and management of TAM, the audit found that the lack of quality in asset plans was affected by insufficient feedback from Treasury to agencies. Most agencies were found to be delinquent in meeting the deadlines for the submission of plans to Treasury. Treasury did not monitor the receipt of plans or report on their timeliness. These findings are disturbing for the following reasons:
Two of the three agencies, the Department of Corrective Services, and NSW Fire Brigades, are large organisations responsible for providing critical justice, protection and emergency services across the State, and are reliant on a multiple and complex range of assets, including substantial specialist property portfolios.

Most of the property assets of these agencies would be specialist property, e.g. prisons and fire stations. Although they would not in any case be subject to the future policy of Premier’s Memorandum 08-06, they are subject to the requirements of Treasury’s TAM policy.

This provides an insight into the public sector’s culture and attitude towards assets and their management, and the level of respect shown towards government’s whole-of-government planning policies; and

The lack of attention given by Treasury to the management of its own TAM process in terms of the receipt of plans, their review in relation to agency Results and Services Plans, and the lack of feedback to, and communication with agencies.

The second of the NSW Auditor General audits was a Compliance Review Report into Total Asset Management. It was conducted in 2009 (NSW Government, 2009).

In reviewing twelve major agencies with regard to their compliance with TAM, the Auditor General expressed concern that little progress had been made in the management of assets since its 2005 report.

The audit concluded that Treasury’s ability to make informed decisions to plan the funding of statewide asset expenditures for the next ten years was significantly diminished by late, incomplete, poor quality and unreliable TAM submissions. Treasury had to adopt alternative, time-consuming measures to collect the required information from key agencies.

The audit noted “wide-spread non-compliance” with TAM. The following were the key non-compliance findings of this audit:

- Failure to submit the asset strategy as part of the proposed TAM;
- Failure to document how the agency identified and aligned investment strategies with relevant regional and sub regional strategies;
- Late submission of, or failure to submit business cases and strategic gateway reports;
- Estimating capital requirements by grouping broad expenditure categories rather than estimating expenditure on planned projects.
- Incorrect use of superseded table formats, resulting in the omission of important information, such as work in progress, location of capital projects and maintenance measures;
- Failure to provide required information because of difficulties in extracting and collating relevant data;
- Omission of information as it had been supplied elsewhere, or agencies felt the information requested was unimportant, not useful, or could be misconstrued. Agencies did not confirm this by seeking formal exemptions from complying with the reporting requirements. This included information on property disposals;
- Failure to meet TAM submission deadlines;
- Failure to obtain Ministerial and CEO sign-offs to TAM submissions;

Perhaps the finding of most concern was that the Government Asset Management Committee and State Property Authority were unable to unequivocally confirm whether all information requested from agencies in the TAM template had any material impact on strategic decision-making.

This should be viewed as a strong indication that government’s principal gateway for asset investment decisions and policy initiatives (GAMC) (and, by extension, Treasury), and government’s principal property advisor and reviewer of agency property strategies (SPA) did not fully understand the reasons for, or relevance of certain asset information requested from agencies.

7.1.4.6.2 NSW Commission of Audit Interim Report – Public Sector Audit (2012)

7.1.4.6.2.1 Summary

This report was commissioned by the NSW Government in 2011 to develop a framework for the future of the NSW public sector. Dr Kerry Schott, a former Executive Director of Treasury and former Chief Executive of Sydney Water, led the audit (NSW Commission of Audit, 2012).37

The author considers this report to be remarkable for the reason that it was led by a previous principal policy-maker at Treasury with a responsibility for assets, which covered the eventual formation and structure of SPA. Many of the principal issues of the Commission’s terms of reference had therefore already been formally brought to the attention of central government at least six to eight years prior to the Commission’s establishment. In addition, the Commission’s Advisory Board included senior members of the NSW Government who were in positions to recognise, and take action on the condition of the NSW public sector well before the commissioning of this report. In terms of property asset management, they were aware of the reports of the NSW Auditor General in 2005 and 2009 (op. cit. NSW Government 2005 and 2009). Indeed, the Commission refers to the 2009 report of the NSW Auditor General.

In addition to these, the NSW Auditor General’s Financial Report, 2011 stated the following (Audit Office of New South Wales, 2011):

“I could not give an unqualified auditor’s opinion on the General Government and Total State Sector Accounts”; and

“I am unable to obtain all the information I require to form an opinion on the value of land assets and any other related infrastructure that should be recognised in the financial statements. This is the eighth38 year the General Government and Total State Sector Accounts have been qualified because of this issue”.

The Commission also made reference to this report.

This, together with the independent findings from the research for this thesis, show that the NSW Government had been aware of the deficiencies in the management of the state’s assets, and the potential resulting cost to the NSW community, for nearly a decade.

37 Dr Schott attended the brief given by Mr Chris Coneeney to NSW Treasury on 4 July 2005. Ref. Section 8.1.4.4.
38 Bold emphasis inserted by the author.
With regard to the lack of information raised by the Auditor General in 2011, it is noted that Treasury, through the DoC and its predecessors, was responsible for the maintenance of property asset information on the Government Property Register.

Notwithstanding the above, the author believes the Commission’s report to be of considerable significance, not just for its findings and recommendations, but also for the sense of clarity and urgency of its language. The introduction to report contains the following observations and statements (op.cit. p.5.):

“It is not good news.”

“Pockets of good practice ….. but far from excellent.”

“This will hinder the achievement of the Government’s strategies.”

“….. the Commission is surprised at the low importance that has been attached to financial, people and asset management.”

The report highlights government’s “indispensable” role in providing help and services; the need for efficiency and government’s “duty of care” to ensure taxes paid by the community are spent wisely; much of government’s activity and services have a direct impact on the state’s economy and productivity; and all aspects of government require accountability.

With regard to accountability, the report found “poor systems, poor clarity about roles, insufficient coordination and limited strategic foundations. All this hinders achievement of policy and inability to keep pace with societal change.”

The report analysed the development of the structure of the NSW Government. It concluded that, with growing public expectation for integrated services, government agencies operating as independent organisations was no longer appropriate as it promoted duplication, confusion, lack of clarity, and an erosion of public confidence in government.

Multiple independent government agencies also result in fragmentation and inefficiencies in terms of deployment and use of resources, terms of employment, and financial and legal accountabilities.

In examining the role of central government agencies, the report identified the following as key roles for central agencies:

- The provision of “frank and fearless” advice on policy and strategy;
- Advice to cabinet on “trade-off” within financial limitations;
- Managing human resources as a single corporate entity;
- Co-ordinating government business across departmental boundaries;
- Measuring and reporting whole-of-government performance; and
- Enabling government to function.

The Commission saw central agencies acting as a “hub” to improve learning and capacity by bringing key professional groups together to facilitate exchange of leading practices, identifying trends, and developing solutions to emerging issues.
Monitoring and reporting on sector-wide performance was seen as a key role for central agencies to ensure the consistency and accuracy of data and information that is common to the needs across government clusters.

The report identified “natural custodians” of government-wide information, which, “should be seen as the ‘single source of truth’ for each category of information”. The report nominated the Department of Finance and Services as being responsible for managing the delivery of the asset management corporate enabler.

7.1.4.6.2.2 Asset Management


Like the preceding reports of the NSW Auditor General (op. cit. NSW Government 2005 and 2009) in particular relation to the management of property assets, the Commission found it necessary to articulate the accepted basic principles of asset management, which it defined as:

- Assets exist to support service delivery;

- Good asset planning should be based on current and future service needs, and whether these needs can be met by alternative non-asset solutions;

- Asset planning is to do with evaluating alternatives, the assessment of costs and benefits, risk, value for money, and whole-of-asset lives;

- Asset Management should be integrated into strategic and organisational planning; and

- Asset Management should be subject to appropriate governance structures, and accountability for its performance.

The Commission concluded that the existing asset management frameworks, such as TAM, are “conceptually sound, but implementation is far from assured” (op. cit. p.103). In this respect, it cited that projects had been implemented “for their own sake”; projects had been supported on the basis of anecdotal evidence; new assets are provided without considering the existing asset base; and project evaluations are often shallow “box-ticking” exercises.

A significant conclusion was that the quality of TAM plans and compliance with TAM policy had become “inconsistent”, and of limited value in compiling the State’s Budget.

With regard to asset management governance and administration, the report noted the fragmented and confusing frameworks spread across central government agencies, including Treasury (TAM policy and guidelines), the Department of Finance and Services (GAMC and SPA, Public Works, and management of social housing), and Crown Lands. Similarly, there was no over-arching asset management policy statement to establish its objectives.

The Commission noted that the maintenance of assets has a direct relationship to their performance and, in turn, to the quality of service delivered through them. It found evidence that maintenance is of a lesser priority in the general government and non-commercial Public
Trading Enterprise (PTE) sectors than investment in new assets or service delivery programmes.

The Commission did not attempt to estimate the value of the resulting maintenance backlogs because it found too many variations in maintenance standards, approaches to performance and risk management monitoring and measurement, and asset management practices and capability within agencies (including systems, expertise, processes and data quality). However, it did comment that NSW Health, Housing NSW, NSW Police, and Education and Communities, which have large physical and property asset bases, are known historically to have significant maintenance backlogs. For example, in 2008 the value of backlogs in schools was estimated at $400 million.

Asset utilisation and rationalisation were areas of concern for the Commission. The report referred to “various reviews” that had previously concluded that better use of under-utilised assets reduces waste, improves service efficiency and quality, and can release capital for investment in other areas.

Allied to this, the Commission referred to the inability of agencies to make meaningful and informed asset decisions through the lack of understanding of their asset bases, inaccurate asset registers, and the lack of processes for identifying and recording assets and asset-related information and data.

7.1.4.6.2.3 Recommendations

In summary, and in relation to the management of assets, the Commission made the following key recommendations:

**Actions for the Government**

- Clarification of asset management leadership roles and responsibilities for Ministers, Directors General, and Chief Executives. Accountability to be secured through letters of Charter and performance agreements;
- Establish a specialised unit for the lease and sale of assets;
- Undertake formal training for Chief Financial Officers;
- Release an asset management policy statement with clear objectives, and governance and management arrangements across government; and
- Ensure the significance of asset maintenance in strategic planning.

**Actions for Central Agencies**

- Establish forums of key professional groups, such as finance, human resources, and assets, to report to Executive Committees;
- Develop and establish an integrated reporting framework;
- Treasury to consider implementing capital charging to drive more efficient use of assets and capital;
- Promote cluster and ‘family’ agencies to co-operate on asset management;
- Undertake collaborative asset management benchmarking and evaluations in conjunction with external experts;
Establish maintenance-related Key Performance Indicators to be incorporated into TAM;

Treasury to consider adequacy of agency Asset Maintenance Strategic Plan within the TAM process;

Reviews of capital submissions to interrogate whole-of-costs and their funding sources; and

Department of Finance and Services to be responsible for identification and recording of land and infrastructure assets.

**Actions for Clusters Directors General**

- Establish senior management leadership groups;
- Review management support systems for asset management;
- Increase the efficacy of TAM;
- Ensure clusters and/or agencies have transparent asset management governance, systems and processes; and
- Focus on asset rationalisation.

7.1.4.6.2.4 “Reform: Just do it!”

Chapter 6 of the Commission’s Report is titled “Reform: just do it!”

It cites John F. Kennedy, “There are costs and risks to a program of action, but they are far less than the long-range risks and costs of comfortable inaction.”

This impassioned plea for quick action was accompanied by the following extracts from Section 6.1 of the report, “Reforms to begin now”:

“The problems this report has uncovered are systemic”.

“On the surface, processes and systems look functional, in practice, they are often only observed “on paper” and their intention is ignored.”

“The Commission has been surprised at how consistently basic management practices have not been implemented”.

“The time has come to stop commissioning reports from consultants. Reform must begin”.

“The problems have developed over years, and a four or five-year period is needed to remedy the situation”.

“In the past, many dedicated people have worked to deliver services by navigating through and around cumbersome structures and unnecessary barriers. They have made do with poor data, unclear reporting lines and ineffective systems”.

The problems “also stem from a culture of risk aversion, insularity, adherence to procedure and powerlessness, even defeatism that has built up over time”. 
“The Government has legislated a set of values – integrity, trust, service and accountability – and emphasising the value of the public service. Now what are needed are consistent messages that the Government is serious about this; and then a continued effort to give public sector workers the tools they need and to remove the barriers in their way”.

7.1.4.7 Conclusion
The findings of the NSW Commission of Audit in 2012 show that little has changed over some twenty years of ‘change’ and ‘reform’. It brings to mind the words of Jean-Baptiste Alphonse Karr in the January 1849 issue of his journal “Les Guêpes”39, “plus ça change, plus c’est la même chose”40.

The call to “just do it” has an air of finality and despair about it.

The Commission’s findings, conclusions, and recommendations all have a familiar thread about them, common to the jurisdictions, both international and national, examined as case studies for this thesis, and reflective of the public sector culture and psyche, organisational characteristics, approach to reform, aversion to accountability and innovation, and lack of performance measurement in anything other than a budgetary context.

It was mentioned earlier that a number of those who led the report and sat on the Commission’s Advisory Board were, or continue to be, public servants at the highest level of the NSW Government, with responsibility for whole-of-government policy and reform initiatives. Additionally, the Director General of the NSW Department of Premier and Cabinet was writing in 2002 about “turf wars” and the need for public sector reform, ten years before this report (Kruk and Bastaja, op cit.). It is barely conceivable that such high levels of government would not have been aware of the work and research of the OECD and others, including their public service colleagues, into behaviour, New Public Management and reform, and performance measurement.

In this connection, the Commission’s comments in the above extracts from Section 6.1 of the report can be interpreted as having been existing during the tenure of the Commission’s members as senior NSW public servants. The comment relating to stopping commissioning reports from consultants would seem to be an admission of this, as would the observation that “the problems have developed over years”.

One conclusion, therefore, could be that the prospect of, and the public sector’s appetite for meaningful reform may be no closer, Karr’s epigram will hold true, and any change will merely be observed “on paper”.

7.1.4.8 Post-Research Note: The Property Asset Utilisation Taskforce
In December 2012, the NSW Government adopted new property principles through Premier’s Memorandum M20-12 (M20-12), and renamed the State Property Authority to Property NSW (NSW Government, 2012a). These changes were made pursuant to the Property Asset Utilisation Taskforce (PAUT) Report, which was published in September 2012 (NSW Government, 2012b).

PAUT’s aim was “to make recommendations for the optimisation of the utilisation, ownership and management of the State’s real property assets.” This has a very familiar ring about it, with effectively the same exercise having been carried out with the initial proposal for the SPA.

39 The Wasps
40 The more it changes; the more it is the same thing.
The author’s research for this case study concluded prior to the publication of the PAUT report. It has therefore not been reviewed in detail, but its key finding and recommendations echo those of all previous reports and audits, without apparently offering anything new other than one important recommendation. This was to re-brand SPA into Property NSW, and staff it with “the highest quality property professionals”.

In his covering letter enclosing the report to the Minister for Finance and Services, PAUT’s Chairman, Geoffrey Levy, AO, drew the Minister’s attention to the following:

- Government has accumulated a property portfolio that it cannot afford to maintain or protect;
- Assets are under-utilised or are no longer required or suitable for the provision of services;
- These put medium-term fiscal policy at risk;
- The opportunity and financial cost of under-utilised and surplus property “comes at the expense of an asset or service that is needed”;
- PAUT was unable to identify and categorise government’s owned and leased property due to the lack of “a usable, transparent or complete Property Asset Register”. Geoffrey Levy noted that “this lack of centralised information seriously inhibits any whole of government strategic asset planning”;
- The current framework of government “has created an insular, siloed and reactive mentality, which negates the ability for a whole of government approach to strategic asset management. A change in framework is required …. to drive appropriate sensible strategic decisions and behaviour”.
- Capital allocation should be made by Government and implemented by Treasury. The reverse is the case under the current framework.

Geoffrey Levy concluded his comments with, “we cannot continue to manage our assets under the current system. That will surely lead to continued deterioration of our assets, impact the quality of government service delivery and leave a legacy we cannot fund for the next generation.”

PAUT gave some consideration to the implementation of its recommendations through the brief action timeline, “After PAUT”, which is reproduced at Figure 8.4. This timeline was not accompanied by any implementation commentary or suggested change management framework and strategy.
This post-research note is intended to provide a connection for further and continuing research into the reform of the management of property assets in the NSW Government.

7.1.5 Australian Local Government Sector – led by the blind

7.1.5.1 Introduction

The ‘led by the blind’ description of asset management in Australian local government may appear to some as a little unfair, or even frivolous. Neither bias nor frivolity is intended.

‘Led by the blind’, because of the extent of prescriptive control exercised on a national scale by the federal, and particularly the state and territory governments over local government’s planning and reporting process, especially since it has been clearly shown that the higher levels of government have such low standards of governance, management and reporting over their assets. Additionally, these impositions were introduced as ‘best’ practice reforms, but were not implemented on ‘good’ change management practices.

Strategic asset management in local government has therefore been imposed through an ill-conceived ‘top – down’ policy, reminiscent of the New Public Management paradigm.

Additionally, the author contends that, to-date, there have not been any meaningful moves towards strategic asset management as a result of ‘bottom-up’ innovation and thinking from within local government, and its regional associations and professional representative organisations.

The author has made representations to a number of these associations and organisations across Australia. With the possible exception of the now defunct Australian Centre of Excellence for Local Government (ACELG), and the New South Wales branch of Local Government Professionals Australia, most profess their nodding-support but, in practice, have maintained a distant indifference towards the strategic management of assets within their Integrated Planning and Reporting (IPR) frameworks, preferring instead to leave the issue to the ‘top-down’ approach of the state governments.

The author sees this reluctance to self-help as a result of the general lack of strategic asset management understanding at all levels of government, and its related institutions as a
resource management function; a continuing belief that strategic asset management relates to developing management ‘strategies’ (in effect, plans) for individual assets, i.e. operating, maintaining, and replacing existing assets from an almost purely technical perspective, without reference to the demand for services, financial constraints, and other influencing factors; and the innate public sector cultural resistance to change.

Notwithstanding these barriers, it is the local government sector that shows the most potential for developing and adopting good asset management practices. Perhaps local government can open the eyes of the state and federal governments. There are signs, albeit very faint, that this could be the case.

7.1.5.2 Local Government Reform in Australia

In the 1980s and 1990s, the state governments undertook far-ranging reforms in the local government sector. These reforms required local governments to adopt performance measures similar to those of the private sector or, in other words, pursuit of New Public Management principles (Dollery & Lorenzo, 2008).

Also in the 1990s and for reasons of efficiency and operational improvement, the state governments undertook a review of the benefits of council amalgamations. As a result, Victoria substantially reduced the number of its councils from 210 to 78, whilst reductions were also made in Queensland, Tasmania, and South Australia (Marshall, 2008). Minimal cost savings have been recorded since these forced mergers, which have caused much resentment, have been seen as a dilution of representative democracy, and have been the cause of widespread job losses (Ibid).

A number of council amalgamations in some states have since de-merged, and reverted to their original compositions.

Notwithstanding the apparent failure and certain unpopularity of amalgamations, Western Australia (WA) and NSW have both pursued council amalgamation policies in recent years.

In WA, detailed plans for amalgamations were recommended by ‘the Robson Report’, which had been commissioned by the State Government. (Robson, 2012).

The WA Government commenced a two-part programme in 2009. The way in which the reforms were presented to the local government sector, individual councils, and communities, resulted in strained relationships between these stakeholders and the state government, and its Department of Local Government and Communities (DLGC). These relationships continue amid an atmosphere of cynicism, mistrust, and lack of confidence in the state government’s ability to listen to, or understand the issues faced by its less resourced and poorer cousins.

The amalgamation element of the reform in the country areas of the state, where there are over 100 local councils, some covering tens of thousands of square kilometres with populations of fewer than 1,000 people, was also unpopular with the National Party, the Liberal Party’s coalition partner in government.41 This led to the withdrawal of the requirement for country councils to amalgamate.

Opposition to forced council amalgamations in the metropolitan areas in the vicinity of the state capital, Perth, was so passionate that the WA State Premier, Colin Barnett, conceded: “I’ve failed. I’ve put up the white flag. If ratepayers want to stay the way they are, so be it.”42

---

41 For example, Australia’s largest council by area is East Pilbara in WA. It covers an area of 371,696 square kilometres, has a population of 7,954 and 3,237 kilometres of roads (Australian Local Government Association, 2016).

42 ABC Radio interview with Colin Barnett on 10 February 2015.
In the face of vehement opposition, the NSW state government is continuing with its forced amalgamation programme, which is largely based on a controversial “cabinet-in-confidence” and hitherto unpublished report from private sector consultants KPMG (2015), a report from the NSW Independent Pricing and Regulatory Tribunal (2015), and a report from the NSW Independent Local Government Review Panel (2013), (Boxall, Jones, & Comrie, 2015; Sansom, Munro, & Inglis, 2013).

This thesis is not concerned with the benefits or otherwise of council amalgamations. However, whether public or private, an organisation’s capacity and capability in the management of its assets is essential for the success of any merger, acquisition or amalgamation. Local government in Australia is deficient in both.

The second major element of reform over the last ten years has been a continuation of the NPM doctrine of the 1990s. This is the introduction of IPR Frameworks by state governments, which formally require their local government sectors to prepare strategies and plans, and report to defined standards and guidelines. It is with the implementation of these requirements that this thesis is concerned.

7.1.5.3 The Significance of Local Government in Australia

The local government sector in Australia is particularly significant in terms of the extent of public and community services that are devolved to it under Australia’s federal system of government.43

Until the latter part of the twentieth century, functions of local government were primarily concerned with physical infrastructure, the proverbial ‘roads, rubbish, and rates’. These responsibilities have since expanded to include community facilities; local road networks; planning approvals; child and health care and aged care facilities; waste disposal; economic development and tourism; recreation, sporting and cultural facilities; youth programmes; environmental management; and regional airports (Brunet-Jailly & Martin, 2010).

This expansion in services has inevitably led to closer relationships with communities. This has led to wider community participation in the decision-making process, and higher service and transparency expectations from local government.

In a period of some thirty years, local government has grown from ‘roads and rubbish’ to providing a wide range of specialist and sometimes complex services to sustain communities, and shape their future. They have become a major part of the service industry.

This thesis will show that local government has been expected to implement this growth and change very much on its own, without the necessary support from either the federal or state governments in terms of resources and capacity and capability building. In reviewing Dollery and Lorenzo’s book, Giogio Brosio of the University of Turin wrote, “Structural reform has been one of the most important, and yet one of the most neglected, aspects of modern local government” (Dollery and Lorenzo, op. cit.).

These services may not differ materially from local government in other jurisdictions, but it is the very size of the country, the concentration of its population on the eastern seaboard, principally in cities of Brisbane, Sydney and Melbourne, the importance of agriculture and farming to the economy, and the share of total tax revenue that affects the ability of the majority of local governments to sustain not only the delivery of these services, but also their own financial viability, and the future of their communities. These issues primarily threaten

43 Local government as a tier of government is not recognised under the Australian Constitution. It is regulated by the state and territory governments, which recognise local government in their constitutions.
country local governments. However, metropolitan councils are not immune to threats against their sustainability.

The following facts and figures relating to the Australian local government sector have been obtained from the Australian Local Government Association (Australian Local Government Association, 2016):

- **Australia Population (2014):** 23.425 million
- **Number of Local Governments (2016):** 561, of which 539 are regional or country local governments
- **Number of Local Government Employees:** 183,000
- **Rates Collected (2012-13):** $14 billion
- **Total Expenditure 2012-13:** $32.2 billion
- **Total road length (2014):** 670,000 kilometres
- **Value of Local Roads (2014):** $165 billion
- **Value of Land and Fixed Assets (2012-13):** $333 billion
- **Functions include:**
  - Infrastructure and property services, including local roads, bridges, footpaths, drainage, waste collection and management;
  - Provision of recreation facilities, such as parks, sports fields and stadiums, golf courses, swimming pools, sport centres, halls, camping grounds and caravan parks;
  - Health services such as water and food inspection, immunisation services, toilet facilities, noise control and meat inspection and animal control;
  - Community services, such as child care, aged care and accommodation, community care and welfare services;
  - Building services, including inspections, licensing, certification and enforcement;
  - Planning and development approval;
  - Administration of facilities, such as airports and aerodromes, ports and marinas, cemeteries, parking facilities and street parking;
  - Cultural facilities and services, such as libraries, art galleries and museums;
  - Water and sewerage services;
  - Other services, such as abattoirs, sale-yards and group purchasing schemes.
7.1.5.4 Local Government's Financial Context and Financial Sustainability

7.1.5.4.1 Financial Context
Individual councils have differing abilities to raise revenue, based on location, population size, rate base and the ability to levy user charges. There are three main sources of revenue: taxation (rates), user charges, and grants from federal and state and territory governments. Other sources of revenue are investment interest, dividend interest, income from public enterprises and fines.

Rates account for about thirty-seven percent of total local government revenue. However, in 2012-13, rates comprised a mere 3.3 percent (2012-2013) of tax raised by all levels of government.

Out of 260 taxes raised by the Australian public sectors, a rate is the only tax levied by local government. Some state governments compound the inability of local governments to move towards self-sustainability through the imposition of ‘rate-capping’ policies. For example, NSW has restricted local government rate increases since 1978.

Overall, grants and subsidies from the Australian and state and territory governments account for around ten percent of total revenue. For some rural and remote councils where own-source revenue raising capacity is limited, grants can account for more than fifty per cent of council revenue.

The Federal Government provides financial assistance grants to local government. These are paid to state governments for distribution to local government via state grants commissions.

Councils also receive funding under a range of Federal Government programs, such as the Roads to Recovery program, Road Safety Black Spot program, Bridges Renewal Program and the Building Stronger Regions Fund.

In 2012-13 Local Government expenditure totalled $32.2 billion, with the major expenditure items being housing and community amenities (23.4 per cent) and transport and communications (22.5 per cent).

The local government sector, therefore, has a very limited ability to raise substantial recurring revenues on its own behalf. It is highly dependent on grant and subsidy funding from the federal and state government.

Since the burst of the mining investment bubble in 2014/15, the Australian economy and fiscal position has come under increasing pressure. This has reduced, and in some cases cut-off, the availability of federal and state grants and subsidies. WA has had its AAA rating downgraded by Standard and Poor’s and Moody’s rating agencies, both of which are currently (December 2016) monitoring the Federal Government’s fiscal position.

7.1.5.4.2 Financial Sustainability and Financial Capacity
Since 2006, the preservation of the ‘financial sustainability’ of local governments in Australia has been the predominant driver of reform in the management of this sector’s assets (refer to Section 7.1.5.5).

The term ‘financial sustainability’ has a unique meaning for local government.

In its independent review of the financial sustainability of the NSW local government sector the New South Wales Treasury Corporation (NSW TCorp) developed its own definition of ‘financial sustainability’ as: “A local government will be financially sustainable over the long term when it
is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community” (New South Wales Treasury Corporation, 2013).

This definition reflects the uniqueness of its meaning to local government. It recognises the importance of the long-term nature of local government’s service functions and responsibilities, and it links or integrates financial management with service and infrastructure requirements, service levels, and community aspirations.

Financial sustainability can only be achieved if a council’s management has the ability to strategically manage the organisation, stakeholders, and community in the long-term. This relates to a council’s financial capacity, which consists of the organisational resources that enable it to recognise and take advantage of opportunities, and the agility to react to unexpected situations, whilst maintaining its business-as-usual administrative functions and services to the community (Sontag-Padilla, Staplefoote, & Gonzalez Morganti, 2012).

Maintaining both financial sustainability and financial capacity over the long-term is critical for providing consistent and continually available services to the community, and expanding and improving those services.

Given its financial context, particularly the limited capacity to raise revenue, ‘financial sustainability’ is somewhat of a catch-22 position for local government.

In his research paper, ‘Australian Local Government Assets: a case for excellence in their management’, presented at the ACELG Research Showcase and Forum in 2014, the author identified three major threats to the financial sustainability of local government in Australia. These were: sources of revenue, local government assets and their management, and the unintended effects of IPR reform, which ironically is the tool that was intended to improve sustainability (Seymour-Jones, 2014a).

In the two and half years since the presentation of this research at the ACELG forum, the author has concluded that the threats to local government extend beyond financial sustainability to the very survivability of some communities and their social, environmental, and economic fabric.

7.1.5.5 Integrated Planning and Reporting: national consistency to “a complex web”

Although state and territory governments in Australia would contend that ‘good’ governance and management in local government were enshrined in their various Local Government Acts, it was not until 2006 when the concept of ‘Integrated Planning and Reporting (IPR) Frameworks’ was formally recognised, and introduced as a local government practice requirement.

From the mid-2000s, concerns had been raised at both state and national level over the financial sustainability of councils.

In 2005, the Local Government Association of South Australia released an independent report that showed “councils had put community needs and demands for services ahead of their own financial sustainability” (Tan & Artist, 2013).

In 2007, the Queensland Treasury Corporation carried out financial sustainability assessments for 105 councils. Forty per cent were assessed as ‘financially weak’, ‘financially very weak’ or ‘financially distressed’ (Martin 2009 in Tan & Artist 2013, p. 21).

PricewaterhouseCoopers (PwC) published a report in 2006 that stated “… a sizeable proportion of councils face long-term financial sustainability problems”
(PricewaterhouseCoopers, 2006). It observed a tendency to reduce and defer expenditure on the maintenance and renewal of existing infrastructure and major community assets when councils encountered operating cash flow deficits. These deferrals have been the cause of large asset renewal and replacement backlogs.

The PwC report concluded that local government unsustainability is a result of poor resource planning, which leads to long-term financial problems.

In 2006, the Local Government and Planning Ministers Council (LGPMC) called for the development of nationally consistent financial sustainability frameworks for local government. Councils were to protect sustainability by managing infrastructure through effective asset management and financial planning (Local Government and Planning Ministers' Council, 2007).

All such planning was to be based on councils communicating with their communities to ascertain long-term community vision and aspirations, and service priorities.

All states and territories, with the exception of the Australian Capital Territory (ACT) have enacted legislation requiring councils to adopt strategic community, corporate, workforce, financial and asset management planning to varying degrees. The most rigorous and extensive of these are NSW, Victoria and WA, which have established comprehensive planning and reporting frameworks.

Table 7.5, adapted and modified from Tan and Artist (op. cit.), summarises the planning and reporting frameworks adopted by the state and territory governments. This table shows that “nationally consistent frameworks”, as envisioned by the LGPMC, were far from achieved. Tan and Artist described the national picture as “one of a complex web of legislation with differing approaches, requirements and strength of hierarchies in terms of links between strategic (community and financial), corporate and resource planning” (ibid).

The Northern Territory does not require Strategic, Asset Management, and Workforce Plans; Queensland does not require a Workforce Plan; South Australia does not require Strategic and Workforce Plans; and Tasmania does not require Financial, Asset Management, and Workforce Plans.

<table>
<thead>
<tr>
<th>State</th>
<th>Year</th>
<th>Strategic (Community) Plans</th>
<th>Corporate Plans</th>
<th>Annual Plans</th>
<th>Financial Plans</th>
<th>Asset Management Plans</th>
<th>Workforce Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>2009</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>NT</td>
<td>2008</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>QLD</td>
<td>2009/2010</td>
<td>Yes/No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>SA</td>
<td>2005</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>TAS</td>
<td>2005</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>VIC</td>
<td>2007</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>WA</td>
<td>2011</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 7.5: Local Government Integrated Planning and Reporting Frameworks

Queensland’s framework originally required a ten-year Community Strategic Plan, but this requirement was repealed in 2012 “to cut unnecessary red tape and streamline provisions about the financial sustainability and accountability of local government” (Local Government and Other Legislation Amendment Bill 2012, Explanatory Notes in Tan & Artist 2013, pp. 21-22).
It is interesting to note the length of time taken by some jurisdictions to introduce IPR, given that the LGPMC called for these frameworks in 2006. For example, WA did not publish any effective framework guidelines until 2011, it was not until 2012 that legislation was passed, and mid-2013 when IPR was implemented.

It will be shown that, despite the early warning signs, the involvement of the LGPMC and legislation enacted by the states, financial unsustainability remains a major threat to local government across Australia.

7.1.5.6 Management of Local Government Assets in the United Kingdom

The management of local government assets outside of Australia was not originally intended to be a feature of research for this thesis. However, as the focus of the author’s examination of the Australian local government sector has increased, so too has the level of importance of the management of local government assets become more evident in the context of the public sector as a whole.

This section provides a brief introduction to the importance of a strategic approach to the management of property and other assets by the UK local government sector. It also shows that the issues faced by UK councils bear strong similarities to those of the Australian local government sector.

Additionally, the Lyons Report and the OGC’s Roadmap are shown to be relevant not just to Central Government, but they also have particular relevance in the local government context (Audit Commission, 2009a).

It is hoped that this will also encourage further research, and reveal useful lessons for all levels of government in Australia.

The performance of local governments in the United Kingdom in recent years has been under the scrutiny of the Central Government, which expects local authorities to ensure that all money spent on local authority assets contributes to the creation of sustainable communities and to the delivery of better public services.

In the Forward to Building On Strong Foundations – A Framework for Local Authority Asset Management (Building on Strong Foundations), John Healey, Minister for Local Government in the UK, said:

‘Over the past few years councils have greatly improved the way in which they manage their assets. Recent research shows that most local authorities started from a low base with some not even knowing what assets they owned. The challenge ahead of us is for all authorities to reach the level of the best and to ensure that they are thinking strategically about how they can get the most from their asset base.’ (Department for Communities and Local Government, 2008).

“This document outlines the benefits of good asset management. For example, good local authority asset management can:

- Deliver exceptional services for citizens, aligned with locally agreed priorities, whilst focusing investment clearly on need;
- Empower communities and stimulate debate;
- Improve the economic well-being of an area;
- Ensure that, once built, assets are correctly maintained;
- Introduce new working practices and trigger cultural organisational changes;
- Reduce carbon emissions and improve environmental sustainability;
- Increase co-location, partnership working and sharing of knowledge;
- Improve the accessibility of services;
- Generate efficiency gains, capital receipts, or an income stream; and
- Improve the quality of the public realm.

"Achieving these outcomes is seen to be a corporate responsibility for all UK local authority members and officials."

Notwithstanding a noted improvement in capital and asset planning processes, the report concluded that there was still a long way to go before it could be said that most councils were making the most of capital resources and property assets.

In 2009, the Audit Commission in the UK published a national report, *Room for Improvement – Strategic asset management in local government* (Room for Improvement) (Audit Commission, 2009b). This is the third in a series of reports into the management of local authority assets, which include *Local Government Property: A Management Overview* (Audit Commission, 1988) and *Hot Property: getting the best from local authority assets* (Audit Commission, 2000).

In acknowledging the benefits set out in Building Strong Foundations, Room for Improvement reported the following key findings:

- Councils had made limited progress in good property management since its 2000 *Hot Property* report. The performance of some 46 of 111 councils was found to have deteriorated;
- Council property is “big business”. In 2007/08, councils in England owned property with a book value of £250 billion; invested net capital of over £10 billion in property; and invested £800 million in property acquisitions or refurbishments;
- Only twenty per cent of councils had sufficient asset data and information for the proper management of their property;
- Many councils lacked the necessary management capacity, with this being attributed to the effects of NPM;
- The timing of the report coincided with the UK’s recession following the Global Financial Crisis of 2007/2008. It noted that councils were generally neither well placed to take advantage of opportunities that are presented in times of difficulty and adversity, nor were they able to take the opportunity to consider more efficient and effective ways of using their property;
- Over seventy-five per cent of councils surveyed by the Audit Commission claimed to have made savings by managing property more efficiently over the preceding five

---

44 The Audit Commission is an independent watchdog for local public services.
years. However, only forty per cent of these could provide figures to substantiate this for operating savings, and only ten per cent for capital savings;

- Only forty per cent of councils that had a property plan had targeted savings in capital and operating spending; and

- Ninety per cent of Finance Directors said that their councils managed assets strategically, and twenty-five per cent described their asset management as ‘very effective’. The report referred to evidence to the contrary contained in an earlier report in 2007 by the Department of Local Government and Communities, which, from a study carried out over a six-year period, concluded that most councils were “not yet in a position to generate outcomes to a significant degree” (Department of Communities and Local Government, 2007).

In the context of the limited amount of research into the UK Local Government Sector undertaken for this thesis, the reports of the Department of Communities and Local Government, and the Audit Commission are considered to be significant documents, not only for the UK but also for drawing comparisons, and highlighting similarities with local government in Australia.

Research undertaken in 2010 by Alan Phelps explored the link between rationale, practice and outcomes in municipal property asset management in UK councils (Phelps, 2010). Phelps found “a weak but discernable link between rationale and practice, but the link between practice and outcomes was unproven”. Like Kaganova and McKellar, Phelps found the lack of empirical evidence as case for further research, and reinforced the orthodox thinking that the “adoption of practice is used as a proxy for measuring outcomes”.

Phelps described the search for a single methodology to assess asset management outcomes “as something of a holy grail” citing difficulties in constructing measures of efficiency and performance for property in contributing to service and corporate outcomes. Research that has been undertaken has tended to focus on measures for particular types of buildings. Phelps described the issue as “problematic’ because of the difficulty in identifying and quantifying asset management’s contribution to outcomes, and separating them from other contributing components.

Much of this research into the UK experience mirrors the author's findings for the Australian Local Government Sector. In terms of the search for Phelps’ ‘holy grail’, it is most unlikely that it will be uncovered before the adoption of good asset management practice, and a long-term acceptance and integration of that practice has been etched into local government management culture.

However, there should not be any form of mutual exclusivity attached to making progress. One thing can be done without the other to the extent that progress in ‘one thing’ should encourage progress in ‘the other’.

### 7.1.5.7 Strategic Asset Management in the Australian Local Government Sector

“Asset management systems improve the financial sustainability of local governments if they result in a properly prioritised, managed, and manageable asset maintenance renewal and replacement program that is affordable and productive” (Trust, 2012).

“Financial sustainability exists for local governments where a conservative realistic assessment of future own source and transfer income mean that asset operation, maintenance, replacement, renewal and creation can occur on a structured and planned basis over the longer term” (Ibid.).
“Asset management is at the heart of considerations of local government financial sustainability. The main requirement is asset data integrity and sector comparability” (Ibid.).

“Community strategic plans set the context and priorities for corporate resourcing strategies, ensuring that local governments are better able to meet community needs, expectations and priorities” (Tan and Artist, 2013, op.cit. p.14).

“It is therefore crucial that that local government be expert in financial and asset management” (Carter, 2013).

The author contends that the management of public assets falls short in all these areas, which is why IPR has so far failed to improve the prospects of local government sustainability (not just in a financial sense), and in some cases, survivability, across the country.

This sustained failure represents a breach of the contract that all levels of the public sector implicitly has with the community45.

Central to these failures, are local government assets, which are rarely seen as strategic organisational resources necessary for all aspects of life, and that their management shapes the social, environmental, physical and financial fabric of communities.

Even though land, buildings and infrastructure represent more than ninety per cent of local government’s fixed asset value, they seem to be taken for granted, and treated as a free good in the same manner as the federal and state governments.

There can be no doubt that the continuing threats to sustainability and survivability are in a large part due to poor asset-related decisions, and the continuing tactical and operational approach to their management. The following are seen as the principal reasons for this:

- Notwithstanding that the principles of IPR have apparently been recognised by the Australian public sectors as a tested world’s leading practice, and that “it is crucial that local government be expert in financial and strategic asset management”, these principles have not been properly understood at state government level46.

This has meant that the states have not appreciated either the magnitude or complexity of the task of implementing IPR across their local government sectors. For example, there are some 140 local governments in WA. The state government approached this as a single ‘one-size-fits-all’ project without regard to the individuality of each council, their cultures, size, location, diversity, priorities, environment, or whether they were metropolitan or country councils. In practice, there were 140 change management projects to be managed, each with its own special set of circumstances. Implementation has therefore been far from a leading practice in communication and change management.

There has been an apparent naïve assumption by federal and state governments that councils would simply accept what has been imposed over them, and somehow source the capacity and capability to implement the reforms. This has caused cultural and social gaps between state and local governments, which have often led to the mistrust between the two.

45 Refer to Section 5.1.
46 IPR principles are explained in Section 7.1.5.8.
Like the federal and state governments, little is known about local government's asset base. Asset registers are incomplete and inaccurate, and asset data is rarely collected, processed or analysed to provide reliable information for decision-making.

There is strong evidence that local government's lack of asset management understanding, capacity and capability has led to an over-reliance on systems and the readiness to accept modelling outputs as proxies for strategy. The population of these systems with unreliable and incomplete data compounds the risks of poor decision-making and the long-term effects on sustainability and communities.

This produces misleading asset financial ratios, which are the only indicators of asset management performance prescribed by state governments. These ratios, the Asset Consumption Ratio, Asset Sustainability Ratio, and Asset Renewal Funding Ratio indicate the aged condition of assets, the extent to which assets are replaced at the end of their useful lives, and the ability to fund asset renewals and replacements respectively.

State governments use these ratios to assess local governments' asset management performance and, together with other financial ratios, their financial sustainability.

The ratios are reported publicly through state government websites and local government Annual Reports. Until they are based on good data, they will be erroneous and misleading.

Given this focus on financial performance of assets, not enough is known about assets themselves, or how they are performing strategically and operationally in support of the provision of services.

In working with councils in the management of their assets, and in an effort to benchmark asset costs and performance across the sector, the author has encountered a noticeable reluctance for councils to consider sharing information, systems and assets, and to communicate and co-operate with others in the same region.

In the case of country councils, the reasons are very parochial, and are concerned with the fear of losing control and independence, and with inter-regional rivalry.

Metropolitan councils shy away from sharing and co-operation mostly because of the mistaken beliefs that their financial sustainability is immune to threat, and that they have adopted good asset management practices.

Common to both country and metropolitan local governments is the fear of exposing deficiencies in practice and performance.

The adoption of good IPR practices by local government is not helped by how few state governments have effectively implemented good management practices over their own finances and assets.

Asset Management is not seen as a mainstream professional activity in any of the Australian public sectors. This is of critical importance to capacity and capability building, particularly given the scope and range of skills required for its proper implementation.
7.1.5.8 Integrated Planning and Reporting Frameworks

NSW and WA have adopted the most comprehensive IPR Frameworks of the state and territory governments in that their frameworks include all of the planning and reporting elements envisaged by the LGPMC. Additionally, the frameworks are founded on community engagement. These frameworks are reproduced from their respective IPR frameworks and guidelines in Figures 7.5 and 7.6 (NSW Government, 2013; Western Australia Government, 2010).

Figure 7.5: NSW IPR Framework

Figure 7.6: WA IPR Framework

With the exception of some subtle differences in structure and nomenclature, these frameworks are almost identical. WA modelled its framework on NSW. Both are based on developing their strategies and plans through community engagement; and both have the same monitoring and reporting process.

However, a noticeable difference is the description of Asset and other strategies. NSW refers to them as “Resourcing Strategies”, whereas WA describes them as “Informing Strategies”. This is significant for two reasons. Firstly, it indicates that NSW appreciates that money, people, and assets are ‘resources’; and secondly, that WA views them as sources of information. The author has found the latter to be misleading in WA as it is not the ‘strategies’ that inform, but the related resource data and information.

The key word in this concept is “Integrated”. From a diagrammatic perspective, both frameworks give the impression that the “resourcing” and “informing” strategies occupy a lesser position in the frameworks, which downplays the very important linkages, and interdependencies that should integrate them into the organisation’s strategic and business planning process. However, in practice, this has mattered little, as neither set of local governments has made any material headway in integrating strategic community, corporate business, and resources planning on a whole-of-organisation basis.
### IPR Compliance Requirements

Using the WA IPR Framework as the common example, all councils are required to have implemented frameworks, and prepared strategies and plans that comply with the minimum basis requirements as shown in Table 7.6.

<table>
<thead>
<tr>
<th>Document / Element</th>
<th>Minimum Standard</th>
</tr>
</thead>
</table>
| Strategic Community Plan (SCP)       | ▪ Minimum period: 10 years  
▪ Describes community values and aspirations  
▪ Describes council’s community engagement policy or strategy  
▪ Describes how the community has been consulted  
▪ Identifies expectations for services, assets, and land-use  
▪ Considers current and future resource capacity, demographic trends, and strategic performance management  
▪ It is adopted by absolute majority of Council, of which public notice must be given  
▪ A strategic review is scheduled after 2 years  
▪ A full review is scheduled after 4 years                                                                                                                                                                                                                                                                                                                    |
| Corporate Business Plan (CBP)        | ▪ Minimum period: 4 years  
▪ Identifies and prioritises principal strategies and activities Council will undertake in response to the objectives stated in the SCP  
▪ States services, operations, and projects to be delivered over the period of the plan, methods of delivery, and associated cost  
▪ Assigns responsibilities  
▪ Provides for measurement and reporting of the plan  
▪ References resourcing implications from Asset Management Strategy, Long-Term Financial Plan (LTFP), and Workforce Plan  
▪ Adopted by absolute majority of Council, of which public notice must be given  
▪ Current year of the plan establishes the Annual Budget  
▪ Reviewed annually  
▪ Council has in place:  
  – WFP that meets the Basic Standard  
  – Asset Management Plans, with KPIs for significant / critical asset classes  
  – AM Plans include adequately populated asset registers, and are able to calculate KPI data as set out in Asset Management Framework and Guidelines  
  – A LTFP                                                                                                                                                                                                                                                                                                                                                 |
| Annual Report                         | ▪ Contains an overview of the SCP and CBP, which together constitute a Plan for the Future  
▪ Describes major initiatives planned to commence/continue in the next financial year  
▪ Reports any changes to SCP  
▪ Reports any significant changes to the CBP  
▪ Reports Asset Management ratios                                                                                                                                                                                                                                                                                                                                 |
| Asset Management Framework            | The Framework must consist of the following:  
▪ Asset Register  
▪ Asset Management Policy  
▪ Asset Management Strategy  
▪ Asset Management Improvement Plan  
▪ Asset Management Plans for each Asset Class  
▪ Asset Plans for Individual Significant/Critical Assets/Components                                                                                                                                                                                                                                                                                  |

**Table 7.6: IPR Compliance Requirements**
Planning for the future was already a requirement under the Local Government legislation of both NSW and WA before the introduction of IPR. The IPR frameworks, elements of which have been formalised by amending legislation, serve to provide substance and guidance for that future planning. Strategic Asset Management and Planning should, therefore, have been the only new addition to local government’s planning and management functions.

As shown in Table 7.6, Asset Management has its own framework. The minimum requirements of each of the asset management elements are described in Table 7.7.

<table>
<thead>
<tr>
<th>Document / Element</th>
<th>Minimum Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Register</td>
<td>Assets divided into the following classes:</td>
</tr>
<tr>
<td></td>
<td>− Land</td>
</tr>
<tr>
<td></td>
<td>− Buildings</td>
</tr>
<tr>
<td></td>
<td>− Infrastructure</td>
</tr>
<tr>
<td></td>
<td>− Plant and Equipment</td>
</tr>
<tr>
<td></td>
<td>− Information, Communication, and Technology,</td>
</tr>
<tr>
<td></td>
<td>These are further divided into sub-classes and components and linked to the Financial Asset Register</td>
</tr>
<tr>
<td>Asset Management Policy</td>
<td>Sets out strategic asset management objectives, targets and plans</td>
</tr>
<tr>
<td></td>
<td>Provides for Asset Management within IPR</td>
</tr>
<tr>
<td></td>
<td>Provides governance and management arrangements for Asset Management</td>
</tr>
<tr>
<td></td>
<td>Sets Asset Management roles &amp; responsibilities, including for Elected Members, Chief Executive Officer, Senior Executives, and ‘Asset Owners’</td>
</tr>
<tr>
<td></td>
<td>Sets out process for asset investment decision-making</td>
</tr>
<tr>
<td></td>
<td>Commits to a whole-of-organisation approach to Asset Management</td>
</tr>
<tr>
<td></td>
<td>Commits to whole-of-life approach to managing assets</td>
</tr>
<tr>
<td></td>
<td>Commits to continuous improvement and leading practice processes</td>
</tr>
<tr>
<td></td>
<td>The policy is understood and approved by absolute majority of Council</td>
</tr>
<tr>
<td>Asset Management Strategy</td>
<td>A high-level strategy describing how assets will meet future community needs</td>
</tr>
<tr>
<td></td>
<td>Integrates Asset Management into Council’s Plan for the Future</td>
</tr>
<tr>
<td></td>
<td>Prioritises delivery and methods of delivery of community services for each asset class</td>
</tr>
<tr>
<td></td>
<td>Provides an overview of the current state of assets</td>
</tr>
<tr>
<td></td>
<td>Defines the desired future state of the asset base in accordance with SCP and CBP, and LTFP</td>
</tr>
<tr>
<td></td>
<td>Identifies and analyses gaps (including financial) between current and desired future asset states</td>
</tr>
<tr>
<td></td>
<td>Contains asset ratios</td>
</tr>
<tr>
<td></td>
<td>Provides performance indicators, measures, and targets, and mechanism to evaluate and report strategy progress.</td>
</tr>
</tbody>
</table>
Table 7.7: Asset Management Framework Requirements

7.1.5.8.1.2 Summary of Outcomes for WA and NSW

The IPR requirements are comprehensive, for which both the NSW and WA state governments have not apparently demonstrated an appreciation for the need to provide sufficient and adequate long-term on-going support to councils in the development of their IPR and asset management capability and capacity.

Appendix 3 contains an analysis of the implementation of IPR in WA and NSW. It also shows that the introduction of IPR following the LGPMC’s call in 2006 for nationally consistent frameworks has been a victim of the unintended consequences of NPM. Figure 7.7 illustrates this.

Figure 7.7 NPM and Local Government Reform

However, in the context of the enormous task of implementing IPR, it is worth noting here that there is much to suggest that the WA Government, despite citing reasons of financial sustainability, used its IPR programme, more for political purposes, as a pre-cursor to its higher-priority policy to amalgamate councils in both metropolitan and country areas.

The implementation of WA’s IPR was concluded in mid-2013, by which time all local governments were required to have submitted a suite of planning documents to the DLGC for
assessment of compliance. This meant that the DLGC was to review some 1,300 – 1,500
documents and provide feedback to councils on their compliance with IPR requirements. The
DLGC had neither the capacity nor capability to do this.

It became clear that, regardless of the quality of these documents, the WA Government
considered that this part of its reform had been completed, and that it could move on to the
amalgamation agenda, i.e. the government seemedly displayed no appreciation for either the
need to provide long-term on-going support to councils in the development of their IPR
capability and capacity; or that such capability and capacity, particularly in asset and financial
management, would be essential to the success of any future amalgamations.

It was also clear that, because of the government’s approach to implementing its IPR reforms,
and its confrontational attitude towards council amalgamations, many councils viewed the
requirements for IPR compliance as ‘box-ticking’ exercises, and paid little more than ‘lip-
service’ to their preparation. As a consequence there has been minimal implementation of
these strategies and plans, and little active management of assets in a strategic and service-
led sense since mid-2013.

WA councils are required to carry out their four-yearly Major Strategic Reviews by mid-2017.

There is an increasing apprehension within the WA local government sector that this will not be
an easy task. Many councils are finding themselves having to start the IPR process and
building relationships with their communities afresh. At the same time, local governments are
experiencing new and mounting pressures from their communities for more information, more
and improved services, higher standards of governance and management, and greater
accountability and transparency.

It is for these reasons, in WA at least, that the author is seeing growing evidence that councils
are looking to understand the function of asset management, and make improvements in the
management of their assets from the bottom up.

Since the NSW state government introduced IPR requirements over local government in 2009,
the financial sustainability of the local government sector has continued to deteriorate (NSW
Treasury Corporation 2013, op.cit.) This deterioration is such that, in 2015, the NSW
Independent Pricing and Regulatory Tribunal described the system of local government in
NSW as “broken” (Boxall, Jones & Comrie 2015, op. cit.).

At the time of writing this thesis, the NSW Government is also seeking to impose
amalgamations over councils in an aggressive and authoritarian manner, which has led to a
number of councils contesting their amalgamation in court. However, the NSW Government
has shown some signs that ‘good’ asset management is important to the amalgamation of
councils but, at the same time, it seems not to understand the relationship between
organisational strategic capacity and ‘good’ asset management, and that questionable financial
ratios are not the sole indicators of how well councils manage their assets.
8 Statement and Evaluation of the Hypothesis for a ‘Leading’ Practice Model for the Management of Government Property

8.1 A ‘Leading’ Practice Model

Research for this thesis supports the assertion that a ‘leading’ practice model for the strategic management of government property exists. This thesis has also shown that the introduction and adoption of reforms, changes and innovations in the way governments manage themselves are almost exclusively dependent on contextual and cultural influences, i.e. the political (small ‘p’) and social effects that may result.

The author, therefore, firstly considers it important to link and provide for an appropriate and committed organisational environment and governance framework within the model almost as a pre-requisite for its successful implementation, and to nullify any potential NPM-like unintended consequences. The planning, management, and technical requirements within the model would be protected and ‘guaranteed’ by this framework.

The essential elements of the model are:

1. Management Context, Culture and Framework

The model requires a management context, culture and framework that accounts for, and provides the following:

- Government property assets are treated and managed as a corporate whole-of-government function, which is structured to integrate property asset management with the strategic planning and management of all other government assets and resources;

- Government property exists to support and enable the operation of government, and the provision of facilities and services. An over-arching property strategy, planning, and management framework must reflect this, and the unique nature of public sector culture;

- Leadership and commitment, governance, management and reporting hierarchies that cascade from the most senior level of government to ensure that a whole-of-government approach is maintained to manage property to consistent policy, strategy and standards, and with defined roles and responsibilities and levels of authority that provide for accountability and transparency. Independent experts are included within this structure;

- Public Sector Strategic Property Asset Management must be considered as a discrete professional element of public administration that requires a range of capacity and capability to be fully communicated, built and maintained through and across central government, and government departments and agencies: and

- A Head of Profession for the management of government property with responsibility for innovation, standards, professional practice and development, training, and relationships with other jurisdictions, academia, professional bodies, and the private sector.
2. Asset Management Process and Planning Hierarchy

The model provides for a clear and consistent property asset management process and planning hierarchy as depicted in Figures 8.1 and 8.2.

The process contains the core activities within the model. These are:

a) Organisational Objectives

The successful management of the property portfolio is dependent upon the development of an Asset Management Policy and Framework that is appropriate for
the organisation, and reflects the organisation’s vision, and business, financial, social, and environmental objectives.

b) Whole-of-Organisation Asset Management Strategy

This is a high-level strategy that implements Asset Management Policy, and defines the overall direction for the long-term management of the portfolio having regard to organisational strategic objectives, i.e. it provides strategies for each property type and tenure to move the asset base from its current state in terms of composition and condition, to a future state that supports organisational objectives. It also considers at a high-level the various strategic options available for asset solutions (including non-asset or asset sharing opportunities), and the financial, business, social, environmental and service implications of the implementation of each option.

c) Asset Planning and Programs

Detailed operational Asset Plans are developed for each property together with asset implementation programs, directed by the overall Asset Management Strategy. Detailed financial planning and budgeting is carried out.

d) Asset Delivery and Management

The property technical and professional activity to implement strategies and plans includes property management (valuation and rating, disposals and acquisitions, leasing and lease management, financial management, repairs and maintenance), facility management, project management, construction management, and property and facility operations,

e) Performance and Reporting

The model places a heavy weighting on performance measurement and performance evaluation and reporting on all components of the asset management process and hierarchy. Importance is attached to the selection of performance indicators and criteria that are relevant to the reporting purpose. Areas for measurement include the following:

- Measuring the effectiveness of the system of management, including organisation and structure, governance and policy, processes and procedures, roles and responsibilities, and people;

- Data and Information Management Systems;

- The success of the Asset Strategy;

- Property performance and suitability (including remaining useful life) in relation to the services and the whole-of-government outcomes that it has been deployed to support;

- Financial performance against internal indicators, industry, inter- and intra-government benchmarks;

- Performance against technical and compliance service levels and requirements;
- Whole-of-portfolio performance;
- Performance of asset management strategies, plans, and operational management;
- Outcomes of asset management reform and change programmes measured against goals and objectives, and time.

f) Change and Improvement

Any changes required or desired from the evaluation of performance are collated into a formal Asset Management Improvement Plan, including actions and responsibilities for action.

3. Data and Information

Good decision-making is dependent upon good information, which is derived from good data.

The collection, management, processing and analysis of data into good information are core to the model. Property data must be relevant, accurate, current and accessible, which means it must be appropriately systemised, and centrally and professionally managed and maintained to support the various budgetary, financial, service and property decisions it is required to inform.

4. Interdependencies and Linkages

Item 2 above describes the asset management process and planning hierarchy. Each part of the process affects and effects another, which in turn determines the ultimate success of the asset management function within a whole-of-organisation strategic planning framework.

Figure 8.3 provides a one-dimensional process flow that depicts the interdependencies and linkages within the strategic Integrated Planning and Reporting regime for the Local Government sector⁴⁷. It also depicts the relations between the components of the model as a whole, and demonstrates the criticality of quality asset data, and its impact on financial and service outcomes.

In the local government context, it is clear that without a direction for the future of a community, asset management will not be organisationally strategic; without asset management there cannot be a meaningful community strategy; and without asset management there cannot be a meaningful financial outlook and a pathway to sustainability.

The principles of this process are equally applicable to the other tiers of government.

---

⁴⁷ This process flow was constructed by the author, and has been introduced to local government in Western Australia.
5. Skills

The model requires skills beyond, and in addition to the normal technical, property and facility management professional skills.

The strategic management of property within an integrated business and service planning process requires a range of skills that comprise the following:

- Leadership;
- Communication;
- Management and business skills;
- Strategic planning;
- Financial management;
- Data and information management;
• Analytical skills; and
• Performance management.

6. Communication, and Reform and Change Management Strategies

As with any enterprise, the adoption, on-going management, changes to, and/or reform of a whole-of-government strategic property asset management framework requires constant and consistent communication across, and at all levels of government.

Any change in the way property is managed will affect how services are delivered, and impact upon all other resources categories, with which the management of assets is integrated. As such, and apart from operational management improvements, strategic reform or change is likely to be in response to machinery of government changes, or in support of changes to whole-of-government policy, goals and objectives.

Leading practice in a whole-of-government function includes roles and responsibilities for a hierarchy of formal communication, reform and change management strategies that reflect the actual asset management arrangements that are in place, or to be changed. They must emanate from the most senior level of government, and cascade through departments and agencies to frontline service and business units, with relevant information for each type of audience.

To assist and inform improvement, it is important that communication strategies include formal processes for bottom-up channels of communication to encourage ideas for innovation, new ways of doing things, adoption of new technologies, and feedback from those who are responsible for the implementation of policy, development of strategies and plans, and the operational management of property.

8.2 The Model's Application to the Australian Public Sector

8.2.1 Summary of the Barriers to the Integrated Management of Government Property in Australia

There are two aspects to the ‘integrated’ management of government property:

• The integration of a defined set of principles and practices into a whole-of-government strategic planning and reporting governance policy framework; and

• The implementation and management of those principles across government and within government agencies so that the shape of property portfolios and their management supports the conduct of government business, provision of public services, and achievement of strategic and operational outcomes in the best possible way.

With regard to these, this thesis has shown that the Australian public sector as a whole has acknowledged the need for the management of its property assets to be based on a strategic approach that integrates their management with business, service, financial and workforce planning48. However, all tiers of government, federal, state, and local, have failed to understand, adopt and implement these principles with much enthusiasm beyond the production of guidelines and manuals.

---

48 The public sector prefers the term ‘best’ practice, which implies a finite definition of quality.
The barriers to the integrated management of government property are common across the Australian public sector, and have largely been imposed by and upon itself. The principal reasons for this relate not just to a lack of understanding of what needs to be done, or capacity to implement change (i.e. the paradox of NPM), but also to an in-bred organisational culture that prevails across the sector, which feels threatened by innovation, new ideas, and change. In many respects, the Australian public service lacks transparency in the way it conducts its business through red tape and obfuscation. It is often difficult to identify responsibility, which leads to little accountability for performance. The public sector’s appetite for ‘frank and fearless’ advice is considerably diminished.

In addition, there is little by the way of ‘joined-up’ government in Australia, and communication between and across the three tiers of government, or between agencies of the same jurisdiction. Tensions exist within and between each level of government.

In the context of the management of public property assets, these barriers have led to the following major problems for the integrated management of these assets:

- Lack of actively managed whole-of-government property asset management frameworks, policies, standards, and strategies;
- Fragmented and inconsistent management of property portfolios by government agencies;
- Property portfolios that are not managed strategically to align with business, financial, and service objectives, and are operationally wasteful and ineffective;
- Employment of capital and operational expenditure in unnecessary property assets;
- Poor property information and data at agency and whole-of-government levels;
- Few and inappropriate performance measures;
- Enhanced risks; and
- Lack of knowledge, appropriate skills and professionalism in Strategic Property Asset Management.

8.2.2 How the Model Addresses Australia’s Barriers and Problems

The research for this thesis has covered the three tiers of government in Australia, all of which suffer from similar or common barriers and problems experienced by other jurisdictions, such as the UK and USA.

The ‘leading’ practice model described in Section 8.1 is derived from those shared experiences, and also from the results of the reforms either attempted or implemented by these governments.

It is clear that the model addresses the problems faced in Australia but, more importantly, there are four barriers that have so far prevented the Australian public sector from dealing with those problems. These barriers are:
- A lack of leadership at both the political policy level, and from within the public service;

- The lack of understanding and appreciation on behalf of policy-makers and senior public service managers that strategic property asset management is something more than an engineering or maintenance function, but that it has a direct impact on the effective and efficient functioning of government;

- Some twenty-five years of uninterrupted economic prosperity have bred a sense of fiscal and financial unawareness. A generation of public managers has had little reason for financial responsibility or prudence, or to regard property as anything more than an operating entity; and

- There has not been a base professional property discipline in Australia from which the strategic management of property as an organisational resource could grow.

It is perhaps beyond the model to address these issues. However, it provides a foundation for building awareness and encouraging leadership that has been necessary since the Global Financial Crisis in 2007 and beyond. The continuing policy and leadership void is assuming greater importance in the current fiscal and economic environment where there are high levels of public debt, increasing budget deficits, threats to government credit ratings, and rising infrastructure repair and replacement backlogs. This comes at a time of growing political cynicism and loss of confidence in Australia’s public sector to govern, but increasing expectations for public services.

A strategic approach to the management of government property will assist the release of capital; reduce operating costs; and contribute to more efficient and effective public services.

---

49 The Chancellor of the Exchequer and President dealt with this issue in the UK and USA respectively by effectively acting as the sponsors of reform.
9 Further Findings and Observations

The author has selected a number of findings and observations from his research that he believes are worthy of note, and offer potential areas for on-going research, and higher education courses and programmes.

The author re-emphasises that these findings and observations are underpinned by professional detachment, and supported by the author's extensive industry involvement.

9.1 The Lyons Report

Lyons widened his remit from the strategic management of government property by saying that the same principles are relevant and adaptable to all other government assets, both tangible and intangible.

From the author's experience in working with the public sector on the full range of assets, he considers that it is this holistic approach that Lyons brought to his study that makes an enduring contribution to the management of public sector assets, rather than his opinion that the UK Government's immediate capital-raising objectives could be met.

9.2 The ‘Holy Grail’

Alan Phelps’ paper, “Rationale, Practice and Outcomes in Municipal Property Asset Management” was reviewed in Section 7.1.5.6. Phelps described the search for a single methodology to assess asset management outcomes “as something of a holy grail” citing difficulties in constructing measures of efficiency and performance for property in contributing to service and corporate outcomes. Research that has been undertaken has tended to focus on measures for particular types of buildings. Phelps described the issue as ‘problematic’ because of the difficulty in identifying and quantifying asset management's contribution to outcomes, and separating them from other contributing components.

Perhaps the ‘holy grail’ of assessing asset management outcomes will be found, not by trying to separate asset management's contribution from other contributing components, but by examining the effectiveness of the management of the combination of all resources employed towards achieving desired outcomes, and through a disaggregated model that takes into account contextual antecedents and constraints similar to that of the OECD.

The search for this ‘holy grail’ must continue if the true performance and contribution of government property assets is to be measured.

The author is currently testing a hypothesis for the ‘holy grail’ in Australia’s local government sector.

9.3 The Australian Public Sector

9.3.1 Sector Findings

As far as this thesis has been able to ascertain, the total value of real property assets of the consolidated public sectors is in the region of $325 billion, which equates to some twenty-four per cent of the nation’s total asset value. An estimated $6.5 billion per annum is, or should be spent on maintaining these assets.50 The inability of the Australian public sector to properly account for the extent, value, and operating costs of its built asset base provides strong evidence of sub-optimal management. Such a situation would not be tolerated in the private sector.

50 Refer to Appendix 3.1.
No level of government, with the potential future exception of local government, manages these assets with any overarching hierarchy, policy, strategy, governance, or to consistent standards, processes and procedures. This means that some ninety per cent (by value) of the property assets applied to the health, education and social wellbeing of Australians are without strong whole-of-government asset management rigour or control.

The consequences of this continue to be evidenced by regularly publically reported asset failures in schools and hospitals, and public utilities and infrastructure that have resulted in loss of life, personal injury, and financial wastage across the country.

This means that some ninety per cent (by value) of the property assets applied to the health, education and social wellbeing of Australians are without strong whole-of-government asset management rigour or control.

This lack of property maintenance, renewal and replacement means that many properties have become liabilities, but remain as ‘assets’ for accounting reasons.

There is no evidence of inter-government co-operation. This means that the considerable potential for economies, and associated improvements to financial sustainability and government services is lost across all tiers of government: federal, state and local.

### 9.3.2 New South Wales Government

The author concludes that the property asset management principles so far adopted by the NSW Government reflect ‘good’ practice. As such, there is opportunity for on-going research into whether the reforms proposed by the NSW Commission of Audit and PAUT are implemented with any degree of success.

### 9.3.3 Local Government

There is no shortage of calls for solutions to improve local government sustainability. All point to the strategic management of assets. However, there is insufficient understanding and capacity and capability, within either the state or local governments, to plan and implement these solutions.

As a result, little progress has been made in the ten years since the LGPMC called for a nationally consistent financial and asset management sustainability framework.

There is still an emphasis on ‘inputs’ rather than on the resultant ‘outputs’ and service outcomes. There is little evidence of effort being applied to thinking about ‘the business’ of local government, and how to improve it beyond the incremental tweaking of methods and service. Similarly, little effort is applied to question why things are done, and what influences and happens in the process of transforming inputs to outcomes, and measuring their contribution to service provision and value for money. Associated with this, not enough attention is given to external influences outside the normal working environments of councils, such as regional, national, and international political, economic, and technological influences.

The services provided by local governments are generally homogenous, as are most of their problems and issues. However, it is rare for councils to co-operate, share knowledge, information, experiences, procedures and systems, and assets. Experience, knowledge, and systems are developed and retained within local and independent environments. Many wheels are being re-invented. In addition, local governments are unwilling to co-operate in any meaningful way for fear of ‘exposing’ weaknesses, and re-igniting the amalgamation debate.
9.3.4 Potential for ‘Nationally Consistent’ Integrated Planning and Reporting Frameworks

There can be little doubt that IPR frameworks are very good practice. There can also be little doubt that their application should not be restricted to the local government sector. IPR principles are entirely relevant to federal and state governments.

Notwithstanding the lack of progress made by local government in asset management, and also with strategic and corporate planning as a whole under the IPR model, the local government sector is possibly becoming the default de facto ‘leader’ in these practices.

Because it has been ‘led by the blind’; has legislative obligations in respect of IPR practices; and, in a number of states, is currently obliged to undertake Major Strategic Reviews of its community and corporate direction, the local government sector is showing evidence that it is beginning, albeit haltingly, to build elements of asset management capacity and capability, and understand the need to ‘integrate’ the management of all resources into the corporate and service planning process51.

With the involvement and co-operation of the public sector, perhaps supported and co-ordinated through organisations such as the APCC, industry practitioners, and academia (see below), the author believes there is opportunity to take advantage of this fledgling capacity for the benefit of all tiers of government.

9.3.5 Strategic Asset Management as a Public Sector Profession

The author’s research has shown that there is an acute lack of strategic asset management knowledge and skills in all tiers of government in Australia. The research has also shown that the management of public sector assets (not just property) as strategic resources, as opposed to operations and maintenance, has been recognised internationally as an essential element of public administration. It has been formally adopted as a professional career path in the UK government, and included in training programmes for senior civil servants, including directors-general and chief executive officers.

The USA federal government has developed its property asset management capacity and capability based on the principles of Corporate Real Estate. CoreNet Global governs and promotes the professional practice of CRE worldwide. It is not dissimilar to the Royal Institution of Chartered Surveyors in that it has a code of professional ethics, courses for professional accreditation, undertakes research, and has minimum professional development requirements for its members52.

There is a real need for similar post-graduate educational programmes in Australia. In section 7.1.5.8, it was asserted that the key word in the resources management process is ‘integrated’. In the same manner, an asset management programme must be integrated into the undergraduate public sector administration curriculum as a whole, as well as being offered as a specialist post-graduate opportunity.

9.4 The Significance of this Thesis and Direction for Further Research

Chapter 1 of this thesis established how little research has taken place into the management of public sector property assets. This is particularly true for the Australian public sector.

The little research that has been carried out is largely theoretically based or derived from governments’ self-assessments of their capacity and capability.

51 The major Strategic Reviews involve the review of all IPR documentation, at the centre of which is Asset Management Strategy.
52 The author served as Vice Chair of CoreNet Global’s Sydney Chapter in 2006/07.
In seeking to redress this gap in knowledge, the significance of this thesis is three-fold.

Firstly, through direct experience and empirical evidence, it demonstrates how the strategic management of property has been practically introduced and applied to the public sector. This has led to the identification of a ‘leading’ practice model for the management of government property. This model provides a basis from which research into the improvement of property management practices in the public sector can continue.

Secondly, this thesis has established a direct connection between the management of property and the efficient and effective functioning of government, and provision of public services. Although governments continue to measure their performance in quantitative output terms, this thesis provides a basis for research into the measurement of the qualitative outcomes of property use and management, which can then be related to quantitative value. (“The Holy Grail” as referred to in Section 9.2)

Thirdly, this thesis has identified structural reasons behind the failure of the Australian public sector to effectively implement a ‘leading’ practice. These reasons are entirely consistent with the author’s research into public sector culture, psyche, and behaviour. The author does not believe that this research represents generalisations, but rather identifies very specific reasons for the public sector’s reluctance to embrace innovation or disturb the old-world status quo.

These structural issues are the barriers to ‘leading’ practice, and the principal reasons why the public sector finds it so difficult to innovate and turn perceived threats into opportunity. This not only applies to the management of property, but also to public sector reform as a whole.

The author hopes that the presentation of these barriers, insofar as they have affected the management of government property, will encourage wider research into public sector behaviour and its influence on service and business outcomes.
References


Australian Bureau of Statistics. (2013). Table 1, Total Local Government Operating Statement in Government Finance Statistics Australia, 2011-12, Cat. no.5512.0.


Leifer, D., & Seymour-Jones, T. (2012). Why is the management of government property assets in Australia not a frontline and newsworthy topic and what would be needed to make it so?


Appendix 1

Case Study: United Kingdom Central Government

1. Introduction

This case study has been composed from a review of literature in the form of independent and academic studies and reports, professional standards and guidelines, government strategies, policies and procedures, government reports and audits, journal articles and conference proceedings.

The study takes the form of a review of the literature, which chronologically traces the development of public sector asset management in the United Kingdom (UK) from the early 2000s.

Figure CS1.1 summarises the chronology of the development of public sector property asset management in the UK since 2004.

The following are the principal sources of literature from which this case study has been compiled:


- Improving Property Asset Management in the Central Civil Government Estate, Professor David Male, University of Leeds, April 2006 (Male, 2006).


2. The Lyons Report

2.1. Introduction

This case study shows that The Lyons Report has become accepted as the foremost authority for the development of public sector asset management in the United Kingdom (Howarth, 2006; Jones & White, 2008; Male, 2006; UK Office of Government Commerce, 2006; White, 2011). Its recommendations are the foundations upon which all subsequent asset management principles have been developed.

In 2004, the Chancellor of the Exchequer commissioned Sir Michael Lyons to conduct a study into the management of public sector assets. Specifically, Sir Michael was asked how asset management might be improved to contribute to the Government's objectives of:

- Securing asset sales of £30 billion; and
- Achieving further efficiency savings.

The report was commissioned at a time, which, as stated by Lyons, was when public services were “evolving in a new context of public expectation”. He described this change as having the following characteristics and drivers:

- The way in which public services were delivered was changing in response to rising public expectations in the scope, efficiency and quality of services; an increasing focus on improving efficiency and value for money; and the never-ending development of new technologies.

Lyons noted that the public sector asset base, which had a value of £658 billion, was the foundation upon which public services depends. The asset base, therefore, should continually develop to reflect and support the evolution of the public service.

- The policy of the government of the day was to redress what it saw as a past under-investment in infrastructure. Lyons saw asset management as having an integral role in this by identifying alternative sources of capital through identification and sale of surplus assets; involving the private sector in asset ownership; managing assets to realise their real, underlying and hidden value; and the proper and full utilisation of retained assets.

- The clustering of public services, technology and new ways of their delivery was forcing change in the association of services with particular types of buildings, when and how services are delivered, and when they are available.
To Lyons, these trends represented a need and opportunity to re-consider what constituted a public service, how it delivers public value, and how the management of public assets should respond to support public service delivery models.

Drawing from the experience of the private sector, Lyons described asset management as an integral part of the public sector’s resource management and business planning, which should form a platform for good investment decision-making. He distilled the benefits of good asset management down to three simple benefits:

- Identification, exploitation and disposal of assets (tangible and intangible) to release capital for reinvestment or generation of revenue;
- Involvement of the private sector in asset ownership and management to spread risk, improve management and release asset values;
- Improved efficient and effective use of assets to deliver service improvements and efficiency savings.

Consequently, Lyons concluded that improving asset management would play a large part in Government’s efficiency programme objectives and the generation of £30 billion in asset sales by 2010.

2.2. Scope and Methodology

Lyons was asked to work with the OGC Efficiency Team in HM Treasury to assess current asset management practice and make recommendations for improvement. Given that this was a short-life study, Lyons’ scope was limited to providing direction towards Government achieving its asset sales and efficiency objectives.

In order to establish the government’s existing asset management practices, Lyons consulted a wide range of organisations in both the public and private sectors. These included:

- The principal government departments on their asset holdings, their management, and any plans for asset disposals;
- The Office of the Deputy Prime Minister, the Local Government Association and a number of local authorities;
- The property management industry and investment banks with an interest in property;
- Specialist government bodies;
- The Regional Development Agencies; and
- The National Audit Office and Audit Commission

To ensure as wide as possible contribution to greater efficiency, Lyons took a very broad approach to his study. Although primarily focusing on the management of land and property assets, he also considered intangible assets such as intellectual property, the radio spectrum and government shareholdings. The extent of the review covered the general government
sector, Non-Departmental Public Bodies (NDPB)\(^1\), local authorities, public corporations, and private assets supported by public funds.

By casting a wide net, Lyons sought to:

- Contextualise the £30 billion disposal target in terms of what it meant, its importance, how it related to Government’s aims and objectives, and whether it related to any wider economic and social objectives, e.g. social housing;
- Quantify the efficiency gain by looking at the scale of the existing asset base and the potential for disposals; the potential for efficiency gains from improved management of retained assets; and how further benefits might accrue from more private sector participation;
- Assess whether existing incentives encourage good asset management;
- Determine whether the public sector has the right skills, systems, practices and capacity, and whether they are effectively deployed;
- Assess whether the public sector co-ordinates and co-operates across jurisdictional and administrative boundaries.

2.3. Good Asset Management

Lyons identified a number of developments that were both creating and driving the need for better management of public assets. Key amongst these were:

- Government’s stated objective to increase investment in public infrastructure;
- The adoption by central government of resource accounting and budgeting and the National Asset Register;
- The expanding relevance of asset planning to local governments; and
- An increasing body of professional and technical knowledge defining good asset management practice in both the public and private sectors.

Lyons noted that these drivers were providing impetus to an already growing realisation of the potential improvements that better asset management would bring to the delivery of public services and the achievement of government goals and objectives.

He concluded that ‘the key message seems to be that good asset management planning must complement an organisation’s strategic or business planning’. He went further by saying that it was no longer ‘tenable’ for the management and delivery of public services to be done without the inclusion of asset management in core business planning; and that successful outcomes will increasingly depend on how well an organisation manages its assets (Lyons, op. cit., p.27). In relation to the latter, Lyons proposed four essential requirements for an organisation to put good asset management into practice:

- Understanding the existing asset base;

\(^1\) NDPBs are equivalent to GUANGOs (quasi-autonomous non-governmental organisations). They are not part of any government department and operate at arms length from Ministers. There are four types of NDPBs: Advisory, Executive, Tribunal, and Independent Monitoring Boards.
Profiling an asset portfolio to support current and future needs;

Translating this into future acquisitions, disposals and maintenance implications, i.e. developing an asset strategy; and

A system of governance overseen by the highest levels of government.

### 2.3.1. Understanding the Existing Asset Base

Lyons saw that assets are essential to the efficient operation of all organisations. It is therefore imperative to know and understand the individual assets that make up the asset base, and to be able to assess their value in an alternative use.

‘The starting point must be the systematic collation and gathering of raw data on the organisation’s asset base and the attachment of appropriate valuations’ (Ibid., p. 23).

A significant finding of the Lyons study was that, whilst the UK Government was maintaining reasonable records of its assets, there was little to demonstrate that any strategic use was being made of the information in the government’s business planning.

### 2.3.2. Asset Portfolio Profiling to Support Current and Future Needs

Having assessed the existing asset base, the second organisational requirement is to define the asset needs of the organisation over the medium to long term that will support the organisation’s forward business strategy.

This involves an evaluation of services that are to be delivered, and the service model(s) adopted for their delivery; and the alignment of an appropriate fit-for-purpose asset portfolio with the current and future organisational business and service directions.

Lyons connected technological advancements in information and communications to the impact that they were having, and would continue to have, on asset location, size, type and functionality, particularly in respect of buildings. From this, he noted the potential for asset sharing with other organisations, including with the private sector.

### 2.3.3. Asset Management Strategy

Lyons set broad guidance for the development of asset management strategies for the future core asset base and those assets of the existing portfolio that are surplus or are no longer appropriate for their use. Lyons proposed that these strategies include should include the following:

- A statement setting out the reasoning behind the proposed asset base showing how it aligns or responds to the organisation’s business planning objectives. This to be in the form of business case that quantifies the costs and benefits of the proposed portfolio of assets which should take account of any implications that changes to the existing asset base may have on other government departments, and if there may be any wider economic consequences;

- A strategy for the disposal of surplus assets, including the potential for alternatives uses; the disposal methodology; and the application of disposal proceeds to the ongoing provision of public services;

- A strategy for the efficient and effective use and management of retained assets, together with benchmarking the use and performance of assets, and alternative
management and asset service delivery models, e.g. outsourcing and the involvement of the private sector in asset provision and ownership;

- Consideration of the potential commercialisation of under-utilised strategic assets; and

- A strategy for the acquisition of new assets, i.e. by lease or purchase having regard to strategic need, length of tenure, flexibility and financial analysis.

2.3.4. Governance

Lyons called for mechanisms that formally assign responsibility and accountability for the organisation's planning and management of its assets. He stated that ultimate responsibility must rest at the most senior level, with finance directors having direct responsibility for producing asset strategy, and that senior management at board level should actively involved in 'evaluating and approving that strategy.'

2.4. Related Government Reforms

Lyons noted a number of inter-related reforms that had been introduced by the Government since the 1990s. These were designed to improve the management of assets and to improve the implementation of new capital plans and proposals.

The reforms included the introduction of resource accounting and budgeting, the National Asset Register (NAR), Departmental Investment Strategies (DISs), the ability for departments to retain the proceeds from asset sales and the use of asset disposal targets.

It is clear that Lyons considers these reforms to have exercised positive influences over the management of public assets as he saw these representing a 'framework for departments' (ibid., p. 25.).

2.4.1. National Asset Register

The NAR was first introduced in 1997. It records details of all assets owned by each central government departmental group. It is intended to provide clear reasoning for the holding of assets, and that those assets are employed in the most efficient manner.

Lyons noted that the NAR, together with accrual accounting, provides information to enhance decision-making in relation to the asset base.

2.4.2. Departmental Investment Strategies

These were introduced in 1998 as an attempt to correct the lack of a government-wide approach to the management of investment programmes and to demonstrate that new investment would effectively contribute to the delivery of public services.

DISs are departmental plans in the form of public statements as to how capital budgets are allocated and how new investments will achieve value for money.

These strategies also include information on the existing asset base and how departments plan to make the optimum use of their portfolios, including the disposal of assets and the use of targets to improve asset efficiency.

---

2 The DIS was subsequently refined to fully reflect the recommendations of the Lyons Report.
2.4.3. Accounting Principles

In 2000, Government departments were required to prepare their accounts consistent with the UK generally accepted accounting practice. Lyons noted the significance of this in that the UK Government became one of the few jurisdictions to fully report its assets, liabilities and financial information on a standard comparable to the private sector.

In addition, departments were subsequently required to incorporate the cost of service delivery into their budgets and to account for the costs of holding and using their assets through depreciation and a capital cost charge. (The latter being the opportunity cost of investing in an asset.)

Lyons saw the benefits of reporting these costs in departmental budgets as the ability to make more informed decisions on asset use, service delivery models and the disposal of surplus assets.

Although not part of his scope, it is perhaps surprising that Lyons made no comment that these changes might have on increased transparency and accountability in the management of public assets.

2.5. Conclusions of the Lyons Report

It is not so much the concern of this case study that The Lyons Report concluded that the Government’s asset sales and efficiency targets could be met, but rather the asset management conditions necessary to achieve them.

Lyons identified and defined two degrees of asset management:

- **Good Asset Management**, which improves the delivery of services by aligning the asset base with an organisation’s goals and objectives; and

- **Better Asset Management**, which releases resources, generates revenue and improves value-for-money.

With regard to real tangible assets, Lyons concluded that, to estimate realistic quantifiable benefits of *improved* asset management, entails the analysis of:

- The characteristics of the asset base and the likely potential for future asset disposals; and

- The likelihood of further efficiency savings and economic benefits through *better* asset management of retained assets.

In addition to these quantitative benefits, Lyons also describes potential qualitative benefits in the form service improvements and the transfer of risk from *better* asset management.

The report further concluded that readily attainable gains would be achieved through:

- A co-ordinated approach to asset management planning across government, especially when departments are rationalising their asset bases as part of efficiency or locational reviews;

- Mandatory recording of vacant space and accommodation needs in a centralised database; and
Government standards in areas such as space use and design.

In addition to concluding that it would be possible for the Government to achieve its target of £30 billion in asset sales, Lyons concluded that better asset management over the Civil Estate could result in reduced space utilisation of 1.69 million square meters within six to seven years. This would produce total savings of £760 million per annum.

3. Office of Government Commerce Research Project

3.1. Introduction

Consistent with the recommendations of the Lyons Report, the role of the OGC was extended to include the integrated management of the Central Civil Government Estate (CCGE).

The OGC subsequently commissioned a research project into the management of the CCGE, the principal elements of which were the Leeds Report and the Howarth Report (Howarth, 2006; Male, 2006).

These studies were inter-related and carried out in parallel. The Leeds study, led by Professor Steven Male, was to inform the development of the OGC programme for improving the management of CCGE’s assets, whilst Howarth considered the necessary professional skills required for the strategic management of government’s property assets. These studies are considered in the following sections.

3.2. The University of Leeds: Improving Property Asset Management in the Central Civil Government Estate (the Leeds Report or Leeds)

3.2.1. Scope and Purpose of the Leeds Report

The Leeds Report is a central product of the OGC’s research project into improving the management of the CCGE. It was commissioned to provide a framework for improving property asset management across the CCGE. Its terms of reference were:

- To provide a baseline assessment of the current status and practice of property asset management in central civil government, and the development of a blueprint for excellence in managing the estate;
- To suggest a central governance structure, including the Office of Prime Minister, the Cabinet Office and Treasury, that sets a property asset management policy framework across the civil estate; and
- To provide an estimate of the potential efficiency gains achievable if the report’s recommendations were to be adopted.

The scope of the Leeds Report was almost exclusively determined by the findings and recommendations of the Lyons Report in that it proposes a programme and methodology for the implementation of the Lyons recommendations; and provides a second opinion or validation to the view expressed by Lyons that the Government’s capital and savings targets could be met if its recommendations were followed.

Leeds noted, “Implementation of the Lyons recommendations rely on a coordinated programme of action between various key stakeholders, led by HM Treasury, assisted by the OGC and other sector specific change agents. As part of the programme of activity OGC’s
role is to embed enhanced property asset management in central civil government.” (Ibid., p. 25.).

3.2.2. Strategic Resource Management, Strategic Asset Management and Property Asset Management

The Leeds Report positioned ‘Property Asset Management’ within a hierarchy of strategic and operational management functions, headed by Strategic Resource Management (SRM) (Ibid., p. 25.). This hierarchy and its definitions are illustrated in figure CS1.2.

Figure CS1.2: Resource Management Hierarchy

Leeds defines Property Asset Management as “a structured, holistic and integrating approach for aligning and managing over time service delivery requirements and the performance of property assets to meet business objectives and drivers within a central government organisation.” (Ibid)

Property assets are defined as land and built assets including buildings and infrastructure used by an organisation regardless of tenure. They exist to enable and support service delivery.

Leeds describes ‘Property Asset Management’ as involving the whole life management of property assets from ‘cradle to grave’, which encompasses two interacting components:

- **A strategic component**, focusing on the medium to longer term and involving decisions on appropriate investment in property assets to meet customers/end-user needs and service delivery requirements.
- **An operational component**, focusing on the ongoing short-term management of property assets.
Leeds divided government property assets into:

- **Operational**: property that supports and enables service delivery; and
- **Administrative**: property that supports the machinery of government, such as commercial office accommodation.

The report emphasised the importance of property as a strategic resource, both as assets and in the production of public services. As such, Government property portfolios should be strategically managed such that they are integrated with organisational and machinery of government changes, human resources management, information and communications technology, finance, workplace and procurement strategies.

### 3.2.3. Property Assets in the Context of the UK Public Sector

#### 3.2.3.1. The Structure and Complexity of Government

Leeds addressed property asset management in two areas of the Central Government Estate: the central government sector and public corporations. The study did not cover local government assets as they relate to specific localities and are controlled by their respective local authorities.

Within central government and the public corporations, Leeds identified nine organisational models that delivered government outcomes, which comprised 910 public bodies under the sponsorship or control of 23 Government Departments. All require property assets from which to operate and deliver services. The nine organisational models were:

- Directorates within departments;
- Departments managed on agency models;
- Executive agencies;
- Public/private partnerships;
- Offices 'independent' of the parent;
- Departments;
- Executive non-departmental bodies;
- Government-owned companies; and
- Contracted-out services.

The 910 public bodies were made up of 21 public corporations; the Bank of England; 26 National Health Service bodies; and 862 NDPBs (211 Executive Bodies, 458 Advisory Bodies, 42 Tribunal bodies, and 151 Independent Monitoring Boards).
Leeds noted the decentralised and diverse nature of the Government’s structure, which included a large number of Arms-Length Bodies (ALB) responsible for important government functions.

3.2.3.2. The CCG Property Asset Base
Using the Lyons Report as a source, Leeds provided the following analysis of UK Public Sector fixed assets:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Value: £ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil Engineering Works:</td>
<td>312.2</td>
</tr>
<tr>
<td>Plant &amp; Machinery:</td>
<td>20.5</td>
</tr>
<tr>
<td>Vehicles:</td>
<td>8.1</td>
</tr>
<tr>
<td>Spectrum:</td>
<td>21.9</td>
</tr>
<tr>
<td>Other:</td>
<td>8.3</td>
</tr>
<tr>
<td>Intangible Assets:</td>
<td>5.1</td>
</tr>
<tr>
<td>Residential Buildings:</td>
<td>104.4</td>
</tr>
<tr>
<td>Commercial, Industrial &amp; Other Buildings:</td>
<td>177.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>657.8</strong></td>
</tr>
</tbody>
</table>

Of this, £220 billion was held by the CCG, including NDPBs.

Table CS1.1 is reproduced from the Leeds report. It shows the limits of the Civil Estate within the whole property asset base; it covers administrative and operational property owned and used by the CCG; and establishes the strategic context for their management.

Leeds found that a significant proportion of the CCGE to be outside the control of Government departments, but within the control of executive agencies and other public bodies. This meant that any efficiency gains would need to be achieved from “within a diverse decentralised and also fragmented government structure for property asset management.” (Ibid., p. 33.).

---

### Table CS1.1: The Central Civil Government Estate

#### 3.2.4. The Leeds Report Research Methodology

The OGC’s objectives for the Leeds study were:

- To provide an assessment of the existing asset base and ‘Property Asset Management’ practices in the CCGE;
- To provide a vision for excellence in ‘Property Asset Management’;
- To construct a maturity matrix of ‘good practice’ in Property Asset Management;
- To estimate potential efficiency gains from better management of the property portfolio; and
- To provide options for intervention strategies by Government.

The research methodology comprised:

- Interviews (32) and questionnaires;
- Reviews of literature and Government reports, including international comparisons;

<table>
<thead>
<tr>
<th>Central Government Non-Specialised Property</th>
<th>Central Government Specialised Property</th>
<th>Wider Public Sector &amp; Other Bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Included in the Civil Estate</td>
<td>Included in the Civil Estate</td>
<td>Included in the Civil Estate</td>
</tr>
<tr>
<td>- Central Departments’ owned, leased and occupied property, including Private Finance Initiative procured / managed accommodation.</td>
<td>- HMCS Courts</td>
<td></td>
</tr>
<tr>
<td>- Agencies’ owned, leased and occupied property.</td>
<td>- Departmental and sponsored bodies’ specialist facilities e.g. laboratories, museums, power stations, port facilities</td>
<td></td>
</tr>
<tr>
<td>- Executive Non-Departmental Public Bodies owned, leased and occupied property.</td>
<td>- Departmental and sponsored bodies’ civil engineering infrastructure e.g. flood defences, roads, canals, railways</td>
<td></td>
</tr>
<tr>
<td>- Special Health Authorities.</td>
<td>- EH heritage estate</td>
<td></td>
</tr>
<tr>
<td>- Government-owned offices.</td>
<td>- Historic Royal Palaces</td>
<td></td>
</tr>
<tr>
<td>- Dept. of Work &amp; Pensions Job Centres, Benefits Offices.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- FCO UK estate.</td>
<td>- Defence military establishments.</td>
<td></td>
</tr>
<tr>
<td>- English Heritage (EH) administrative estate.</td>
<td>- Prison Estate.</td>
<td></td>
</tr>
<tr>
<td>- Defence administrative accommodation.</td>
<td>- NHS Estate e.g. Hospitals.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- DEFRA rural estate, e.g. farms.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- FCO overseas estate.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Not Included in the Civil Estate</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Defence military establishments.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Prison Estate.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- NHS Estate e.g. Hospitals.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- DEFRA rural estate, e.g. farms.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- FCO overseas estate.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Not Included in the Civil Estate</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Doctor’s surgeries and clinics.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Schools.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Police &amp; fire stations.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- All local government.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Crown Estate.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Parliamentary estate.</td>
<td></td>
</tr>
</tbody>
</table>
A workshop with the OGC and representatives from Government departments, executive agencies and Non-Departmental Public Bodies;

Interaction and sharing of information with other OGC projects;

Industry consultation and expert advice; and

Experience and knowledge of the research team.

3.2.5. Excellence in Property Asset Management

3.2.5.1. Defining Excellence

In defining excellence in ‘Property Asset Management’, Leeds examined a number of frameworks and models, which included, inter alia, work undertaken in the USA and Australia. These were used by Leeds in the development of a strategic property asset management framework for the UK CCGE.

Although the US and Australian models had been developed from different drivers, the Leeds Report identified a number of similarities as well as differences in the two models that were considered in formulating a model of excellence for the UK. These are summarised as:

- Both countries recognise the strategic importance of managing property as national, regional and local government resources;
- Both models integrate the property asset management planning process into budgetary cycles;
- Both the US and Australia have developed similar ‘best’ practice policy and guidance through central government, with Australian State Governments having developed individual approaches and frameworks;
- The US Government requires each agency to nominate one individual holding responsibility for the strategic management of the agency’s property assets; and
- By conducting a number of formal audits, the Australian National Audit Office acknowledged property asset management as an essential activity for government departments and agencies.

From these studies, Leeds developed frameworks for, and defined the characteristics of the practice and process of property asset management. These include the setting of two standards of management: basic and advanced; a template for a property asset management plan; and a matrix for assessing the property asset management maturity of an organisation.

Excellence in strategic property asset management is not described as a single statement or definition, but is presented by Leeds as a series of criteria and processes within a top-down policy framework and bottom-up needs approach (Ibid. p. 36.). See figure CS1.3.

Top-down sets the governance arrangements and policy framework, which govern how property asset management strategies are formulated and decisions made.

Bottom-up provides feedback and information through reporting protocols on portfolio performance and whether it meets service delivery criteria and requirements.
Leeds noted that the purpose of a property asset strategy is to provide a portfolio that most appropriately meets the organisation’s service delivery needs. This strategy, which will include a vision for the future state of the portfolio and the associated investment and divestment needs, must be driven by, and relate directly to the organisation’s business strategy. The property asset strategy must then be implemented and managed, which Leeds proposed should involve a ‘holistic’ approach to the portfolio and managing the cost of assets on a whole-of-life basis.

Using the Total Asset Management Manual of the New South Wales Government as its authority, Leeds presented a typical composition of property asset whole-of-life costs as:

- Capital Procurement: 20%;
- Maintenance: 35%;
- Operating: 40%; and
- Disposal: 5%

Figure CS1.3, reproduced from the Leeds report (Ibid., p. 38.), sets out the elements for considering a property asset management framework.

---

4 Whole-of-life costs include capital procurement costs; maintenance costs over the asset’s life; operating, management and administration costs over the asset’s life; and disposal costs.
To apparently support this framework, Leeds returned to the Lyons premise that property assets exist to enable and support service delivery; good asset management must complement an organisation’s business planning; and that property asset management comprises the following key elements:

- The sustainable use of property assets as corporate resources;
- Adopting a cradle to grave life cycle approach;
- Defining and providing agreed levels of service;
- Performance measurement;
- Managing risk associated with property failures; and
- Continuous improvement in practices.

3.2.5.2. Strategic Property Asset Management Outcomes, Principles and Benefits
Leeds replied upon three principal authorities to describe the desired outcomes of good property asset management, the principles for its integration into Central Government planning and the benefits that it would be expected to provide.
3.2.5.2.1 Outcomes\(^6\)
- Improved customer and stakeholder satisfaction through more and better informed decision-making capacity;
- Clear financial and non-financial methodologies for assessing asset affordability and sustainability;
- Certainty in statutory and regulatory compliance;
- Improved corporate management and governance arrangements that connect property asset management with corporate goals and objectives; and
- Environmental sustainability.

3.2.5.2.2 Integration Principles\(^7\)
The Leeds report put forward the following key principles that need to be in place and/or accepted for strategic property asset management to be integrated into mainstream Government planning
- Acceptance of property strategic planning as an essential corporate activity within resource planning alongside human resources and information technology;
- Central Government departmental budgets to include the full cost of operating and maintaining property;
- Consistency with whole-of-government policy frameworks;
- Consideration of non-asset solutions, full life costing, risk analysis and improved use of existing assets;
- Property asset management decisions that meet present needs, but do not compromise the needs of the future; and
- Preservation of heritage, cultural and environmental values.

3.2.5.2.3 Benefits\(^8\)
The benefits relate to accountability, service management, risk management and financial efficiency from:
- Improved management of, and accountability for property assets;
- Publication of performance and financial measures;
- Benchmarking against other departments, jurisdictions and organisations;
- Improved communications and relationships with business units;
- Assessing the likelihood and consequence of property failure and impact on business continuity; and

---

\(^8\) International Infrastructure Management Manual, Institute of Asset Management: London 2002
Improved financial efficiency.

Drawing further on the Australian Procurement & Construction Council (APCC), the Leeds report notes that the scale of investment in public property assets exposes Government to considerable, political, managerial and financial risks, which the APCC concluded would be better managed through a strategic approach to the management of property.

3.2.5.3. A ‘Best Practice’ for Property Asset Management

Based on its research undertaken into local government in the UK, and the Australian and USA Governments, the Leeds Report presented a property asset management ‘best practice’ through two frameworks; a notion, of two standards of strategic property asset management, ‘basic’ and ‘advanced’; and a Property Asset Management process.

3.2.5.3.1 Property Asset Management Frameworks

The first framework identifies Asset Management in the corporate planning process, which comprised three levels of planning activity: strategic, tactical and operational.

This framework, reproduced from the Leeds Report, is illustrated in figure CS1.5. It places the Asset Management Plan at the tactical level together with the Human Resources, Marketing, Financial, Information Technology and Customer Service Plans. These are developed from the organisation’s business strategy and objectives and service level strategies.

The implementation of Asset Management Solutions in the form of asset delivery and property and facility management are developed as operational plans within this framework.

The framework incorporates informing and compliance criteria and a top-down, bottom-up review and reporting process.

---

Figure CS1.5: Property Asset Management Strategic, Tactical & Operational Planning

---

9 Ibid.
In assessing the existing status of the CCGE, Leeds adopted the following criteria, which it had identified as the characteristics for property asset management organisational excellence through the literature review research process. These criteria are broadly categorised into three groups: knowledge, organisational capability, and the corporate objectives for property asset management, each at the strategic and tactical levels:

- **Asset Knowledge**
  - Asset inventory;
  - Asset condition;
  - Levels of service required;
  - Asset performance and reliability;
  - Asset utilisation and capacity; and
  - Asset values.

- **Property Asset Management Organisational Capabilities**
  - Predictive ability for future service demand;
  - Failure prediction ability, including likelihood and consequences;
  - Alternative options analysis;
  - Prioritisation of options based on risk;
  - Optimisation of maintenance and operational activities; and
  - Preparation of Asset Management Plans

- **Property Asset Management Corporate Objectives**
  - Appointment of a Property Asset Management leader and team;
  - Completion of a needs analysis and development of improvement plans;
  - Performing service level reviews;
  - Preparation of Property Asset Management Plans;
  - Good asset management information systems, data, analysis and processes;
  - Reviews and audits of the Property Asset Management system and process; and
  - Use of performance measures and progress monitoring.

The second framework defines the elements of Strategic Property Asset Management, and governs the development of strategy and the delivery and management of assets through the three levels of planning (strategic, tactical and operational). It is derived from the asset
knowledge, organisational capability and corporate objectives criteria outlined above. This framework is shown in figure CS1.6.
In generic terms, the Leeds Report summarised the characteristics of the ‘basic’ and ‘advanced’ standards:

- **Basic Standard**
  - Taking a life cycle approach to the management of property assets; and
  - Developing basic property asset plans that are based on best current information and random condition and performance reviews; knowledge of existing service levels; critiquing strategies and methodologies for improvement opportunities; developing long-term financial plans from the identification of maintenance and replacement needs; and developing asset management improvement plans.

- **Advanced Standard**
  - Use of predictive modelling, risk management and well-informed decision-making capacity;
  - Well-defined and agreed levels of service;
  - Accurate and detailed asset data;
  - Relating the impact of other organisational tactical plans on the corporate Property Asset Management Plan; and
  - Reviewing all aspects of the asset management process to ensure community and stakeholder needs and strategic objectives are being met.

### 3.2.5.3.3 The Property Asset Management Process

The Leeds Report drew upon the Total Asset Management Manual of the New South Wales Government\(^\text{10}\) to describe ‘a series of structured and defined steps’ for the property asset management process (Male, op.cit., p. 47.). These steps are illustrated in figure CS1.7.

---

\(^{10}\) DPWS (2001), op. cit.
3.2.6. Towards Property Asset Management Excellence in the UK Government

In determining a PAM baseline and a way forward for PAM excellence in the UK, Leeds examined and considered the role of the ‘centre of government’; governance arrangements for property asset management within government departments; and the management of property assets by Arms-Length Bodies.

3.2.6.1. Central Government and the Role of the Centre (Prime Minister’s Office, Cabinet Office and Treasury)

Citing the Modernising Government White Paper (HMSO, 1999), Leeds noted that ‘joined up’ government was one of its central elements (Leeds, op. cit., p. 56.). The White Paper stressed the importance of developing a framework to effectively co-ordinate government activity. A common view had been developing that good policy-making and efficient service delivery had been compromised by ‘institutional fragmentation’.11

Leeds also referred to a number subsequent initiatives introduced to achieve co-ordination across the centre of government and within departments, to deliver government policies:

- Civil Service reform, which introduced departmental capability reviews;
- Re-organisation of the Prime Minister’s Office (post-2001) to enhance policy capability, including the establishment of a Delivery Unit and Forward Strategy Unit;
- Treasury’s adoption of three-year spending planning cycles, and the introduction of Public Service Agreements (PSA). The latter have clear property asset targets and new reporting mechanisms. (The PSA targets are highlighted in departmental annual reports and are subject to inquiry by departmental select committees);

Leeds analysed the PSA targets, and found that 17 of 102 targets had clear property asset, sustainability and sustainable development implications associated with them. Leeds stated that this percentage would improve once the contribution that property as a strategic resource makes to service delivery is more widely understood and accepted through property asset management;

- Expansion of the role of the OGC as an independent office of the Treasury as part of the Efficiency Programme introduced by Government to, inter alia, deliver £21.5 billion annual efficiency gains by 2007/08;

- From 2002, departments were required to prepare their budgets on a Resource Accounting basis to reflect the full economic cost of Government activity. This included provisions for depreciation charges and the cost of capital on assets.

Following the introduction of Resource Accounting, the 2005 House of Commons report HC 181 to the Committee of Public Accounts noted that under Cash Accounting, assets such as buildings acquired in previous financial years were usually treated as free goods by departments. It also noted that Resource Accounting requires departments to produce annual balance sheets that set out the value of their assets and the costs associated with the reduction of their useful life, together with

11 Although, not making a direct reference to the New Public Sector Paradigm, Leeds seems to be describing the New Public Sector Paradox.
recognising the cost of capital. HC 181 reported that the effect of Resource Accounting had provided strong incentives for departments to make more effective and efficient use of their assets. The report cited the example of the Court Service where capital charges of £175 million on a property portfolio valued at £2.7 billion encouraged the agency to review the use of courts, release spare capacity and improve the utilisation of property (House of Commons Committee of Public Accounts, 2005);

- In 2005, the Prime Minister’s Delivery Unit introduced a programme of ‘capability reviews’ designed to assess the performance of Government Departments. The three key areas of assessment were leadership, strategy and delivery. The form and substance of these reviews were prepared with advice and input from the National Audit Office and Audit Commission.

### 3.2.6.2. Departmental Property Asset Management Governance

In considering the governance of property asset management at the department level, the Leeds Report considered the impact of Resource Accounting; and the extent to which the existing Treasury Code of Practice on Corporate Governance was applicable to property assets.

#### 3.2.6.2.1 Resource Accounting

With regard to the impact of Resource Accounting, Leeds, referred to the National Audit Office (NAO) report in 2003 (NAO, 2003), which reported that departments needed to:

- Concentrate on a more strategic approach to resource management;
- Have a well-developed capability to convert resources into services that meet community needs; and
- Permit innovation and use management information to improve the use of resources and efficiency.

The NAO report noted that resource management requires a long-term view to be taken of investments, and good information on the performance of resources employed in the delivery of services.

The NAO identified a number of key performance indicators of efficiency by which department Management Boards should regularly monitor the use of their resources. These included reviews of the utilisation of assets to assess their contribution to core activities, identify spare capacity, and dispose of surplus assets; assessment of the resource costing of asset programmes to justify those costs in terms of the level and quality services and outputs; monitoring the delivery of services through the use of benchmarks; and managing cash flow to identify and re-allocate potential under-expenditure to other priorities.

Both the NAO and Leeds Reports concluded that, although departments and agencies would have differing capability profiles for implementing property asset management, Resource Accounting provides the financial basis and framework to enable them to undertake this responsibility.

#### 3.2.6.2.2 Treasury Code of Practice on Corporate Governance

Leeds noted that property is often the second largest organisational cost behind human resources. Leeds cited the Bootle report (Bootle & Kaylan, 2002) that it is surprising that many businesses do not have an accurate assessment of their property costs and that
management of property is often conducted at the operational rather than strategic level. Lyons noted the same issue in his report (ref. section 2.3.1. above).

Looking at the property asset cost base of the central civil government, Leeds concluded that property assets should be managed strategically at department level.

Leeds examined Treasury’s Code of Practice on Corporate Governance (the Code) in some detail (HMT, 2005a). The Code states that corporate governance is concerned with the manner in which organisations are directed, controlled and led. It defines the distribution of rights and responsibilities among the different stakeholders, determines the rules and procedures for corporate decision-making and includes the process through which organisational objectives are set, how they are achieved, monitored and measured.

Although the Code does not make direct mention of property, as it does human resources and information technology, Leeds identified a number of the Code’s principles that it considered key to the governing the management of property assets. These were:

- Ministerial responsibility, i.e. the minister in charge of a department is answerable and accountable to parliament for the exercise of powers upon which the administration of that department depends;
- The Head of Department, as its Accounting Officer, is personally responsible and accountable to parliament for the departmental management and organisation, including the use of public money and the stewardship of its assets;
- Departmental Management Boards to advise, inter alia, on the department’s financial operations, strategic aims and objectives, the management of departmental resources, monitor performance, assessment and management of risk, and the maintenance of the required capacity and capability to provide and manage services within a culture of excellence and innovation;
- The effective management of risk, governance and internal controls by the Management Board; and
- Robust governance arrangements set by the Management Board for the management of ALBs that are monitored by departments, with intervention if necessary.

Given the nature, characteristics, value and whole-of-life cost of property assets, Leeds concluded that property asset management must occupy a significant position within the public sector corporate governance framework.

As a large proportion of these assets fall under ALBs, appropriate governance mechanisms are required for departments to oversee and monitor the management of ALB property assets, with the requisite powers of intervention.

**3.2.6.3. Arms-Length Bodies**

These bodies were given particular attention in the Leeds report.

The report noted that executive agencies are tasked with performing government executive functions, with emphasis being placed on a clear concentration on delivering services within accountability frameworks to Ministers (Framework Document).  


A 2002 Agency Policy Review (UK Government, 2002) concluded that, whilst ALBs had had success in achieving significant cultural change in central government to the benefit of the provision of services, their work had often become disconnected from ministerial policies. This review made recommendations for improvement as a guide to departmental relationships with their agencies. These recommendations included:

- The integration of policy development with service delivery and support services;
- Business reviews to be part of the parent department’s business planning process;
- The introduction of formal and focused strategic performance monitoring within standards, targets and performance frameworks; and
- Agency business planning to be integrated with parent department’s business planning on three-year planning cycles; and

In reviewing Cabinet Office guidance notes for Framework Documents, Leeds noted that agencies should have clear procedures within their Framework Documents for overseeing strategic direction and monitoring of performance and performance review.

Leeds found no specific reference in the guidance notes to either asset management in a whole-of-government sense, or to property asset management in particular. Similarly, the Government’s Business and Corporate Planning framework also made no such references.

However, Leeds found that there is a requirement for government entities to include observations in their annual reports on the financing implications of, inter alia, significant changes in objectives and activities, investment strategies and long-term liabilities. Additionally, Leeds found that Treasury’s Financial Reporting Manual (HMT, 2005b) indicates that government entities should distinguish between owned and leased assets and analyse their tangible fixed assets under the following headings:

- Land and buildings, e.g. offices, warehouses, hospitals, barracks, hangers, runways, farms and multi-storey car parks, and land associated with these uses;
- Dwellings, i.e. buildings entirely/primary used as residences, associated structures and underlying land;
- Infrastructure assets, e.g. roads, rail and associated land;
- Payments on account and assets under construction;
- Furniture and fittings; and
- Operational and non-operational heritage assets.

### 3.2.7. Realising the PAM Potential in the CCGE

In looking to achieve the potential in PAM for the CCGE, Leeds considered five aspects that would be prerequisites for excellence, a PAM process; a maturity matrix for the measurement of excellence in PAM; the necessary skills; a generic PAM plan; and the organisational and governance characteristics necessary to underpin good asset management.
3.2.7.1. The PAM Process
Having examined and reviewed aspects of the machinery of government, frameworks, published guidance material, the role of the OGC and the overarching influence of the Lyons report, Leeds returned to the US and Australian models for the development of a PAM process.

Leeds identified common threads between the US and Australian models that link with the development of PAM in the UK CCGE. These are:

- PAM is part of the strategic agenda in the USA and Australia;
- The Australian model recognises the importance of property asset strategy by holistically linking strategic objectives and service delivery with capital, maintenance and disposal strategies. Property asset strategy is composed of four related strategic plans:
  - Capital Investment Plan
  - Maintenance Plan
  - Asset Disposal Plan
  - Office Accommodation Plan;
- The USA and Australia both link PAM planning to the budgetary process; and
- Both models advocate the need for a strategic role at executive level to champion and be accountable for the process.

The Leeds research indicated a clear relationship between property assets, business strategy, service delivery, finance, information technology and organisational change. The Treasury guidance document nominates the executive strategic role as the Head of Department or Accounting Officer. Lyons positioned this responsibility with the Finance Director. However, an important finding of the Leeds report is that the property function has different reporting structures to Management Boards, with reporting arrangements also through Finance and Corporate Services.

Leeds also concluded that, although the Finance Director position strengthens the financial aspects of property, it tends to give less emphasis to property’s wider strategic role. The clear conclusion of Leeds is that it is not sufficient for property assets to be represented only at Management Board level. Because of the level of investment in property assets, their costs and associated business risk, they must be an integral part of the strategic decision-making process.

Leeds saw the Australian model as having particular relevance to the UK CCGE through its historical development and recognition of the importance of strategic asset management, for which the PAM process operates through the Commonwealth and State Government Treasury structures.

3.2.7.2. A Model for Excellence: the PAM Maturity Matrix
Leeds developed a property asset management maturity matrix to enable Government organisations to establish their PAM capacity and capability. The matrix also stipulates the requirements for PAM excellence. It comprises a set of enablers against which an organisation can be measured. These are:

- Property Asset Management Policy;
- Roles and Responsibilities;
- Communication;
- Asset Management Planning;
- Acquisition and Disposal;
- Operation and Maintenance;
- Performance Review and Accounting and Audit and Review.

The matrix provides five levels of transition towards excellence for each of the enablers: Unawareness, Awareness, Knowledge, Competence, and Excellence. The levels of transition are provided with descriptors for each enabler. These are summarised in table CS1.2.
<table>
<thead>
<tr>
<th>Function Level</th>
<th>PAM Policy</th>
<th>Roles &amp; Responsibilities</th>
<th>Communication</th>
<th>PAM Planning</th>
<th>Acquisition &amp; Disposal</th>
<th>Operation &amp; Maintenance</th>
<th>Performance Review &amp; Accounting</th>
<th>Audit &amp; Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Unawareness</td>
<td>No written policy</td>
<td>No Asset Mgt. staff</td>
<td>No Asset Mgt. awareness; no stakeholder dialogue</td>
<td>Based on historic trends; technical aspects only; reactive</td>
<td>Ad hoc &amp; informal; price sensitive decisions at line level</td>
<td>Based on historic trends; reactive; no condition assessments or performance monitoring</td>
<td>Performance / cost mgt for major aspects only</td>
<td>Reactive &amp; unplanned</td>
</tr>
<tr>
<td>2. Awareness</td>
<td>Informal guidelines for some Asset Mgt. issues</td>
<td>1+ staff with informal advocacy role at the tactical level</td>
<td>Some asset mgt. data routinely requested</td>
<td>Lifecycle costing (LCC) for CAPEX; no financial reports; some risk analysis; approval process</td>
<td>LCC; technical function; work practices; health &amp; safety; environmental issues; O&amp;M feasibility</td>
<td>Maint strategy for major assets only; asset reliability, risk assessment, CBA considered; training identified</td>
<td>KPIs identified &amp; communicated; asset register; training needs known; financial mgt; processes established</td>
<td>Skills &amp; training needs identified; well documented &amp; prioritised processes &amp; practices; formal audit plans</td>
</tr>
<tr>
<td>3. Knowledge</td>
<td>Formal statement on Asset Mgt.</td>
<td>PAM responsibility assigned to 1 manager</td>
<td>Stakeholder agreement on PAM objectives &amp; targets; data collected for most Asset Mgt. issues</td>
<td>Business &amp; performance based; project evaluation; benchmarking; prioritisation of investments</td>
<td>Full economic evaluation; LCC; performance; productivity indicators; project mgt.; risk analysis; integrated procurement</td>
<td>Integrated &amp; written financial &amp; maint plans; specific costing; defined responsibilities; project mgt.; knowledge of AM practices</td>
<td>Adequate skills; Well defined roles &amp; responsibilities; regular review of level/cost of services; regular review of system capability</td>
<td>Business oriented; avoidance of unnecessary risk; use of new technology</td>
</tr>
<tr>
<td>4. Competence</td>
<td>Comprehensive internal statement with some PAM indicators</td>
<td>PAM responsibilities within each business unit</td>
<td>PAM issues reported at strategic level to Sen. Mgt. &amp; shared with stakeholders</td>
<td>PAM integral to business planning; risk mgt.; contingency plans; targets</td>
<td>Value selection; performance guarantee; support; technologies; risks; supplier credibility</td>
<td>O&amp;M based business &amp; performance objectives; strategic ranking of assets; use of risk mgt.; proactive O&amp;M</td>
<td>Strategic review based on importance, analysis of trends, cause &amp; effect, review of true costs; return on assets known</td>
<td>System ownership by staff; participative decision-making environment; training completed</td>
</tr>
<tr>
<td>5. Excellence</td>
<td>Published with targets, reviews and promotion</td>
<td>Overall PAM responsibility with a senior manager at a strategic level; regular progress reviews</td>
<td>Regular dialogue with stakeholders &amp; supply chain; AM performance major focus for corporate reports</td>
<td>Based on corporate objectives; risk mgt.; modelling</td>
<td>Long-term strategic planning; social; environmental; technological; market forces</td>
<td>O&amp;M strategies based on asset performance &amp; against return on assets; risk mgt.; preventative maint</td>
<td>Well structured and implemented review process; generates economic value &amp; improvement</td>
<td>Able to achieve benchmark efficiency &amp; effectiveness; independent audits</td>
</tr>
</tbody>
</table>
3.2.7.3. PAM Skills
In determining the necessary skills required to undertake property asset management, Leeds relied to a great extent on Howarth’s 2006 report on Improving the Capability and Capacity of managing Property Assets in Central Civil Government (Howarth, op. cit.).

Leeds noted that, as a strategic-based skill, property asset management connects with the ‘strategic thinking’ and ‘financial management’ core skills expected of senior managers. These are the core skills required by every civil servant under the Professional Skills in Government framework.

The following particular skills and competencies were identified as being necessary for PAM:

- **Strategic Business Planning**: business drivers and strategic thinking; corporate property asset strategy; PAM planning; risk management; project and programme management; and business, financial and service sustainability;

- **Leadership**: capacity and capability building; management of strategic change and strategic performance; responsibility for professional resources; and communication and relationship management skills;

- **Property Performance Management**: benchmarking of KPIs; contract management and performance monitoring; and customer/stakeholder management;

- **Financial Management**: resource accounting; capital and revenue budgets; whole-life costing; and business cases and option appraisals; and

- **Data management**: effective compilation and management of property asset registers and the use of information and reports; ensuring validity of data; scope, storage and retrieval and analysis of data.

Leeds noted that, notwithstanding that these skills and capabilities might be in place, their direction and application for good asset management relies on the integration of:

- A knowledge, understanding and experience of how property assets can contribute to business planning;

- Experience in developing business strategies, which meet the delivery requirements of the organisation taking into account all resource impacts: human (staffing), the asset base (property) and economics (funding) and

- A thorough understanding of the economic tools for ensuring that the right financial decisions are taken, such as business case preparation and option appraisal, whole life costing and performance measurement.

3.2.7.4. The Leeds Generic PAM Plan
Leeds put forward a generic template for a PAM Plan, which contains eight principal sections: Introduction, Aims and Objectives, Roles and Responsibilities, Service Delivery Objectives, Current Assets, Options Appraisal, Programming, and Review and Challenge. This template is illustrated at Table CS1.3.
<table>
<thead>
<tr>
<th>Plan Sections</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction</td>
<td>A description of the context within which the plan is prepared and how it links with corporate business and strategy.</td>
</tr>
<tr>
<td>2. Aims &amp; Objectives</td>
<td>A description of the organisation’s mission and the strategic property asset management goals.</td>
</tr>
<tr>
<td>3. Roles &amp; Responsibilities</td>
<td>PAM’s organisational and governance arrangements.</td>
</tr>
<tr>
<td>4. Service Delivery Objectives</td>
<td>The organisation’s service delivery needs together with forecasts for future property needs to meet service demand.</td>
</tr>
<tr>
<td>6. Options Appraisal</td>
<td>Identification of priorities with a summary of financial implications of future property needs, including options for non-property asset solutions.</td>
</tr>
<tr>
<td>7. Programming</td>
<td>Plans for the implementation of acquisitions, disposals and maintenance strategies, which take project management, procurement and supply chain considerations into account.</td>
</tr>
<tr>
<td>8. Review &amp; Challenge</td>
<td>Review and evaluation of the performance of the entire property asset management process and system.</td>
</tr>
</tbody>
</table>

Table CS1.3: PAM Plan Template

3.2.7.5. Organisational & Governance Characteristics
Given the numerous structural implications involving the management of property in the CCGE, Leeds cautioned that the successful implementation of PAM would require a concerted and co-ordinated effort across any organisation. This may involve significant organisational change, and would require the establishment of a dedicated cross-functional management team led by a senior executive with sufficient authority at a strategic and policy level to champion, develop and implement PAM.

Leeds located PAM as an activity that sits between business strategy and planning in the organisational framework, which, because of the federal structure within departments, presents unique challenges to establish and implement Government-wide across the civil estate. Leeds proposed the establishment of Property Asset Management Boards within each department to overcome these challenges.

The purpose of these Boards is to bring together the strategic and operational aspects of PAM under a single organisational unit within a department. It would sit immediately below the executive Management Board (See figure CS1.8 below). The Boards would have a policy function for managing property assets strategically and integrating the Management Board property asset policy decisions with the operational management of those assets.

Figure CS1.8: PAM Governance
Leeds set out detailed roles and responsibilities for these Boards, which included:

- The establishment of a PAM policy framework that is relevant to departmental business strategy and reflects service delivery requirements;
- Having a position of real authority within the department as part of its corporate governance structure;
- Acting as a think tank on PAM policy issues;
- Considering the location strategies of the department and monitoring property disposals;
- Being responsible and accountable for efficiency challenges;
- Sustainability, workspace and design policy and standards.
- Governance over compliance for PAM decisions across the department.
- Review of investment decisions; prioritisation and allocation of capital expenditure; allocation of operating expenditure;
- Oversight of risk management;
- Submit investment recommendations to the Executive Management Board for subsequent submission to Treasury;
- Respond to Parliamentary questions;
- Challenge property asset strategies management processes;
- Consolidate departmental PAM plans for acquisitions, operations and disposals; and
- Approve property expenditure that exceeds set financial limits.

Leeds envisaged that these Boards would report to Ministers, Permanent Secretaries, and the Treasury and OGC on property and related fiscal matters through the departmental Executive Management Boards.

A typical PAM Board would be chaired by a representative of the departmental Executive Management Board, and comprise representatives of major business units with significant property portfolios, the heads of any consortium service providers, and IT, HR and Operational Directors. The Board should also be equipped with property and estate management skills and expertise.

Hidden somewhat surprisingly in a body of text on page 106 of the Leeds report is a statement that “for best results in implementing and embedding PAM as part of normal business in a federally structured department, engagement with the department CEO and Permanent Secretary is seen as essential”. This would appear to be a fundamental conclusion deserving of full prominence in the report.

3.2.8. Potential Efficiency Gains from Strategic Property Asset Management

The identification and assessment of efficiencies was the second part of the Leeds commission. This was carried out post-Lyons, who had identified potential efficiency gains of £760 million per
annum through office relocation strategies, and after a review carried out by P. Gershon, “Releasing Resources to the Frontline”, on behalf of Treasury in 2004. (Gershon, 2004)

The efficiency gains identified by Gershon and Lyons are set out below.

3.2.8.1. The Gershon Efficiency Gains
Gershon defined ‘efficiencies’ as those reforms to delivery processes and resource (including human resources) utilisation that achieve:

- Reduced numbers of resource inputs, whilst maintaining the same level of service provision;
- Lower prices of resources required to produce public services;
- Additional outputs for the same level of inputs;
- Improved ratios of output per unit cost of input; and
- Changing the balance between different outputs for the delivery of a similar overall objective in a way that achieves a greater overall level of output for the same level of inputs. Gershon termed this as “allocative efficiency”.

Gershon saw these as producing savings of £20 billion within 4 – 5 years.

3.2.8.2. The Lyons Efficiency Gains
The efficiency gains identified by Lyons through good property asset management were:

- Relocation strategies: £625 million per annum by 2010/11;
- Reduction of office space utilisation by 250,000 square metres: £135 million by 2010/11; and
- Strategic whole-of-government management of existing leases: £150 million per annum by 2010.

3.2.8.3. Potential Additional Gains Identified by Leeds
In addition to the £760 million per annum suggested by Lyons, Leeds identified three additional areas that could potentially yield a further £410 million to a possible £660 million annual savings: Facility Management, Lease Management and Workspace Management.

- **Facilities Management**: Leeds projected a potential for 10 per cent savings (£27 million per annum) across the CCGE through outsourcing;
- **Lease Management**: Balancing current and future office accommodation requirements with opportunities for more flexible leasing arrangements: £129 – 174 million per annum; and
- **New Working Practices and Workspace Management**: Reduction of workspace by 1 square metre per person: £254 - £383 million per annum.

Leeds stressed that the potential to realise these gains was subject to a proviso that an integrated strategic property asset management policy be adopted across the CCGE.
3.2.8.4. Total Potential Gains
The aggregate of the gains identified by Lyons and Leeds is £1.17 - £1.42 billion per annum, with Leeds saying that the mid-range figure of £1.35 billion per annum would seem a reasonable target for the CCGE.

Additionally, Leeds suggested savings in the order of 10 per cent could be achievable on annual capital expenditure, based on experience in the utilities sector where risk-based approaches to investment planning are adopted.

3.2.9. Implementation: A Routemap to Excellence
Leeds summarised the context in which it considered an implementation routemap for PAM as being:

- There are two components of PAM:
  - **Strategic**: at the Management Board and Property Asset Management Board levels; and
  - **Operational**: at the Estates (professional) level and below.

- PAM requires organisational capability centred on the Executive Management and PAM Boards, which involve the integration between property assets, human resources, finance and information technology;

- PAM requires individual capability through the skills of the person assigned responsibility and accountability for it at Executive Management Board level; and

- Much of the CCGE is managed through a decentralised structure of government and a fragmented departmental system.

A summary of the key elements of a possible routemap and action plan put forward by Leeds for implementing PAM across the Civil Estate is provided in table CS1.4.
Leeds made the following qualifications or barriers to implementation of the programme:

- A period of gearing-up, transition and reflection would be required;

- Evidence from the Local Government sector suggested that a period of three to four years might be required before PAM practices are fully accepted and PAM plans produced;

- This period could possibly extend to five to seven years in a Central Government department depending upon the starting point. (The Leeds research indicated that only some 17 per cent to 25 per cent of departments, agencies and ALBs would have an existing capability profile above Competence on the maturity matrix);

Leeds noted that an inter-locking regime of developmental processes, capability assessments, and audits and reviews would be required to progress the competency of departments; and
Evidence from a House of Commons report and work undertaken by the Australian National Audit Office in Australia indicated that the time lag might be as long as eight years before strategic thinking in PAM becomes part of government’s daily routine.

In view of the above, Leeds felt that the 2010 target for efficiency gains suggested by both Lyons and within the Leeds report itself would be very ambitious.

3.3. **Office of Government Commerce: Improving Asset Management in Government Departments – A report on improving the capability and capacity of managing property assets in central civil government. (Howarth)**

3.3.1. **Purpose and Scope of the Report**

This report, conducted by Andrew Howarth, is the second key element of the OGC’s research programme (Howarth, op. cit.).

The Howarth and Leeds reports were published within one month of each other in March and April 2006 respectively. Both rely on the other to a considerable extent, which exemplifies the co-ordinated and committed nature of the OGC research project.

Howarth’s role in the OGC’s research project was to investigate the existing level of asset management skill and capability within the central civil government, and to propose a strategy for sustainable improvement, particularly with regard to property assets.

3.3.2. **Howarth’s Findings**

There are three categories of findings to the Howarth report, Organisational Change, Skills and Capabilities, and Property Management in Government.

3.3.2.1. **Organisational Change**

It is clear that Howarth agreed with both Lyons and Leeds in that strategic asset management (real property in this case) “is a structured, holistic and integrating approach for aligning and managing over time service delivery requirements and the performance of property assets to meet business objectives and drivers” (Ibid, p.3.).

From an implementation perspective, Howarth went further by suggesting that asset management is about how organisational change affects and effects property assets and how the assets also provide opportunities for organisational change. Figure CS1.9, reproduced from Howarth, shows Howarth’s suggestion that the role of property is becoming less reactive and moving towards a strategic role.

![Figure CS1.9: Current and Emerging Practice in PAM](image-url)
3.3.2.2. **Skills and Capabilities**

Concentrating upon property and facility management in the CCGE, Howarth found:

- Good quality and experience in property teams to manage property at a tactical level, but the numbers of suitable property management staff were found to be considerably less than a decade previously;

- A diversity of estate management models and management structures, with more qualified and experienced staff in the larger departments and agencies. Some areas of government were found to have minimal property management experience and skills;

- Many estate managers understood property management as a strategic function, but rarely as a means of optimising the use and performance of assets to improve services;

- Estate managers were rarely asked to question established practice or offered to contribute to strategic business thought;

- There was a discernible feeling amongst estate managers that property strategies did not need to be more integrated with corporate planning, either because it was felt there was already sufficient access to senior management, or that there was no corporate asset management strategy in place;

- The gap between existing practice and the ideal was largely due to a lack of awareness on the part of senior management of the value that the strategic management of assets would bring;

- It would be incorrect to assume that property professionals naturally see a role to influence business at a strategic level. In the same way senior business managers, who are in positions of influence, often have little or no concept of the strategic importance of property assets. Property is viewed as a reactor to business needs, rather than looking forward to future needs;

Howarth explained this polarisation of property asset management by citing Professor Meziane Lasfer of the Cass Business School:

“It is ironic that in Business Schools the management of property is rarely covered. Managers may think that since property management was not covered in their MBA course, there is no need to treat it as a cost asset and should not be discussed in the boardroom.” (Ibid, p.5.).

3.3.2.3. **Property Management in Government**

Howarth noted that the OGC research project and integration programme concentrated specifically on property assets in the central government sector. In so doing, Howarth believed that by restricting the activity to property, there would be a potential for asset management to become mistakenly synonymous with the traditional prejudices with which property management had become associated.

Similarly, Facilities Management, which has developed into an accepted, discernable and associated discipline to property management, also suffers from the same misconceptions. Support services and their management are not seen by senior managers as sufficiently important to be considered in decision-making for future business needs, despite being the second highest item of expenditure behind human resources.
Within this context, Howarth found unwillingness amongst property professionals to seek senior management positions outside of their specialist technical comfort zones.

Howarth summed-up the management of property in government with, “There are therefore differences between the property management view of assets and the asset management view of property.” (Ibid, p.12).

These differences are illustrated in Table CS1.5, which is summarised from the Howarth report.

<table>
<thead>
<tr>
<th>Asset Management</th>
<th>Property Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship management &amp; stakeholder satisfaction</td>
<td>Property income &amp; expenditure accounting</td>
</tr>
<tr>
<td>Corporate financial priorities &amp; efficiency of property expenditure</td>
<td>Energy management, consumption &amp; facilities management (cleaning, security etc.)</td>
</tr>
<tr>
<td>Corporate data management &amp; information sharing</td>
<td>Implementation of planned maintenance programmes</td>
</tr>
<tr>
<td>Co-ordination of property matters across and within departments</td>
<td>Mechanical &amp; electrical work</td>
</tr>
<tr>
<td>Asset Management Planning: whole-of-government &amp; departmental</td>
<td>Project management</td>
</tr>
<tr>
<td>Leadership to achieve organisational goals &amp; objectives by changing the asset base</td>
<td>Property &amp; estates management (lease administration, valuation, financial management, acquisition &amp; disposal</td>
</tr>
<tr>
<td>Organisational and capacity development</td>
<td>Reactive repairs</td>
</tr>
<tr>
<td>Performance management: property objectives, KPIs, monitoring &amp; improvement</td>
<td>Property management databases</td>
</tr>
<tr>
<td>Strategic resource management: integration of property, ICT, human resources, capital &amp; procurement</td>
<td>Managing and co-ordinating contractors &amp; consultants</td>
</tr>
</tbody>
</table>

Table CS1.5: Asset Management and Property Management

3.3.3. Recommendations of the Howarth Report

Howarth’s recommendations are based on the integration of asset management skills into the training and development of all staff with particular concentration on senior management and professionally qualified and/or experienced property managers.

These recommendations were presented within two themes, namely recognition that assets are strategic resources, which their management must reflect; and the development of asset management skills and competencies.

3.3.3.1. Property Assets as Strategic Resources

To promote the management of property assets as strategic resources, Howarth made three key proposals:

- The awareness of assets be raised among senior civil service management through their development programmes;
- Asset management to be recognised as a professional competency and a key element of strategic thinking and financial skills within the Core Skills of the existing Professional Skills in Government Framework (See Figure CS1.10 below); and
- The appointment of a Head of Asset Management as champion for asset management in the same way as existing Heads of Profession are appointed for other disciplines.
3.3.3.2. Development of Asset Management Skills and Competencies

Howarth recommended that asset management should become a professional skill with both management competencies and technical skills – “good asset management means challenging the status quo in order to seek better ways of doing things.” (Ibid, p.10.).

In addition to promoting strategic property asset management at senior levels across government, Howarth defined a role for the OGC to formally identify strategic asset management skills and competencies, and design training and development programmes to support the implementation process. Howarth envisaged developmental outcomes in terms of the award of a formally recognised qualification; a recognised period of development; and/or the demonstration of significant relevant experience.

Howarth set out the following skills and competencies, which should encompass the following broad areas:

- Data management & analysis of data;
- Property performance management;
- Strategic business planning, including strategy development and risk management;
- Financial management, including whole-of-life costing, business cases and options analysis; and
- Leadership to build capacity & capability, manage change, manage strategic performance, and to take responsibility for professional resources;

With regard estate and facilities management staff, Howarth proposed that their on-going professional training include the wider strategic and business aims of asset management.

The OGC would be responsible for Quality Assurance in the development of asset management skills and competencies towards ensuring the application of best practice and standards.
3.4. The Office of Government Commerce: High Performing Property – Routemap to asset management excellence

The OGC launched ‘High Performing Property’ in late 2006. This set out the government’s framework and direction for improving strategic property asset management in central government over a period of some six to seven years. (UK Office of Government Commerce, 2006). This routemap was developed from the recommendations of the Leeds and Howarth Reports to provide a framework for action by central government to achieve asset management excellence.

To summarise, Lyons identified the following challenges to be addressed by government:

- To generate efficiencies from assets to improve service delivery;
- Development of asset management strategies that reflect service need and are driven by business plans;
- Assign responsibility to departments for assets controlled by their agencies and public bodies;
- To ensure clear and defined managerial responsibilities for the asset management function; and
- Asset management to be accepted as an integral part of resource management and business planning.

Leeds, supported by Howarth, set out four principal areas for action:

- Leadership and Integration;
- Benchmarking and Standards;
- Skills and Capability; and
- Review and Challenge.

The targets set for ‘High Performing Property’ to be achieved by 2012/2013 were:

- To dispose of between £6 billion and £7 billion of surplus properties; and
- Produce annual efficiency savings of between £1 billion to £1.5 billion from an estate that cost £6 billion a year to operate and manage. This would be a reduction in expenditure of 16.7 per cent to 25 per cent.

Table CS1.6 describes the principal objectives and target outcomes for each action area.
<table>
<thead>
<tr>
<th>Action Areas</th>
<th>Objectives</th>
<th>Actions</th>
<th>Target Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership &amp; Integration</td>
<td>• Integration of PAM with strategic business delivery</td>
<td>In the Centre of Government</td>
<td>• Rationalised fit-for-purpose portfolio</td>
</tr>
<tr>
<td></td>
<td>• PAM sponsored and led at Executive Board level</td>
<td>• Set standards</td>
<td>• PAM as a strategic element of business and service delivery</td>
</tr>
<tr>
<td></td>
<td>• Defined standards and benchmarks</td>
<td>• Integrate departmental strategies with government-wide initiatives</td>
<td>• Performance data driving improvement via benchmarks and standards</td>
</tr>
<tr>
<td></td>
<td>• Integrated/co-ordinated property strategies to deliver government-wide</td>
<td>• Confirm governance arrangements</td>
<td>• Improved stewardship and accountability</td>
</tr>
<tr>
<td></td>
<td>policies</td>
<td></td>
<td>• 20% annual efficiency savings</td>
</tr>
<tr>
<td>Benchmarks &amp; Standards</td>
<td>• PAM capability measured and improved against the Capability and Maturity</td>
<td>Standards</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Matrix</td>
<td>• Develop standards for Asset Management Strategies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Setting of workspace and building operation efficiency and effectiveness</td>
<td>• Develop Maturity Matrix</td>
<td></td>
</tr>
<tr>
<td></td>
<td>benchmarks</td>
<td>• Set delivery standards and benchmarks</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Government-wide property benchmarking</td>
<td>• Set performance and delivery targets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Strong, strategic central co-ordination of the property portfolio</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skills &amp; Capability</td>
<td>• Inclusion of PAM in Professional Skills for Government</td>
<td>In the Centre of Government</td>
<td>£300 million to £500 million savings a year by March 2009</td>
</tr>
<tr>
<td></td>
<td>• Recognise PAM as a government profession with career paths and planning</td>
<td>• Recognise/support PAM as a core skill for senior civil servants</td>
<td></td>
</tr>
<tr>
<td>Review &amp; Challenge</td>
<td>• Monitor and challenge PAM performance both at the centre and within</td>
<td>In Government Organisations</td>
<td>£600 million to £800 million savings a year by March 2011</td>
</tr>
<tr>
<td></td>
<td>government departments and organisations through standards and benchmarks</td>
<td>• Challenge levels of performance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>and audits (internal and National Audit Office)</td>
<td>• Support from National Audit Office</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Annual performance reports</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Use of KPIs and performance reporting</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Internal auditing of performance</td>
<td></td>
</tr>
</tbody>
</table>

Table CS1.6: High Performing Property – Principal Objectives, Actions and Target Outcomes
3.5. Government-Wide Property Database: e-PIMS

3.5.1. e-PIMS Mandate

One of the principal actions within the High Performing Property Programme was the establishment of a government-wide property database.

In response to Gershon’s efficiency and the Lyon’s reviews, the UK Treasury issued DAO (Gen) 08/05 in 2005. This mandated the use of the electronic Property Information Mapping Service (e-PIMS) for all Central Civil Departments to provide an accurate central register of all property occupations and land interests.

e-PIMS displays the location and outline of departments’ properties, holdings and occupations on computerised maps and allows departments to access and amend their own details online. It provides a searching facility of all civil occupations.

e-PIMS provides digital pictures of occupations, and is able to support other information about an occupation as needs emerge.

Through OGC’s co-ordination, e-PIMS enables individual departments to access relevant event and scheme information, together with details of departmental vacant space and demand records. These can be updated on-line and allows cross-departmental searching for vacant space and demand over the whole of the CCGE.

In 2009, following a Ministerial decision for the mandatory recording of central government property information on e-PIMS, operated by the OGC, government departments within the CCGE were required, through a Mandatory OGC Guidance, to record this information on e-PIMS for all properties central government bodies, own, use, control, occupy, or plan to occupy (UK Government, 2009). This Mandatory Guidance replaced DAO (Gen) 08/05.

3.5.2. e-PIMS Function

3.5.2.1. Government Departments

e-PIMS is a central electronic register of all central government property holdings, including information about future demands or requirements for new accommodation, and vacant and surplus properties.

The system allows departments to manage their own estates and property transactions more effectively.

3.5.2.2. OGC and Treasury

e-PIMS gives an overview of the entire central government estate, which enables OGC and the Treasury to monitor implementation of the Government’s commitment to better estate management in line. The Treasury also uses e-PIMS to support efficient and sustainable asset management in central government as a whole.

3.5.2.3. Core Data

e-PIMS holds full property details and costs-in-use to high degree of detail. It records all historic and current information, including in relation to its location, occupation, ownership, tenure, use, performance, fit out, maintenance and refurbishment, values, potential remaining life and future use. These details are held for:

- All office properties occupied or controlled by user bodies, both freehold and leasehold, and irrespective of whether the a department is actually using or occupying a property;
- Any properties occupied or run under PFI contracts;
- All other owned and/or used properties, for example, hostels, laboratories and depots;
- Surplus, sublet or vacant properties;
- Undeveloped land;
- Serviced or temporary offices where contractual or actual occupation exceeds three months; and
- All forward commitments such as agreements for lease.

(UK Government, Unknown)

### 3.5.2.4. e-PIMS Classifications

E-PIMS classifies property on the structure shown in Figure CS1.11.

![Figure CS1.11: e-PIMS Property Classification Structure](image)

The OGC has mapped departments and their ‘families’ with mandated estates with an area of over 10,000 m². This is reproduced as Figure CS1.12 (UK Office of Government Commerce, 2013b).
Figure CS1.12: Departmental Families with Mandated Estates over 10,000 m²
3.6. Results Achieved by the UK Government in the CCGE 2004-2012

3.6.1. Reporting Requirements: The State of the Estate

The annual The State of the Estate report to Parliament, required under the Climate Change Act 2008, reports upon progress made in improving the efficiency and environmental sustainability of the CCGE.

The report covers four priority areas:

- The reduction of the overall size of the estate;
- Increased efficiency in the use of administrative offices;
- The improvement of environmental sustainability of buildings; and
- Ensuring building acquisitions are with the top quartile of energy performance.

3.6.2. Property Asset Management

Government departments and their ALBs are accountable for the property they own and/or occupy. They are particularly responsible for:

- The resources employed in providing accommodation and its environmental impact;
- The establishment of departmental governance and accountability; and
- Managing property assets as a strategic resource, which includes the quality of data used in decision-making.

The State of the Estate report for 2012 records that, although operating models differ across the diverse nature and size of government departments, “the importance of effective property asset management in this varied landscape is now well established with board-level property champions in departments accountable to permanent secretaries for PAM across the department and its arm’s-length bodies. PAM boards (or their equivalent) have responsibility for leading integrated strategic management across the total property portfolio in a department.” (UK Office of Government Commerce, 2013a).

3.6.3. Benchmarking

The Government Property Unit’s (GPU) Benchmarking Service measures the performance of the office portfolio against private sector benchmarks and against government targets and standards, which provides a standardised basis for reporting.

Using e-PIMS as the data collection source enables performance to be independently validated, and produces consistent data that can be compared against KPIs for performance challenge and improvement.

3.6.4. Performance Measurement

The performance of the CCGE is compared across government organisations and with the private sector. The principal Key Performance Indicators (KPIs) are:

- Reductions in the area of the estate measured in square metres;
- Reductions in the total cost of the estate;
- Improvements in the cost of office space per full-time equivalent employee (FTE), calculated by:
  \[ \text{Cost of Space} \div \text{Number of FTEs}; \]
- The use of occupied space per FTE, calculated by:
  \[ \text{Total Space in Use} \div \text{Total Number of Accommodated FTEs}; \]
- Compliance with the requirement to procure buildings in the top quartile of energy performance; and
- Sustainability performance for greenhouse gas emissions, waste, and water consumption.

The datasets used to measure performance are:
- Size and distribution of departmental estates derived from e-PIMS;
- Cost derived from departmental financial accounts;
- Efficiency, which relates to the cost of property occupation rather than ownership; and
- Sustainability, data for which is drawn from performance against government’s Greening Commitment targets.

### 3.6.5. Performance Outcomes


#### 3.6.5.1. Size

The size of the estate has been reduced by 2.83 million m² (23.5 per cent).

#### 3.6.5.2. Property Holdings

The number of property holdings has reduced by 2,353 properties (29.7 per cent).

#### 3.6.5.3. Cost

The operating cost of the estate has reduced by £1.61 billion per annum since 2004 (38.2 per cent), which exceeds the savings target shown in table CS1.6.

#### 3.6.5.4. Efficiency

- The vacancy factor across the estate rose to a peak of 3.1 per cent in 2011 due to rationalisation movements within the portfolio. It has since settled at around 3 per cent, which compares to a national average for all sectors of 10.1 per cent;
- Cost per FTE has risen by 17.3 per cent on account of rising property costs, and lag times between staff reductions, the effect of new workspace standards and the disposal of vacant space;
- Savings of £200 million through disposals and lease breaks were generated from the reduction in size of the estate over 2011/12.
From 2012, the GPU and Government Procurement Service have partnered to develop a standard method for procuring facility management across government, generate better quality cost data and management information, and integrate facility management into the building design process.

### 3.6.5.5. Sustainability

- Greenhouse gas emissions have been reduced by 12 per cent across the estate from a 2009/10 baseline, which has produced over £40 million in energy and fuel cost savings;
- Reduction in the amount of waste has produced £4.7 million in savings since 2009/2010;
- Water consumption has reduced by 3 per cent over the 2010/2011 baseline, which has produced £4.2 million in savings;
- In 2012, 44% (four out of nine) administrative buildings added to the estate were procured from within the top quartile range of energy performance. This compares with 44% in 2009, 65% in 2010 and 63% in 2011.

### 3.7. Current PAM Governance Arrangements

#### 3.7.1. Responsibility

In mid-2010, responsibility for the OGC and the public procurement agency, Buying Solutions, moved to the Cabinet Office as part of the government's Efficiency and Reform Group (ERG).

The ERG has a strong centre-of-government mandate to ensure departments co-operate in the reduction of waste and improvement in accountability.

The ERG is overseen by an Efficiency Board, which is co-chaired by the Minister for the Cabinet Office and the Chief Secretary to the Treasury. The Boards members include senior business leaders experienced in procurement, information technology, and workforce issues.

Property functions were combined into one unit, the Government Property Unit, which is responsible for property efficiency. The GPU reports directly to the Minister and Chief Secretary as part of the ERG.

### Table CS1.7: Changes in CCGE Metrics 2008 - 2012

<table>
<thead>
<tr>
<th>Key Indicator</th>
<th>2004</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area m2 (million)</td>
<td>12.05</td>
<td>11.38</td>
<td>10.72</td>
<td>10.30</td>
<td>9.72</td>
<td>9.22</td>
<td>-2.83(23.5%)</td>
<td></td>
</tr>
<tr>
<td>No. of Holdings</td>
<td>-</td>
<td>7,935</td>
<td>7,213</td>
<td>6,700</td>
<td>5,957</td>
<td>5,582</td>
<td>-2,353(29.7%)</td>
<td></td>
</tr>
<tr>
<td>Operating Cost p.a. (£billion)</td>
<td>4.27</td>
<td>3.55</td>
<td>3.50</td>
<td>3.38</td>
<td>3.00</td>
<td>2.64</td>
<td>-1.61(38.2%)</td>
<td></td>
</tr>
<tr>
<td>Vacancy Factor (%)</td>
<td>-</td>
<td>2.40</td>
<td>2.25</td>
<td>3.00</td>
<td>3.10</td>
<td>3.00</td>
<td>+0.6 (25%)</td>
<td></td>
</tr>
<tr>
<td>Cost per FTE p.a. (£)</td>
<td>-</td>
<td>4,536</td>
<td>4,178</td>
<td>4,454</td>
<td>4,608</td>
<td>5,324</td>
<td>+788 (17.3%)</td>
<td></td>
</tr>
<tr>
<td>Av. Area (m2) per FTE</td>
<td>-</td>
<td>14.5</td>
<td>13.1</td>
<td>13.0</td>
<td>13.2</td>
<td>13.0</td>
<td>-1.5 (10.4%)</td>
<td></td>
</tr>
<tr>
<td>(Government Standard = 10m2 – 12 m2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3.7.2. Government Property Profession (GPP)

In 2010, the UK Government appointed a head of the Property Asset Management profession (now the GPP) in Government to strengthen property asset management capability in the wider public sector.

The GPP is formally recognised as part of the Civil Service. Its aim is to ensure “that property assets are managed efficiently and effectively on a day-to-day basis, either directly or by industry partners.” (Gov.UK, 2015).

The GPP has developed a competency framework from the Property Asset Management Capability Assessment Model that represents the four process areas of life cycle of property asset management:

- Strategy and business;
- Delivery planning;
- Implementation of change; and
- Asset operation and maintenance. (Ibid).

The RICS and British Institute of Facilities Management support the framework.

3.7.3. Government Property Unit

The GPU has central oversight over policy and strategy for all government land and property. Its role is to work in collaboration with “across the Civil Service to:

- Create an effective and efficient government estate;
- Provide value for money for the taxpayer;
- Dispose of surplus property in a way that maximises financial return; and
- Boost growth and create new homes.” (Ibid).

The GPU assists departments to rationalise their portfolios through place-based strategies and enforcement of National Property Controls; the One Public Estate Programme, which encourages the sharing of data and management of property across departments with common characteristics such as location; the accelerated disposal of surplus property; the management and use of vacant space; and workplace practices.

The GPU also operates Government’s Property Benchmarking Service from data obtained through the e-PIMS system.
REFERENCES


UK Government. (2009). Mandatory OGC Guidance (Formerly DAO(Gen)08/05) Recording Property Information on e-PIMS. London.


Appendix 2


1. Introduction

This case study has been composed from a review of literature in the form of independent and academic studies and reports, professional standards and guidelines, government strategies, policies and procedures, reports and audits, journal articles, conference proceedings and discussions with staff of the U.S. Government General Services Administration’s (GSA) Office of Government-Wide Policy, and the GSA’s Public Buildings Service Division.

Figure CS2.1 summarises the chronology of the development of the management of US federal government property since 2003.

<table>
<thead>
<tr>
<th>2003</th>
<th>Government Accountability Office</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Testimony to Congress</td>
</tr>
<tr>
<td></td>
<td>- Federal Real Property designated as &quot;high-risk&quot;</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2004</th>
<th>Office of Management &amp; Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- President's Management Agenda</td>
</tr>
<tr>
<td></td>
<td>- Asset Management included in 'top 6' core activities for management of federal resources</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2004</th>
<th>Executive Order 13327: Federal Real Property Management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Management Policy</td>
</tr>
<tr>
<td></td>
<td>- Reform Framework</td>
</tr>
<tr>
<td></td>
<td>- Federal Real Property Council &amp; General Services Administration</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2005+</th>
<th>Progress &amp; Results</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- FRPC Annual Reports</td>
</tr>
<tr>
<td></td>
<td>- GAO &quot;High-Risk&quot; biennial reports &amp; updates to Congress</td>
</tr>
</tbody>
</table>

Figure CS2.1: Management of US Federal Government Property Since 2003

2. U.S. Government Accountability Office

2.1. “High-Risk List”

In January 2003, the U.S. Government Accountability Office (GAO) added Federal Real Property to its series of High-Risk areas to Government.

Known as “the congressional watchdog”, the GAO is an independent authority that works for the United States Congress (Congress) (U.S. Government Accountability Office, 2015a).

The GAO supports Congress in the improvement of performance and accountability of the federal government. It does this by, inter alia, determining the efficient and effective expenditure of public funds through the audit of agency operations; reporting on how well government programs and policies meet their objectives; and the analysis of policy and policy
options. The function of the GAO is to “advise the heads of executive agencies about ways to make government more efficient, effective, ethical, equitable and responsive.” (Ibid).

Every two years at the start of a new Congress, the GAO identifies areas of government that are high-risk due to the possibility of “fraud, waste, abuse, and mismanagement, and are most in need of transformation.” (U.S. Government Accountability Office, 2015b).

### 2.2. Criteria for Assessing Performance and Accountability and High Risks

Table CS2.1 outlines the GAO’s assessment criteria and methodology for five key areas of department and agency performance, accountability and risk, and whole-of-government high risks (U.S. General Accounting Office, 2000).

<table>
<thead>
<tr>
<th>Assessment Area</th>
<th>Assessment Criteria</th>
<th>Methodology</th>
</tr>
</thead>
</table>
| 1. Identification & Assessment of Major Program & Mission Areas | The area:  
- Is central to congressional & executive branch attention;  
- Has high-level public interest or large expenditure;  
- Is prominent in agency’s strategic plans and reports;  
- Has known performance/ accountability issues | Agency consultation  
Review of agency’s:  
- Strategic plans;  
- Annual performance plans & reports;  
- Accountability reports;  
- Audited financial statements; and  
- Supplemental information & reports |
| 2. Management & Program Performance | Major management functions and their internal control:  
- Strategic planning;  
- Budget process and management;  
- Organisational alignment and control;  
- Performance measurement;  
- Human capital strategies;  
- Financial management;  
- Information technology; and  
- Acquisition | Agency consultation  
Review of:  
- GAO audits & testimonies;  
- Inspectors general reports  
- As per 1 above;  
- Program performance reviews;  
- Government-wide performance plans & objectives; and  
- Congressional reports |
| 3. Classification of High-Risk Area | The program/ function is:  
- Nationally significant; or  
- Key to performance & accountability.  
A risk is inherent to the program.  
A risk is a systemic problem.  
Nature & potential results of risks. | Qualitative and quantitative risk analysis |
| 4. Assessment of Agency Corrective Measures for Removal of High-Risk Designation | Demonstrated leadership commitment to problem resolution;  
Progress in strengthening controls;  
Appropriateness of corrective action plans;  
Completion of solutions in near term (2 years);  
Whether solutions address root causes. | Agency demonstration of results. |
| 5. Government-wide High Risks | Common multiple agency risk;  
Significant impact on budget/resources. | |

Table CS2.1: GAO High-Risk Assessment Criteria
2.3. The GAO and Federal Real Property

2.3.1. Federal Real Property – A High-Risk Area

In January 2003, the GAO presented its High-Risk Series Report on Federal Real Property to Congress (U.S. General Accounting Office, 2003). This was followed by testimony before the Committee on Governmental Affairs of the United States Senate, given by the Comptroller General of the United States on 1 October 2003 (Federal Real Property - Actions Needed to Address Long-standing and Complex Problems, 2003).

In designating federal real property as a high-risk area, the Comptroller General wrote in his letter to The President of the Senate and Speaker of the House of Representatives:

“Long-standing problems in the federal real property area include excess and underutilised property, deteriorating facilities, unreliable real property data, and costly space. These factors have multi-billion dollar cost implications and can seriously jeopardise the ability of federal agencies to accomplish their missions. Federal agencies also face many challenges securing real property due to the threat of terrorism. Given the persistence of these problems and various obstacles that have impeded progress in resolving them, GAO is designating federal real property as a high-risk area." (Comptroller General of the United States, 2003).

The GAO recognised that resolving the problems and clearing the obstacles would require “high-level attention and effective leadership by both Congress and the administration" (U.S. General Accounting Office, op.cit., pp. 2-3).

The GAO also recognised that the existing structures and processes may not be capable of addressing these problems, and that there should be a comprehensive and integrated government-wide real property transformation strategy put in place. Such a strategy might need to be developed by an independent commission or government-wide task force in consultation with agencies, the private sector, and other interested groups (see section 2.2.7.).

One of the principal recommendations for this strategy was that it should reflect “the lessons learned and leading practices of public and private organisations that have attempted to reform their real property practices.” In particular, real property should be viewed as a valuable resource in the same way as capital, people, information and technology are treated and managed to support business objectives.

The GAO report called for “a new way of thinking” about the workplace and government’s property needs. This was seen as necessary to respond to changes in the way government services were being delivered, advances in technology, e-government initiatives, changing public needs and expectations, resource sharing, and security concerns.

In the federal financial context, the shortcomings in the management of real property meant that, for five consecutive years, 1997-2001 (and beyond), the GAO was unable “to express an opinion on the U.S. government’s consolidated financial statements.” (Ibid., p.27.).

“Material weaknesses” in financial systems, record-keeping, financial reporting, and poor documentation were seen as being responsible for severely limiting the ability to report on a large proportion of government assets, liabilities and costs; restricting the ability to measure full costs and the financial performance of government programs; and impacting upon government’s ability to protect its position in significant assets and property transactions.
Because of this lack of information, the GAO was unable to “satisfactorily determine” that all assets were included in the financial statements, verify the actual existence of certain assets, or substantiate their valuations (see section 2.2.4.).

To demonstrate the diverse composition and use of federal real property, and the wide range of stakeholders that it involves, the GAO presented an analysis of the portfolio in its report on Federal Real Property in January 2003 (U.S. General Accounting Office, 2003).

The GAO defined real property as “facilities; land; and anything constructed on, growing on, or attached to the land” (Ibid., p.4.). It based its analysis on data obtained from the GSA, which, it noted, “have been unreliable and of limited usefulness”, but which represented the only available source for federal real property data (Ibid.).

Table CS2.2 shows the make-up of the worldwide portfolio in 2003.

<table>
<thead>
<tr>
<th>Government Agency</th>
<th>Owned Space %1</th>
<th>Leased Space %2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interior</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Energy</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>Veterans Affairs</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>GSA</td>
<td>6</td>
<td>39</td>
</tr>
<tr>
<td>US Postal Service</td>
<td>7</td>
<td>30</td>
</tr>
<tr>
<td>Dept. of Defence</td>
<td>66</td>
<td>6</td>
</tr>
<tr>
<td>Department of State</td>
<td>-</td>
<td>8</td>
</tr>
<tr>
<td>Others</td>
<td>9</td>
<td>17</td>
</tr>
</tbody>
</table>

1 Estimated total owned space: 300 million m$^2$. Totals rounded.
2 Estimated total leased space: 33 million m$^2$

Table CS2.2: Federal Real Property Portfolio (2003)

The use of the portfolio included military bases, office buildings, embassies, prisons, courthouses, hospitals, schools, stores, housing, border stations, laboratories, and park facilities.

The GAO estimated that the federal government owned approximately 636 million acres of land, which represents some 25 per cent of the total acreage of the United States (Ibid., p.5.).

The report noted three principal reasons for the “complex and dynamic environment” in which the portfolio is managed:

- The need for agencies to comply with numerous laws and regulations governing acquisition, disposal and management of federal property assets;

- The diverse and extended nature of stakeholders and other parties with interests in property decision-making and property decisions, including individual members of Congress; state and local governments; business and community interests; unions; private sector property firms; heritage preservation and conservation groups; and the general public; and

- The high profile of government property when management practices are scrutinised for waste or poor management.
The operation of these often militates against the proper, efficient and business-like management of federal property.

The GAO report identified six key areas of concern: the excess of government property; the condition of the portfolio; the lack of reliable property data; the predominance of high-cost leased property; and persistent real property problems. The report also considered lessons learned, and leading property practices.

The findings of the GAO report and testimony are summarised in the following sections (*Federal Real Property - Actions Needed to Address Long-standing and Complex Problems*, 2003; U.S. General Accounting Office, 2003).

2.3.2. Excess Property

The GAO described the management of the federal property as reflecting “the business model and technological environment of the 1950s” (Ibid., p.8.). By this it meant that, despite considerable changes in the size and objectives of the federal government; the technological changes affecting all working environments; the development of e-government, changes in service delivery models, and the way government inter-acts with the public; and the post-2001 security environment, the property portfolio had failed to respond to, and address those changes.

The consequences of this failure were an excess of property beyond the needs of government; inappropriately located property; property that no longer met the technical and functional needs of government; and unnecessary expenditure on holding and maintaining surplus and under-utilised assets.

The GAO estimated some of the financial and political effects of this as being:

- The Department of Defence was spending between $3 billion to $4 billion per annum maintaining more than 8 million m$^2$ of surplus facilities;
- Veterans Affairs was spending $35 million per annum to maintain and operate 61 buildings that were either surplus or vacant;
- The Department of Energy was holding 1,200 excess properties totalling 1.5 million m$^2$ and costing over $70$ million annually to maintain and secure. Disposal programs had not been prioritised and considered against on-going business plans, the reduction of risk, and minimising life-cycle costs, which put disposals in conflict with new facility requirements;
- The State Department had 92 surplus properties with an estimated sale value of $180 million;
- The projection of a public image of waste and inefficiency, which erodes confidence in government; and
- Negative effects on local economies by stifling development, the highest and best use of property, and the realisation of underlying property values.

2.3.3. Portfolio Condition

The GAO found “alarming” backlogs in the restoration, repair and maintenance of federal property. These backlogs were “significant”, requiring tens of billions of dollars to restore
assets to functionality; and reflected the federal government’s “ineffective stewardship” over its property portfolio.

This situation prevailed across government departments and agencies. The GAO singled-out the following examples:

- Although the Department of Defence was no longer reporting data on these backlogs, it had estimated in 2001 that the cost of bringing its facilities to fully meet its requirements was in the region of $164 billion. Much of the backlog was attributed to lack of funding, and poor property data and information, which created difficulties in the direction of funds to where they were most needed;

- The Department of the Interior had deferred maintenance to the value of some $11 billion. This was affecting heritage assets of national importance and significance, such as Mount Rushmore and Yellowstone National Park;

- The backlog in the GSA’s portfolio was estimated at $5.7 billion across nearly 2,000 buildings; and

- The State Department had an estimated backlog of $736 million, with more than fifty per cent of its facilities failing to meet health and safety standards.

The GAO summarised the effects of the deteriorating portfolio as increased operational costs; health and safety risks; added costs of rectifying delayed maintenance and repair; the maintenance and repair of retained surplus property; the effect on employee recruitment, retention, and productivity; and the negative image presented by a dilapidated stock of public buildings, facilities, infrastructure, and national treasures.

2.3.4. Real Property Asset Data

The GAO identified the lack of “reliable and useful real property data” for strategic decision-making as compounding the problems of excess property and a deteriorating asset stock.

The GSA’s worldwide inventory database and property reports provided the only central source of descriptive property data. This database was considered by the GAO to be “unreliable and of limited usefulness” (U.S. General Accounting Office, 2002).

The lack of data and information to support asset holdings meant that the government was unable to accurately determine that all assets were included in financial reports, confirm the existence of reported assets, and verify the amounts to which they were valued.

2.3.5. The Cost of Leased Property

The GAO noted that it is generally more favourable financially to meet long-term property needs through the construction or acquisition of property rather than leasing property on operational lease terms.

However, because of the lack of funds available for the ownership option, and the government’s budget accounting requirements for owned property, which make the operating leasing option appear much cheaper, the government’s leasing agent (the GSA) had favoured satisfying long-term property requirements by means of shorter-term operating leases.

The GAO showed that construction would have been the least cost option by some $126 million in eight out of nine instances where operational leases were adopted.
The GAO was explicit in its view that this “does not reflect a sensible or economically rational approach to capital asset management” (Federal Real Property - Actions Needed to Address Long-standing and Complex Problems, 2003).

2.3.6. Persistent Real Property Problems

Despite previous attempts to initiate reform and improve the management of federal real property, including incentives to dispose of excess assets, and engage in public-private partnerships, the fundamental problems continued to persist. These were compounded by a number of factors, which the GAO identified as requiring “high-level attention by Congress and the administration” (Ibid., pp. 14-16). In particular, these comprise competing stakeholder interests; legal and budgetary disincentives; a need for improved capital planning; and the lack of a strategic, government-wide focus on real property issues.

2.3.6.1. Competing Stakeholder Interests

Real property decisions often do not reflect the most effective or efficient solution that is in the best interests of the agency or whole-of-government, but rather the priorities of other parties.

2.3.6.2. Legal and Budgetary Disincentives

The legal and budgetary environment is complex, and has a far-reaching effect on property decision-making and the ability to achieve effective and efficient outcomes.

With limited funds available for capital investment, priorities for new facilities must be weighed against the need for the renovation, maintenance and disposal of existing assets.

2.3.6.3. Improved Capital Planning

Despite guidelines issued by the GAO and OMB for making capital investment decisions, agencies generally have not developed capital investment strategies. In addition, the federal government does not generally carry out long-term planning or budgeting for capital assets.

2.3.6.4. Lack of a Strategic Government-Wide Focus on Real Property Issues

Real Property has not traditionally attracted the attention of government-wide strategists and planners. The GAO identified the lack of such an approach as a principal reason for the continued and persistent real property problems, which will continue unless a centralised and concerted effort is made to address them from the highest of levels of government under the leadership of Congress and the administration.

The GAO set down the following basic tenets for a strategic focus:

- Appropriate incentives for agencies to strategically manage real property as organisational resources;
- Ensuring transparency;
- Ensuring high-level accountability for the management and performance of assets;
- Effective systems to measure results; and
- High-quality property information and data.

2.3.7. Transformation Strategy

The GAO put forward the need for a transformation strategy to be developed by a “government-wide task force” in consultation with agencies, the private sector, and other interested groups to comprehensively address the long-standing problems and suggest proposals for the re-alignment of federal infrastructure and disposal of surplus property;
managing the repair and restoration backlog in the portfolio; ensuring the provision of accurate and reliable government-wide and agency-specific property data; and reducing the reliance on expensive leasing.

Furthermore, the transformation strategy should consider:

- Ways of minimising the negative effects of competing stakeholder interest in property decisions;
- Providing agencies with capacity and incentives for good property decision-making;
- The effect of real property and the workplace on attracting and retaining high-performing staff;
- Improving federal government long-term capital planning for real property through business-like practices, investment analysis, and performance evaluation;
- Long-term budget planning for property sustainability, renewal, or replacement;
- The incorporation of lessons learned and leading practices in the private sector and other public jurisdictions; and
- Raising the profile and importance of property in government and to achieving service and business objectives.

3. The President’s Management Agenda

Following the designation of the management of federal real property by the GAO as a high-risk area, and the Comptroller General’s testimony to Congress, the issue was added to ‘The President’s Management Agenda’ (PMA) in January 2004.

The PMA was established in 2001 under the Office of Federal Financial Management within the Office of Management and Budget (OMB) as a “Framework for Improving Financial Performance” (Executive Office of the President Office of Management and Budget, 2008). The purpose of this framework is “to provide direction and clarity on how the President’s improvement goals will be met” (Ibid.).

The PMA has seven key areas of reform activity:

- “Eliminating improper payments,
- “Rightsizing the government’s real property,
- “Improving intra-governmental reporting,
- “Implementing the financial management line of business,
- “Strengthening internal controls,

---

1 A number of examples were included in the Appendix, “Lessons Learned and Leading Practices in Real Property”, to the GAO High-Risk report (U.S. General Accounting Office, 2003).
“Modernizing grants management, and

"Improving fiscal sustainability reporting." (Ibid.).

The PMA recognised six “core activities” necessary for the effective management of the federal government’s resources. These being: improving financial reporting, financial systems, asset management \(^2\), grants management and audit requirements; and strengthening internal controls.

Under the administration of President George W. Bush, the management of federal real property was placed at the highest level of the President’s Management Agenda. It has retained this importance and significance throughout the administration of President Barack Obama.

4. Executive Order 13327 – Federal Real Property Asset Management

Within three months of the elevation of the management of federal real property into the PMA, President George W. Bush signed Executive Order (EO) 13327, “Federal Real Property Asset Management”, in March 2004.

This provides the policy mandate and background against which Federal real property is managed.

4.1. Policy Setting

EO 13327 set the policy for “the United States to promote the efficient and economical use of America’s real property assets and to assure management accountability for implementing federal real property management reforms.” ("EO 13327," 2004 (p. 5897).

Further to this policy, EO 13327 (the Order) required executive branch departments and agencies “to recognise the importance of real property resources through increased management attention, the establishment of clear goals and objectives, improved policies and levels of accountability, and other appropriate action.” (Ibid., p. 5897).

Section 3 of the Order provided a definition of federal real property that would fall within the scope of the Order. Subject to a number of special exclusions, the scope of property to which the Order applies is wide-ranging, and includes “any real property owned, leased, or otherwise managed by the Federal Government, both within and outside the United States, and improvements on Federal lands.” (Ibid.).

4.2. Governance and Management Direction

The Order gave very specific direction to the management of federal real property by establishing the Federal Real Property Council (FRPC), establishing and defining responsibilities for the position of Agency Senior Real Property Officer (SRPO), and defining the role of the GSA in supporting the FRPC.

4.2.1. Federal Real Property Council

The FRPC was established as part of the OMB to develop guidance for, and facilitate the success of each agency’s asset management plan.

\(^2\) Bold emphasis added by the author.
4.2.1.1. **FRPC Composition**

The Council is composed of:

Chair: Deputy Director of the OMB

Members: Controller of the OMB

Administrator of the GSA

All agency SRPOs (see section 4.2.2 following)

Any other Federal officers deemed appropriate by the Chair of the Council.

4.2.1.2. **FRPC Functions**

The Order assigned the following functions to the FRPC:

- Provision of a venue for assisting SRPOs to develop and implement agency asset management plans;

- Together with the GSA, establish performance measures to determine the effectiveness of federal real property management. The Order made specific provision for the following measures:
  - Life-cycle cost estimating;
  - Costs associated with the various means of acquisition;
  - Cost and time of property disposals;
  - Financial proceeds from disposals;
  - Operating, maintenance and security costs;
  - Environmental costs associated with federal property, including compliance and restoration;
  - Vacant space;
  - The realisation of equity value in federal real property assets;
  - Opportunities to co-operate with the commercial real estate industry; and
  - Enhancement of productivity through the improvement of workplace environments.

- Act as a “clearing house” for executive agencies for best practices in the evaluation of actual progress in, and achievement of management innovation and real estate enhancements.

- Work in conjunction with the President’s Management Council to assist SRPOs and the implementation of asset management plans.

The Order mandated that the FRPC meet not less than quarterly in each financial year.

4.2.2. **Senior Real Property Officers**

The Order established the position of the SRPO for all executive branch departments and agencies. (This is a senior professional position with extensive experience, competency, skills, and training requirements set down by the GSA).

The principal role of SPROs is the development and implementation of agency asset management plans, which must:

- Identify and categorise all real property owned, leased, or managed by the agency;

- Identify goals for real property and measure their progress; and
Prioritise actions to improve operational and financial management of the agency’s real property portfolio, and consider life-cycle estimations associated with those priorities.

SRPOs are required to submit these plans annually to the OMB.

The SRPO is responsible for monitoring the agency’s property assets so that they support the agency’s strategic business goals and objectives; and to ensure they are managed in accordance with the real property asset management principles developed by the FRPC.

All agencies are ‘encouraged’ to follow the requirements of EO 13227. However, the following departments and agencies are subject to the Order, and are required to designate SPROs for their agency (US General Services Administration, 2015):

- Department of Agriculture
- Department of Commerce
- Department of Defence
- Department of Education
- Department of Energy
- Department of Health and Human Services
- Department of Homeland Security
- Department of Housing and Urban Development
- Department of the Interior
- Department of Justice
- Department of Labor
- Department of Transportation
- Department of State
- Department of Treasury
- Department of Veterans Affairs
- Environmental Protection Agency
- NASA
- Agency for International Development
- General Services Administration
- National Science Foundation
- Nuclear Regulatory Commission
- Office of Personnel Management
- Small Business Administration
- Social Security Administration

4.2.3. General Services Administration

EO 13227 assigned responsibility to the GSA to support agencies across government in implementing the Order, and providing support to the FRPC by:

- Providing oversight and guidance to departments and agencies on real property issues, including managing property, and providing leadership in the development and management of property management systems;

- Publishing performance measures and standards;

- Establishing and maintaining a database on real property owned and leased by the federal government; and

- Establishing technology standards for the uniform reporting of real property information.

5. Reform Implementation, Governance, Results and Outcomes

5.1. Implementation Framework

To enable it to fulfil its role under EO 13227, the FPRC established four committees: Asset Management Planning, Performance Measures, Property Inventory, and Systems.
In December 2004, the FRPC published “Guidance for Improved Asset Management” (Federal Real Property Council, 2004). This document set down the FRPC guiding principles, the required components for an agency Asset Management Plan, property inventory data elements, and government-wide performance measures. These broadly aligned with the responsibilities of the four FRPC Committees.

5.1.1. FRPC “Integrated” Guiding Principles

These are the FRPC’s strategic objectives for the improvement of real property asset management. Agencies are required to ensure that all real property is managed in accordance with the principles, which are:

- Federal real property is to “support agency missions and strategic goals”;
- Adoption of public and private sector benchmarks and practices;
- Analyse assets on life cycle cost/benefit basis;
- Make full utilisation of assets;
- Dispose of surplus assets;
- Provide appropriate levels of investment;
- Maintain an accurate inventory and description of assets;
- The use of appropriate performance measures;
- Promote customer satisfaction; and
- Provide safe, secure and healthy workplaces.

5.1.2. Asset Management Plan Components

The FPRC prescribed ten components that must be included in government agency Real Property Asset Management Plans:

- Statements as to how the agency implements each of the Integrated Guiding Principles;
- The agency’s business and service objectives;
- Asset values, including a plan for their periodic valuation;
- Operations and maintenance, and capital plans that reflect agency priorities;
- Resource implications and requirements of the plan;
- Whole-of-agency portfolio Asset Business Plan;
- Processes for continuous performance monitoring and reporting;
- Description and consideration of socio-economic and environmental responsibilities;
- Asset Management governance and organisational management structures and arrangements; and

- Use of common government-wide terminology.

### 5.1.3. Property Inventory Data Elements

The initial property data elements required by the FRPC to be kept and maintained by agencies are shown in Table CS2.3.

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Size</th>
<th>Annual Operating &amp; Maintenance Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Use</td>
<td>Utilisation</td>
<td>City</td>
</tr>
<tr>
<td>Legal Interest</td>
<td>Value</td>
<td>State</td>
</tr>
<tr>
<td>Status</td>
<td>Condition</td>
<td>Country</td>
</tr>
<tr>
<td>Historical status</td>
<td>Mission Criticality</td>
<td>County</td>
</tr>
<tr>
<td>Reporting Agency</td>
<td>Location</td>
<td>Congressional District</td>
</tr>
<tr>
<td>User</td>
<td>Property Identifier</td>
<td>ZIP Code</td>
</tr>
</tbody>
</table>

#### Table CS2.3: FRPC Property Data Elements

### 5.1.4. Government-Wide Performance Measures

The base minimum or “First Tier” performance measures for federal agencies set by the FRPC were:

- Utilisation;
- Condition Index;
- Mission Dependency; and
- Annual Operating and Maintenance Costs

### 5.2. Real Property Management and Services: General Services Administration

The GSA has two roles - operational, and policy and regulatory:

- It oversees the business of the US Federal Government; and
- Is responsible for policy formulation and regulation in the areas personal and real property, travel and transportation, and information technology.

The GSA describes its mission as “to deliver the best value in real estate, acquisition, and technology services to government and the American people.” (U.S. General Services Administration, 2015a)

Section 4.2.3 above describes the role assigned to the GSA by EO 13227, which effectively gave it responsibility for the implementation and oversight of the federal real property reform principles and agenda.

The GSA’s organisation structure is shown in Figure CS 2.2. Grey-shaded boxes represent the Federal Real Estate management functions, which are the Public Buildings Service, and the Office of Government-Wide Policy (OGP) for Asset Management and High-Performance Green Buildings.
5.2.1. Public Buildings Service

The role of the PBS is “to provide superior workplaces for federal customer agencies at good economies to the American taxpayer.” (Ibid.).

The PBS acts as landlord for the civilian federal government. It acquires space on behalf of the federal government through leasing and new construction; and acts as manager of the national federal property portfolio.

The PBS is responsible for some 12 per cent of the federal real property portfolio. It owns or leases nearly 10,000 assets, and maintains an inventory and database for over 41 million m² of property that accommodates 1.1 million federal employees. It is also responsible for the preservation of more than 480 historic properties. Figure CS2.3 shows the sphere of influence of the PBS and area occupied by tenant agencies in 2013 (U.S. General Services Administration, 2014).

In addition to the government-wide performance measures, the GSA set the following measures for the management of the PBS portfolio:

- Funds generated from operations;
- Net operating income;
- Vacant space;
- Operating costs in comparison to market levels;
The PBS is funded through a Federal Buildings Fund, and by rent from federal tenant agencies.

Through its Office of Real Property Asset Management (ORPAM), the PBS is responsible for maximising the value of the owned and leased portfolio by developing short and long-term national strategies, and acting as consultant to the regions.

ORPAM provides national guidance on asset-related pricing policy; provides valuation services; develops asset management strategies, which include asset business plans, performance measures and targets, improvement of asset performance, and portfolio and asset performance benchmarking; development of national capital investment strategies and criteria; and promotion of optimal investment, leasing, utilisation and disposal decision-making.

The PBS views asset management as a “continuous cycle” involving financial performance, asset occupancy and demand, asset condition and lifecycle, the market, operating costs, historic status, and asset value (Coneeney, op. cit.).

The PBS’s portfolio strategy is based on “a balanced approach” to asset management decision-making that encompasses:

- Customer and stakeholder satisfaction; and
- Asset value. (Coneeney, 2005; U.S. General Services Administration, 2014)
- Analysis of customer need;
- Market dynamics; and
- The financial performance of assets (Coneeney, op. cit.).

The strategic goal is to maintain a “robust portfolio by investing in strong, income-producing properties that satisfy long-term customer needs, increasing the utilisation of the inventory, and disposing of excess properties that no longer serve a predominantly federal use.” (U.S. General Services Administration, op. cit. p. 7). Figure CS2.4 shows Coneeney’s illustration of the “balanced approach” in his forum presentation.

---

5.2.2. Office of Government-Wide Policy

5.2.2.1. Overview
The strategic direction of the OGP “is to ensure that government-wide policies encourage agencies to develop and utilise the best and most cost effective management practices for the conduct of their specific programs.” (U.S. General Services Administration, 2015b).

Guided by the principles of the PMA and OMB, the OGP builds policy frameworks by incorporating the requirements of federal laws, Executive Orders, and other regulatory measures into policies and guidelines; facilitating reform to provide agencies with the capacity and capability to manage their assets; and promoting best practices in efficiency and processes.

The OGP collaborates with state and local governments, industry, professional organisations, and tertiary educational institutions, undertakes research, and participates in the works of boards and groups to identify and formulate best practice management practices.

5.2.2.2. Real Property Policy
The OGP’s policy role in real property is to provide direction for the management of property assets, policy oversight, and guidance for executive agencies. This involves assisting federal
agencies to comply with EO 13327; supporting the FRPC to promote good asset management; managing the Federal Real Property Profile, the government’s database for all owned and leased buildings, structures, and land; and providing property related laws, regulations and guidance that direct the management of the federal property portfolio.

5.2.2.3. Federal High-Performance Green Buildings
The OGP has a separate office to facilitate the federal government’s efforts in sustainability by minimising the government’s footprint on the built environment in the areas of energy, water, and resources, and the creation of healthy workplaces.


5.3. Results and Outcomes

5.3.1. Portfolio Profile

<table>
<thead>
<tr>
<th>Overview</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nos. Federal Buildings &amp; Structures</td>
<td>976,000</td>
<td>1.014m</td>
<td>922,000</td>
<td>896,000</td>
<td>911,000</td>
<td>889,400</td>
<td>834,700</td>
<td>847,184</td>
<td>871,127</td>
<td>-104,873</td>
</tr>
<tr>
<td>Area (m²) Buildings &amp; Structures</td>
<td>380m</td>
<td>390m</td>
<td>361m</td>
<td>355m</td>
<td>360m</td>
<td>366m</td>
<td>357m</td>
<td>356m</td>
<td>354m</td>
<td>-26m</td>
</tr>
<tr>
<td>Annual Operating Costs (US$)</td>
<td>-</td>
<td>-</td>
<td>$47.3b</td>
<td>$19.7b</td>
<td>$29.3b</td>
<td>$30.8b</td>
<td>$32.2b</td>
<td>$33.0b</td>
<td>$33.8b</td>
<td>$15.4% since 2009</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Asset Disposals</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nos. Disposed Assets⁴</td>
<td>-</td>
<td>22,816</td>
<td>35,131</td>
<td>24,682</td>
<td>19,460</td>
<td>14,881</td>
<td>21,264</td>
<td>23,663</td>
<td>21,464</td>
<td>183,361</td>
</tr>
<tr>
<td>Annual Operating Costs of Disposed Assets (US$)</td>
<td>-</td>
<td>$186m</td>
<td>$420m</td>
<td>$120m</td>
<td>$149m</td>
<td>$327m</td>
<td>$224m</td>
<td>$216m</td>
<td>$411m</td>
<td>$2.053b</td>
</tr>
<tr>
<td>Value of Assets Disposed: Leases Terminated &amp; Sales (US$)</td>
<td>$1.5b</td>
<td>$1.4b</td>
<td>$1.5b</td>
<td>$134m</td>
<td>$50m</td>
<td>$57.3m</td>
<td>$43.5m</td>
<td>$100m</td>
<td>$1.9b</td>
<td>$6.684b</td>
</tr>
</tbody>
</table>

Table CS2.4: Changes in Federal Real Property Profile 2005 - 2013

Over this period, the number of federal buildings and structures has reduced by nearly 105,000, and the area occupied by the federal government has been reduced by 26 million m² (seven per cent). The federal government has disposed of over 183,000 assets either through sale, lease termination, or demolition. The value of assets disposed through sale and lease termination approached US$6.7 billion.

---

³ Costs for Structures not included/reported
⁴ By all methods of ‘disposal’
These disposals have provided a total reduction of more than US$2.05 billion in annual operating costs between 2005 and 2013. Total annual operating costs throughout the portfolio have increased by 15.4 per cent between 2009 and 2013.

Notwithstanding these results, the federal government’s reform program has not yielded the desired or expected outcomes in terms of economic benefit, asset management practice or organisational efficiency.

In April 2005, Clay Johnson, Deputy Director of the OMB, testified before Congress “… the government is disposing of US$15 billion in unneeded government real property and redirecting funds to higher priority asset management uses …”. It was expected that this level of disposal should be achieved by 2015. (Coneeney, op. cit.).

Additionally, the reliability and veracity of the outcomes presented in Table CS.2.4 are subject to question (see section 5.3.2 below).

5.3.2. GAO Reviews and Reports


The GAO update delivered to the US Congress in February 2015 reported that, “since federal real property was placed on the High-Risk List in 2003, the government has given high-level attention to the issue and has made strides in real property management, but continues to face long-standing challenges in managing its real property.” (U.S. Government Accountability Office, 2015c).

Specifically, the GAO found that:

- The federal government continues to hold and maintain significant amounts of excess and under-utilised property;
- Leasing property in favour of the long-term cheaper ownership option is still the preferred property solution; and
- Effective property asset management and reform are hindered and held back by unreliable property data, and the manipulation and interpretation of data by agencies. Despite leadership commitment in this area, the accuracy and consistency of the Federal Real Property Profile remains suspect, which leads to reporting inaccurate inventory and outcome information.

Since 2003, the management of federal property has met only one of the criteria required for it to be removed from the GAO’s High-Risk List. The GAO’s 2015 report card assessed progress against the criteria as:

- Leadership Commitment: Met
- Capacity: Partially Met
- Action Plan: Partially Met

---

5 The 2009 operating cost has been used as the base figure for performance analysis as the lack of data and wide variations in the preceding years suggest lack of data accuracy and inconsistent reporting by agencies.
- Monitoring: Partially Met
- Demonstrated Progress: Not Met
REFERENCES


Federal Real Property - Actions Needed to Address Long-standing and Complex Problems, United States Senate, (2003).


Appendix 3

Case Study: The Australian Public Sectors

1. Introduction

This case study is based on a series of the author’s published and unpublished papers and research (Leifer & Seymour-Jones, 2009, 2010, 2012; Seymour-Jones, 2008a, 2008b, 2009a, 2009b, 2014a, 2014b). These have been compiled from the author’s personal experience, a review of literature in the form of independent and academic studies and reports, professional standards and guidelines, government strategies, policies and procedures, reports and audits, journal articles, and conference proceedings.

This case study traces the development of property asset management (and the management of other asset classes) between the early 1980s and 2016 for the federal, state and local levels of government in Australia.

2. The Australian Commonwealth Government

2.1. Introduction

The Commonwealth Government offers the least amount of readily accessible information on the management of its property assets and other property holdings, such as leases.

The results of searches for property asset management on the government’s website give directions to the Department of Finance and Deregulation (Finance), and to the Total Asset Management section of the NSW Treasury website.

The principal sources that have been used for this case study are:


- Information from professional conferences, the Government Property Group, and meetings with senior Commonwealth Government executives and private sector service providers.


The ANAO audits provide a detailed and authoritative commentary on the Commonwealth’s approach to the management of its property assets, and shed light on the government’s apparent disinterest in, or unwillingness to adopt a proven practice model for the management of its property portfolio.
2.2. Property Asset Policy, Ownership and Management

It is estimated that the NFPS of the Commonwealth Government holds property with a value in the region of $21.5 billion, and an annual maintenance expenditure of some $430 million. Annual office lease costs are estimated at $500 million.

This portfolio is not subject to any discernable whole-of-government control, governance, management, reporting or accountability.

The government's stated policy is that the ownership of property is not part of its core business unless particular circumstances apply. Property is viewed as an input to the government's core business.

Subject to the requirements of the Australian Government Property Ownership Framework (see Section 2.3.7), and a number of reporting, procurement, land management and financial management statutes, guidelines and regulations, Commonwealth Government agencies generally have a free hand in the management of their property requirements.

There are no further whole-of-government policies, procedures, standards or measures for the strategic management of property assets with which agencies are required to follow and comply. However, the Commonwealth Property Review Branch of Finance, at a budgeted cost of $10 million, was to review this over the following four years. In October 2009 the Commonwealth Property Review Branch issued the following (see Section 2.3.6):

- Commonwealth Property Management Guidelines – Financial Management Guidance No.16
- A Guide to the Australian Government Property Data Collection
- Data specifications Australian Government Property Data Collection

Figure CS3.1 shows the distribution of commonwealth-owned property assets by value¹.

![Figure CS3.1: Commonwealth Government: distribution of real property assets by value (excl. leases)](image)

¹ Extrapolated from Appendix 3.1
2.3. Policy and Governance Development

2.3.1. Pre 1980: Shared Responsibilities

Prior to 1980, the former Department of Administrative Services (DAS) managed multi-occupancy properties and those declared as surplus to the Commonwealth’s requirements. Single occupied premises were managed by the occupant agency, and agencies approached the market on their own behalf.

2.3.2. 1981–1987: Centralised Model

During the 1980s, DAS’s property management role was expanded. It was given control over the Commonwealth’s owned portfolio and properties leased by government agencies. It was also given responsibility for the management of the Commonwealth property budget.

Within this expanded mandate, the DAS developed whole-of-government manuals, processes, procedures and guidelines to establish standard practices. It also developed and maintained a Property Management Information System that included detailed information for all government property.

2.3.3. 1988–1996: Decentralisation and Commercialisation

Reform during this period led to the dilution of the DAS mandate. Agencies were given increased ability to make their own property decisions, which were subject to a set of general principles to be applied in the provision of common services to government. These included a user-pay concept with the introduction of rental charging and payment for the provision of property services. Agencies were also given the authority to lease and fit out their offices outside the central business district of capital cities.

The Australian Estate Management (AEM) was established to act as the nominal owner/landlord of the Commonwealth Estate. The Australian Property Group (APG) was also created to carry out a tenancy advocacy role on behalf of Commonwealth departments and agencies. Both these groups were in the Administrative Services Portfolio.

2.3.4. 1996–1999: Property Divestment and Management Deregulation

Further changes to the management of Commonwealth property were introduced between 1996 and 1999 with the establishment of the Commonwealth Property Principles. These Principles stated that the Commonwealth should only own property where the assessed long-term yield exceeds a nominated rate (14 to 15 per cent at that time), or where it is otherwise in the public interest to do so.

The Commonwealth Property Committee (CPC) was established to oversee a programme to dispose of government property. This involved sales of those properties that did not comply with the Principles. Additionally, a standard lease document, the Commonwealth Tenants’ Lease (CTL), used by Finance, was developed in consultation with industry, owners and tenants, and was endorsed by Government as part of the recommendations of the CPC.

As a result, following the merging of DAS with the Department of Finance to form the Department of Finance and Administration (Finance), Finance managed the sale of 114 office properties over the financial years 1997–98 to 1999–2000, with proceeds totaling approximately $1.125 billion.

In this period, the Government also reviewed the roles of AEM and the APG. This led to:

- Outsourcing of the building/property management function formerly carried out by AEM;
- Sale of APG, with departments and agencies engaging private firms to carry out a similar role on their behalf; and

- Establishment of the Domestic Property Group (DPG), which was intended to be a strategic planning and co-ordination organisation.

Since the mid-late 1980s, the governance and management of Commonwealth property has rotated almost 180° from a centralised system under the DAS, to a devolved system where agencies are responsible for their own property management.

Finance's involvement in property management has become limited to the management of much reduced domestic portfolio of owned property (excluding Defence-owned properties) on a commercial basis. This is reviewed in the following section.

2.3.5. Early 2000s: Department of Finance and Deregulation (now Department of Finance)

Finance, in various guises, has been involved with the management of commonwealth property assets in most stages of the policy development cycle. The Asset Management Group of the Department of Finance and Deregulation (formerly Administration) continues to be responsible for the management of the Australian Government’s Business and non-Defence property assets. It implements and manages the divestment of such assets, handles residual business issues and manages the special claims, insurance and risk management operations within the Finance portfolio. It is also responsible for developing and maintaining the Australian Government's procurement policy framework.

The Property and Construction Division of the Asset Management Group manages major capital works projects on behalf of the Australian Government and individual government departments and agencies.

The Division's Property Branch manages a non-Defence portfolio of properties comprising offices, land and other properties, which are owned by the department. (Responsibility for management of overseas properties rests with the Department of Foreign Affairs and Trade). The Department of Defence (Defence) portfolio accounts for some 63 per cent of the Commonwealth’s property assets.

The Division also has a whole-of-government role to develop and implement a Commonwealth Property Management Framework. This is conducted through the Commonwealth Property Review Branch.

The limited strategic asset management role of Finance, and therefore its lack of skills and expertise, as the landlord of a small government-owned office portfolio, does not stand it in good stead to perform its whole-of-government advisory and semi-regulatory functions.

Given that the Property and Construction Division performs the de facto role of the Commonwealth’s chief property adviser, the overall findings and conclusions of this study in relation to the operation of this division are:

- It lacks the required leadership and professional property skills and experience, and systems to effectively perform the role;

- It follows, rather than advises the government on matters of property policy, and displays a reluctance to initiate policy or strategy advice and innovation;
- It is not comfortable with and/or does not understand its whole-of-government review mandate;

- It has little contact or interaction with industry organisations and best practice development: its depth of knowledge is shallow. (It refuses to participate in the Government Property Group and rarely gives staff the opportunity to attend conferences or development courses):

- It manages its own portfolio in a caretaker fashion rather than from a proactive whole-of-government perspective; it takes an accepting if not fatalistic view when government agencies elect to lease accommodation from the private sector rather than occupy vacant government-owned premises;

- It has a questionable reputation partly because of its history, but largely resulting from the limited relationships and communications it holds with government agencies; there are no strategies in this regard. It takes a financial rather than a business approach to its role. As a result, other departments and agencies, particularly Defence, see their property asset management skills to be superior to those of Finance.

2.3.5.1. Property Branch

2.3.5.1.1 Portfolio
The domestic non-Defence property portfolio includes commercial office buildings, law courts and other special purpose properties, public interest properties, heritage buildings, residential properties and vacant land within Australia. It is a small portfolio comprising just 5 per cent of the value of the commonwealth’s property assets (See Figure CS3.1).

2.3.5.1.2 Non-Exclusive Mandate
The Property Branch operates in a competitive market as Australian Government agencies are not bound to lease their accommodation from it. However, if an agency needs to occupy a Government-owned building, the Property Branch is required to provide premises on a commercial lease basis.

2.3.5.1.3 Portfolio Performance Requirements
The Property Branch is required to:

- Achieve a commercial rate of return on the portfolio;

- Maintain the condition of the portfolio to industry standards;

- Meet the future needs of tenant agencies as agreed by Government;

- Contain its management costs within market benchmarks;

- Pay dividends from operations; and

- Make equity repayments to the Australian Government from any divestment of property.

2.3.5.1.4 Portfolio Management
The non-Defence property portfolio has a history of being managed by an outsourced service provider for estate management, facilities management, valuation services, and management of capital works.

2.3.5.1.5 Property Acquisition and Divestment
The Property Branch implements Government policy to sell, transfer or divest surplus and under-performing properties where there are no public interest reasons for their retention, in accordance
with the Australian Government Property Ownership Framework. (See Section 3.3.7), which outlines the basis for the continued ownership and development of Commonwealth property. The Asset Management Group administers the Property Ownership Framework.

**2.3.5.1.6 Operation of the Finance Non-Defence Commercial Office Portfolio**

The practical (and seemingly uncontrolled) operation of the non-exclusive mandate that applies to Finance’s role as a government landlord has been allowed to detract from any whole-of-government strategic reasons for the continued ownership of property, and results in government-owned space remaining vacant whilst agencies pay rental to private sector landlords.

This implies that either the Finance property portfolio is not fulfilling its performance requirement to meet the future needs of tenant agencies, or agencies exercise an unsubstantiated preference not to occupy government property. Since this relates to simple office premises, the former is considered the least likely reason. Either way, Finance seems to take a fatalistic view towards this and shows a reluctance to promote the whole-of-government issues in relation to property ownership, allocation and occupation.

**2.3.6. Commonwealth Property Review Branch**

The Commonwealth Property Review Branch is responsible for developing a Commonwealth Property Management Framework, to improve the governance, planning and whole-of-government co-ordination of property management across agencies. The Branch is also charged with the development of standards and benchmarks for measuring performance and to develop better practice property management guidance for agencies.

This initiative was introduced during the first Rudd Government. A budget of $10.1 million over four years (2009/10-2012/13) was provided to implement a Commonwealth Property Management Framework. It was intended for the framework to outline whole-of-government policy and governance arrangements designed to improve the efficiency and effectiveness of property management across Financial Management and Accountability Act 1997 agencies.

**2.3.7. Australian Government Property Ownership Framework**

In July 2005, the Australian Government Property Ownership Framework replaced the Australian Government Property Principles.

This Framework applies to all departments and agencies that are subject to the Financial Management and Accountability Act 1997 (FMA agencies) and all general government sector Commonwealth authorities that are subject to the Commonwealth Authorities and Companies Act 1997 (CAC bodies). It does not apply to Government Business Enterprises.

The Framework applies to proposals by FMA agencies and CAC bodies in the general government sector for the Australian Government to either own or divest property. Proposals to own property (as opposed to leasing it) or to divest property must be justified in terms of the need to do so, taking into account specific government objectives.

The government’s stated policy is that the ownership of property is not part of its core business unless particular circumstances apply. Property is viewed as an input to the government’s core business.

This gives no credence to the underlying value and performance of the government’s property assets.
2.3.7.1. **Framework Objectives**
Any decision to own or divest property must be driven by either the necessity for that decision to support specific government objectives, or ownership or divestment may be appropriate because it delivers the best value for money outcome.

Such proposals must be presented to Finance as business cases that are prepared within prescribed guidelines, which include criteria for nominated Discount Rates under the Framework (See Section 2.3.7.4).

2.3.7.2. **Addressing the Government’s Objectives**
In addressing how a proposal meets the strategic aims and stated outputs of government, a case for ownership or divestment must be made on the basis of one or more of the following criteria:

- Ownership is necessary because of national symbolic status;
- Ownership is necessary because of national heritage status;
- Ownership is necessary to meet environmental requirements;
- Ownership is necessary because of the highly specialised nature of property;
- Ownership is necessary to comply with stated national security requirements;
- Ownership is necessary to meet other strategic interests of the government; or
- Ownership is appropriate because it delivers best value for money for the Australian Government on a whole-of-life basis when compared to leasing and taking into account the particular characteristics and long term risks of property ownership.

2.3.7.3. **Value for Money**
Value for money in the context of property is defined by an appraisal of associated risks over the long term including but not limited to:

- Planning, design, development and construction risks;
- Capital risk;
- Market risk;
- Environmental risk;
- Residual value risks; and
- Change of strategic requirement risk.

It is the responsibility of the proposing agency to clearly demonstrate the characteristics of the property that warrant government ownership or divestment.

2.3.7.4. **Assessment of Proposals**
Departments and agencies are responsible for the implementation of the Framework, and guidance is available from Finance.
Proposals are assessed by Finance against the identified criteria, which include a rate of return nominated by Finance that it considers reflecting the exposure to risks associated with the property.

Discount rates will vary according to the nature of the property and its assessed risk level (high, medium, low). The rates are calculated annually and published on Finance's website. Proposals by agencies are subject to Finance's agreement to both the risk assessment of the proposal and the discount rate used prior to consideration by government.

The discount rates for assessment of high, medium and low risk property proposals brought forward after 1 July 2007 will be twelve per cent, ten per cent and eight per cent respectively.\(^2\)

2.3.7.5. Management

A commercial basis for property is to be retained such that:

- Landlords will operate on a commercial basis; and

- Market based leases are in place.

2.3.7.6. Operation of the Property Ownership Framework

Notwithstanding the objectives of the framework, which are essentially to ensure that the most appropriate decisions are made regarding the ownership of property, there is strong evidence to suggest that the framework is not being administered to either its letter or to its intent.

The ANAO (See Section 2.4.1.2.1) makes particular comment on the current framework’s predecessor, the Australian Government Property Principles, in relation the disposal of large tranches of property in the 1990s by questioning the assessment criteria adopted for the retention or disposal of property. These criteria were heavily skewed towards supporting disposal outcomes, i.e. the policy of the government of the day.

As the government’s stated preference remains not to own property, senior Finance officials continue to struggle to apply the best value for money objective when assessing property proposals, as these almost always point to ownership as being the preferred financial option. (The setting of inappropriate discount rates has been commented upon by the ANAO.)

When reviewing and assessing government agency proposals, Finance also struggles with the concept of applying a weighting or value to the costs or benefits of the non-financial and less tangible aspects of a proposal. The dilemma is that agencies must receive Finance approval to their proposals, but Finance’s lack of understanding of their businesses, which is a direct consequence of poor governance and structure, and a lack of relationships and communications with the agencies means that decisions for the allocation of capital will be made against incomplete and perhaps misunderstood information.

2.4. Effects of Policy and Governance Changes on the Management of the Commonwealth Estate

Within the next few years it is possible that the Commonwealth Government’s approach to the management of its property assets will, over a period of three decades, have come close to full circle.

\(^2\) At the time of this research into the Commonwealth Government (2009/2010), there was no evidence of the rates having been updated since July 2007.
The changes in policy over this period will have been implemented without reference or regard to the importance of property assets and the wider development of asset management practices in both the public and private sectors. This is reflected by:

- The use and manipulation of the commonwealth’s property assets for short term ideological or political purposes; and
- The timidity, limited experience, parochial and protective nature of the Australian Public Service.

With the possible exception of the reign of the Department of Administrative Services in the 1980s, the Commonwealth Government has lacked a strategic and transparent approach to the management of its property assets over the past thirty years. It appears to have deliberately avoided such an approach through its deregulation and decontrol policy, whilst other sectors were recognising the importance of the strategic management of property assets to the achievement of business goals and objectives, and were developing management systems and practices to improve the effective and efficient performance of these assets.

Given the value and ongoing costs of the property portfolio, the legacy of this policy puts the Commonwealth Government at risk. These risks include:

- An unsubstantiated all-of-government policy towards property ownership, and a severely diluted base of strategic property holdings;
- Inflexible property holdings resulting in reduced business and service provision agility;
- An inappropriate reliance upon and exposure to property leasing markets: potential for landlords to cartel and manipulate markets;
- An uncoordinated approach to the market: self-competition;
- Loss of resources and skills, which has resulted in an over-reliance on the private sector for the management and provision of property services. There is evidence to suggest that, in some cases, this reliance is almost total;
- Ill-defined roles and responsibilities, and lack of accountability;
- A multiplicity and duplication of systems, processes and procedures, and varying standards of management;
- Loss of a centralised database and inaccurate asset registers;
- Asset registers that are not reconciled to financial systems;
- Non-transparent property dealings and financial loss;
- No formalisation and analysis of whole life costs in decision-making;
- No baseline cost and performance standards, nor monitoring outcomes;
- Inadequate financial management and asset management systems;
Minimal reporting; and
Poor documentation on asset acquisitions and disposals.

There is a widely held belief within the Commonwealth that, because so few non-Defence domestic assets remain in government ownership, there is little need for detailed asset management strategies. This seems to ignore the property assets that the Commonwealth holds in the form of leased property, and the level of exposure it has to the property markets. In its 2001 audit on Commonwealth Management of Leased Property, the ANAO concluded the following (Australian National Audit Office, 2001):

- The Commonwealth is estimated to occupy up to ten per cent of available leased office space in metropolitan Australia, and may well be the single largest occupier of leased office accommodation nationally;
- In the 1999–2000 financial year, the cost to the Commonwealth was in excess of $485 million in rent and outgoings; and
- The amount of space leased is generally above the benchmark range of 15 to 25 square metres per person. This indicates that some responding FMA agencies may be renting space in excess of their needs and/or utilising existing space inefficiently. The effects of this can be higher than necessary payments of rent and outgoings. The ANAO has estimated that, during the 1999–2000 financial year, the responding agencies paid approximately $95.5 million in rent and outgoings for the above-benchmark space held.

It is clear that the deregulation and decontrol of the management of the commonwealth’s property assets has had significant negative affects on the efficient and effective conduct of its financial affairs and business and, in consequence, the provision of public services.

Notwithstanding any effort to address this, the government’s view of property and the skewed approach to its ownership displays an ignorance of the role that these assets and their effective management can play in contributing to the improvement of public services.

2.4.1. Findings of the Australian National Audit Office

The audits undertaken by the ANAO between 1999 and 2004 provide detailed and extensive evidence of the commonwealth government’s failure to acknowledge the need for a strategic and disciplined approach to the management of its property assets, and the consequential cost to the public purse (Australian National Audit Office, 2001, 2002, 2003). Despite the publication of its particular findings and the ANAO’s articulation of best practice asset management principles, the Commonwealth Government has taken little notice or action.

The findings of these audits are summarised below:


2.4.1.1.1 Property Management Definition
The ANAO defined Property Management as “the full range of services for the management of a portfolio of real estate assets” (ANAO, 2001 op.cit. p.28). Within the leased property scope of the audit, it divided Property Management into the following three tiers (Ibid):
“Asset Portfolio Management” incorporates the strategic element of the management process. It guides the acquisition, use and disposal of assets (i.e. leases on office accommodation) to make the most of their service delivery potential, and to manage the related risks and costs over their entire life.

“Agency Leased Property Management” incorporates the managerial element of the process of managing current and future leased office accommodation requirements. Traditionally, the property manager has been responsible for the daily operations of the property incorporating lease management, operating costs management, budgeting, and contract administration.

“Agency Leased Property Facilities Management” incorporates the operational element of the management process. Facility management is the practice of co-ordinating the physical workplace with people and the work.

2.4.1.1.2 Audit Context
The audit noted that:

- The Commonwealth Government is a significant occupier of leased office accommodation nationally;

- Each Commonwealth agency, irrespective of its size or function, is responsible for managing its leased office property;

- Individual agencies are required to address the often complex issues associated with leased office property portfolios, including strategic planning, lease negotiations, and contract management;

- After labour costs, expenditure on property is often the next largest single item of agency expenditure;

- In addition to the nearly $500 million spent on rent and outgoings by the agencies that responded to the audit, they also spent more than $11 million on the management of their portfolios, either in-house or through outsourced property management service providers. Some 48 per cent of the agencies engaged outsourced property managers;

- If property management is outsourced, the emphasis on the required internal skills changes from property management to contract management to monitor the performance of contractors, and to ensure the conditions of the contract are fulfilled.

2.4.1.1.3 Audit Objectives

- Develop a benchmark of the Financial Management and Accountability (FMA) Act agencies’ property management performance for current and future comparisons; and

- Form an opinion as to whether the FMA agencies reviewed:

  a) Manage leased office property in accordance with the requirements of the FMA Act and other official guidance; and

  b) Manage their leased office property effectively.
2.4.1.4 Audit Criteria
The criteria used to assess whether FMA agencies were adequately equipped to manage their leased office property portfolios and their future property needs were:

- Agencies have clearly defined asset portfolio management frameworks in place; and
- If property management is outsourced, that a contract and contract management processes are in place, and appropriate performance indicators have been set and are being measured.

Fifty-nine agencies were invited to respond to a survey that requested information relating to strategic planning; procurement and management; leased office accommodation profile; fit out; and property management systems. Case studies were undertaken in the Department of Health and Aged Care, Centrelink, and Department of Foreign Affairs and Trade.

Forty-four agencies (75 per cent) responded to the survey, which collected data on 1,505 office leases. Of the larger agencies invited, it is interesting to note that the Department of Defence, which holds 63 per cent of the Commonwealth’s property assets by value (ref. Figure CS3.1), declined to participate, despite all agencies having been contacted by personalised letters and follow-up telephone calls.

2.4.1.5 Key Audit Findings
These are summarised in Table CS3.1

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Finding</th>
<th>ANAO Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Asset Portfolio Management Framework</td>
<td>1.1. Strategic Property &amp; Business Continuity Planning</td>
<td>Limited strategic property planning by agencies: 76 per cent of respondent agencies did not have strategic property plans in place.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>52 per cent of agencies did not have any form of Business Continuity Plan in place.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1.2. Commonwealth Agency Leases

a. Portfolio Profile

- DFAT did not have a strategic property plan in place and had not implemented the recommendations of its business continuity plan.
- Health had a strategic property plan for each state/territory office, but these were not integrated into a comprehensive strategic plan to bring together its management strategies at state/territory levels.
- Centrelink’s attention to strategic accommodation planning was considered adequate in relation to its portfolio.
- More than 70 per cent of the 1505 leases in the survey were for terms of fewer than 5 years.
- Most of Centrelink and Health’s leases were for periods of less than 5 years.
- Most DFAT’s leases were for more than 10 years.
- Agencies (60 per cent) have a preference for net rent leases.
- The majority of DFAT’s and Health’s leases were gross rent leases.
- Centrelink’s property management system did not distinguish between net or gross rental terms.

b. Distribution of Leased Space

- Respondent agencies leased more than 1.7 million square metres of office accommodation across Australia, 85 per cent of which was in city/metropolitan areas.
- Centrelink was the largest holder of leased space.

| Agencies were paying above-benchmark rentals in maintaining business continuity. | As the continued effective operation of DFAT’s main office is crucial to international relations, DFAT’s preparation and implementation of a business continuity plan is critical. |
| Agencies forego the potentially lower rentals available with longer-term leases, for the flexibility of short lease terms. |
### d. Leased Space Density
- The Commonwealth is the largest influence on the market in the ACT, where departments and agencies were paying more than 10 per cent above the benchmarks.
- Densities were above the benchmark range of 15 to 25 square metres per person.
- Agencies were paying approximately $89 million per annum for above-benchmark space and an additional $6.5 million in outgoings at 30 June 2000. This represents 20 per cent of the Commonwealth’s total expenditure ($474.335m) on lease rentals and outgoings. Some 79 per cent of this related to leases in city/metropolitan areas.

### e. Review of Case Study Agency Leases
- **Energy Efficiency**
  - The lease for the RG Casey Building, for which DFAT is the lessee, was found not to comply with the Government’s energy efficiency policy.
  - An independent assessment concluded that the lease terms have restricted DFAT’s access to detailed energy consumption costs that could assist it to reduce energy costs.

- **Rent Review Provisions and Ratchet Clauses**
  - Of 43 leases reviewed, 34 contained provision for rent review. 32 of these contained provisions precluding a downward review.
  - Finance considered that the inclusion of ratchet clauses is standard commercial practice and therefore used in other leases that will generally allow rents not to fall.
  - Of the 43 leases examined, 16 were for properties that were previously owned by the

### Agencies
- Agencies may be renting space in excess of their needs and/or utilising existing space inefficiently. The effects of this can be higher than necessary lease costs.
- Agencies should seek advice from the Australian Greenhouse Office (AGO) on leasing provisions that affect the recovery of energy costs for building central services during working hours.
- Agencies should seek to avoid ratchet clauses in their future lease arrangements, to ensure that they are only exposed to normal market rentals. If agencies are paying in excess of market rentals due to the existence of ratchet clauses, this may indicate inefficient use of Commonwealth funds.
2. Procurement & Management of Contracted Property Managers

- Within the government’s procurement guidelines, agencies are free to choose procurement methods.
  - Only 12 per cent of contracts were awarded through open tender. 58% were awarded through either direct appointment or select appointment.
  - Performance monitoring and contract management by agencies were mixed, varying from “adequate” to an absence of processes and procedures.

- Better practice would be to test the market through an open tender process.
- Set meaningful and measurable performance indicators.
- Regularly review performance and document outcomes.


2.4.1.2. Commonwealth Estate Property Sales: Audit Report No.4 2001-2002 Performance Audit

2.4.1.2.1 Audit Background

This audit examined the sale of Commonwealth domestic property assets in the late 1990s under a large-scale property divestment programme (Australian National Audit Office, 2002).

Prior to disposal, the domestic estate comprised 790 properties valued at $2.333 billion as follows:

- Office accommodation: $1.254 billion;
- Special purposes and industrial properties: $694 million; and
- Miscellaneous non-office properties: $385 million.

The Government’s decision to divest these properties was based on the premise that their retention would mean that they would not comply with the criteria for ownership under the Commonwealth Property Principles (ref. section 2.3.4); principally the hurdle rate of return used for assessing sell or retain decisions for individual properties.

The ANAO noted that the hurdle rate of 14 to 15 per cent “overwhelmingly favoured the divestment of property over retention” (Ibid. p.12).

The Government was advised that the sale of the properties would increase net budget outlays in the longer term as future rental payments to the private sector increased.

The aggregate book value of the properties to be disposed was $1.05 billion as at 30 June 1996.
The Department of Finance, which managed the sales process, relied “extensively” on advice from the private sector. This included advice on property sales, marketing, and legal matters.

2.4.1.2.2 Audit Objective

The audit concentrated on properties sold with long-term leaseback arrangements, and reviewed properties that represented 43 per cent of the total value of the properties proposed for sale. Total sales realised nearly $1 billion.

The objective of the audit was to review the efficiency and effectiveness of the management of the sales process by Finance. In particular, the audit considered the following:

- The extent to which Government’s sales objectives were achieved;
- The long-term sale and leaseback arrangements for selected properties, and whether they protected the Commonwealth’s interests; and
- Identification of sound principles and practice to improve the management of future property sales.

2.4.1.2.3 Audit Findings and Conclusions

The following are principal findings and conclusions of the ANAO:

- The sales programme was successful in that total proceeds exceeded targets by 15 per cent;
- Most material properties were sold at, or above, market valuations;
- Although Finance advised the ANAO that its role of implementing the sales programme did not include protecting the overall interest of the Commonwealth, the ANAO considered that it was the only government agency with the responsibility and accountability to judge whether the sale and leaseback transactions represented the optimum property and financial solutions for the Commonwealth;
- It was found that Finance had not conducted the necessary level of systematic evaluation of the sale and leaseback transactions, as required under the Financial Management and Accountability Regulations and the Commonwealth Procurement Guidelines, prior to executing the sales and leasing agreements:
- Strong evidence was provided by an independent consultant that suggested adopted the hurdle rate of return was unrealistically high, with 11 per cent being the upper level.

The use of a rate of return that is too high would result in lower investment income and financial loss when combined with long-term leaseback arrangements.

The ANAO’s analysis concluded that, at a hurdle rate of ten per cent, only eight of the 59 properties would have qualified for divestment;

- The book values of the properties were amended to reflect market prevailing market conditions and potential leasing profiles. These adjustments reduced the total value of the properties by approximately $200 million (20 per cent). These changes would have produced higher rates of return, which would have supported retention of ownership. The rates of return were not, however, re-calculated;
Finance did not obtain tax advice for the whole-of-government implications of tax depreciation for the sale and leaseback arrangements;

Initial rentals paid under a number of the sale and leaseback arrangements were found to exceed market values used in the valuations for sale by between seven and seventeen per cent;

The purchaser of the building occupied and leased back to the Department of Foreign Affairs and Trade notified the Department that the net lettable area had been re-measured, and was seeking a 38 per cent increase in rent equivalent to $6.3 million over the period of the initial rental term; and

Whole-of-lease-term costs for sale and long-term leaseback property could result in a negative financial return to the Commonwealth within the lease periods. The ANAO analysed the terms of the transaction for the Australian Geological Survey Office Headquarters property. It estimated that this transaction could result in a negative Net Present Value (NPV) of $95 million over the 20 years lease term. The calculations presented to the Minister by Finance indicated a positive NPV of $43 million.

The ANAO made seven recommendations for improvement, all of which it noted with concern were disagreed by Finance without offering any explanations or reasons.


2.4.1.3.1 Property Management Definition
This audit defined Property Management as “those functions necessary for the effective conduct and coordination of an organisation’s workplace and infrastructure with its business/services, employees and other people involved in the delivery of its services. The range of property management services in each organisation will depend on its individual circumstances and policies, but will generally encompass some or all of the following; lease management, energy management, cleaning, and repairs and maintenance tasks.” (Australian National Audit Office, 2003).

2.4.1.3.2 Audit Objectives and Scope
The objective of the audit was to assess whether the property management function was being performed efficiently, and providing the required level of support for the delivery of government services.

The scope of the audit was to evaluate property management policies and practices for planning and control; business processes and practices; and information and performance management.

2.4.1.3.3 Audit Findings

2.4.1.3.3.1 Planning and Control
The processes were found to be in place for short-term planning and control, but were considered to be inadequate to identify longer-term property needs, and the broader property objectives and priorities.

Specifically, the audit found that there was minimal property-related risk identification and mitigation strategies; and a lack of formal property management policy and procedural documentation.
2.4.1.3.3.2 Business Processes and Practices
All organisations outsourced some element of their property management function under contract to third parties. However, most did not actively manage their service providers, and did not have processes to monitor, measure or assess performance. Exception-based reporting was found to be the norm.

2.4.1.3.3 Information and Performance Management
The audit identified the following information and performance management issues:

- Deficiencies in maintaining property data and information, particularly non-financial information, and the ability to assess non-financial performance issues;
- The effectiveness of property, and whether it meets user requirements was not assessed;
- There were no established and regularly used key performance indicators in place; and
- There was no process for comparison or benchmarking with other organisations.

2.5. Post-Research Note
With regard to Section 2.3.6, Finance implemented a Commonwealth Property Management Framework in September 2015 (Australian Government, 2015).

The framework comprises a number of policies with accompanying guidance material, which apply to property leased and owned by non-corporate Commonwealth entities, including Defence. The framework is comprised of the following:

- RMG 500 Overview of the Commonwealth Property Management Framework
- RMG 501 Property Management Planning Guidance
- RMG 503 Whole-of-Life Costing for Commonwealth Property Management
- RMG 504 Commonwealth Property management framework Lease Endorsement Process
- RMG 505 Funding Arrangements for Commonwealth Property
- RMG 506 The Flexible and Effective Workplace Guidance
- The Australian Government Data Collection.

Figure CS3.3, which has been extracted from the overview of the framework, portrays the property management processes of the Commonwealth Government (Australian Government, 2016).
This framework has not been examined in detail for this study. However, it is initially concluded that the framework would appear to mostly represent a consolidation of earlier policies and arrangements. It is not apparent that the Government has put any over-arching governance and accountability arrangements in place for the management of Commonwealth property.

3. New South Wales Government

3.1. Introduction

This study estimated that, in 2011, the NFPS of the New South Wales (NSW) Government held property with a value of some $80 billion, and annual maintenance expenditure of some $1.6 billion. Annual office lease costs were estimated at $400 million.

This portfolio was not subject to any discernible whole-of-government control, governance, management, reporting or accountability.

Only the *generic* element of his portfolio, comprising offices, warehouses, depots, car parks and certain categories of land, was subject to any whole-of-government policy, governance and management.

This case study seeks to provide an insight into the NSW public sector environment and culture, and how these have affected and are likely to continue to affect the management of its assets. The study identifies and critically examines these and other influences over how property assets are managed, the structures governing their management, and the implications that those influences have for the on-going management of the state’s real estate portfolio.

The study traces the management of the NSW Government property assets from the early 1990s. In this context, the extent of the study is limited in that government has limited its attempts to impose specific property asset management policies, guidelines and management practices to *generic*...
property. The management of all other real property (defined as specialist assets), which are the vast majority of the government estate, is not subject to any similar identifiable specific policies or strategies, other than the requirements of government’s Total Asset Management (TAM) programme, and is left in the hands of individual agencies. The TAM programme is reviewed in Section 3.2

Within the study’s scope, it is concluded that the NSW Government has only one internal agency that specialises in the management of property assets: Property New South Wales, formerly the State Property Authority. The mandate of this Authority is restricted to the generic portfolio, which represents a mere 0.64 per cent of the total value of the state’s Non-Financial Public Sector property assets ($78.6 billion).

Table CS3.2 in section 3.3.1 illustrates the lack of cohesion in the management of the NSW Government’s property estate, which is a result of an ad hoc approach to the governance of these assets.

3.2. Total Asset Management Framework

3.2.1. TAM Policy

Since 2002, policy for the management of the NSW Government’s assets has been controlled and managed by the NSW Treasury. Considerable space on Treasury’s website is dedicated to this policy. The introduction of the policy reads as follows:

“Total Asset Management Policy was introduced to achieve better planning and management of the State’s physical assets, both existing and planned. Physical assets are items such as land, buildings, information technology, infrastructure, collections, equipment or fleet, owned or controlled by an agency as a result of past transactions or events, providing future economic benefits and having a definite business function or supporting the delivery of services.

“TAM is a strategic approach to physical asset planning and management, including major infrastructure. It provides a structured and systematic approach by which an agency can align its asset planning and management practices with its service delivery priorities and strategies, within the limits of resources available. This is essential if services are to be delivered efficiently and effectively over the long term.

“TAM is an integral part of NSW Treasury’s Budget process, which focuses on agencies’ results and service delivery performance. An agency’s asset response to its service delivery needs as reflected in its Results and Services Plan (RSP), Statement of Corporate Intent or Statement of Business Intent, is defined in its TAM submission. An agency’s TAM submission is also used in the development of the State 10 year Infrastructure Strategy.

“TAM Policy applies to all government departments, statutory authorities, trusts and other government entities.”

Treasury introduced a TAM Manual in 2006 containing guidelines to assist agencies with developing their asset plans (NSW Government, 2006). This manual contains the following:

- Guidelines for:
  - Asset Strategy
  - Capital Investment Strategic plan
  - Asset Maintenance Strategic Plan
  - Asset Disposal Strategic Plan
- Office Accommodation Strategy

- Assessment & Decision Tools for:
  - Sustainable development
  - Heritage Asset Management
  - Demand Management
  - Life-Cycle Costing
  - Economic/Financial Appraisal
  - Value Management
  - Risk Management
  - Post Implementation Review
  - Asset Information/Registers
  - Private Sector Information

This section also contains a **TAM Capability Assessment Tool**, which is designed for Government agencies to assess their level of capability or readiness to implement TAM. There is also a 26-page guide on how to conduct a capability review.

Some 650 pages of the TAM section of Treasury’s website were given over to these **Guidelines and Tools**, a large proportion of which is very academic and technical in nature.

The NSW TAM policy represents a leading practice approach to asset management. However, NSW Treasury regularly bemoans the poor quality of government agencies’ TAM plans; and the State Property Authority is often critical of the quality of the Office Accommodation Strategy element of these plans.

Despite this and the daunting volume of the process guidelines, no formal Total Asset Management training programmes for NSW public sector staff are thought to have been conducted. Additionally, Treasury Analysts are allocated to each agency or group of agencies within the NSW Treasury, but there is little formal communication between agencies, Treasury, GAMC (see Section 7.2) and SPA in the TAM process, the evaluation and on-going management of TAM plans.

Agencies often regard TAM as an annual reporting evil that needs to be completed to satisfy Treasury, rather than as a valuable management tool to improve the provision of public services.

### 3.3. Property Policy and Governance Development

#### 3.3.1. 1992 – 2002

Governance in the way the state’s property assets have been managed over the last 20 years has almost entirely been under the influence of the NSW Treasury.

Between 1992 and 2002 all reform of any significance has been driven from Treasury’s TAM policy, which was an attempt to shift the management of all state assets, not just real property, from an *input* to an *output* focus.

Until late 2006/early 2007, responsibility for the management of government property has rested with:

- Individual government agencies; and
- The Department of Public Works and Services (DPWS), and via State Property in the NSW Department of Commerce, DPWS had historically been responsible for the management of
the Crown Property Portfolio (CPP) which, until 2007/08 was under the ownership and control of Treasury. Until 1992, the DPWS role was limited to the provision of building management services to office accommodation owned by the government, and which was occupied by more than one agency. The ownership and management of all other property, and any asset or portfolio strategy was left to individual government agencies. Agencies were, and to a large extent still are, solely responsible for the internal facility management of their property, including fit out and CHURN\(^3\). See Table CS3.2.

<table>
<thead>
<tr>
<th>Role and Responsibility</th>
<th>NSW Treasury</th>
<th>DPWS</th>
<th>Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Management Policy</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Policy Enforcement</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Policy &amp; Strategy Advice</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset Acquisition &amp; Ownership</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Asset Strategies, Implementation &amp; Management</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Building Management</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Facilities Management</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Project Management &amp; Engineering Services</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Procurement of Services</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

*Crown Property Portfolio
*As service provider

**Table CS3.2: NSW Government Property Roles & Responsibilities until 1992**

As part of the TAM initiative in 1992, Treasury introduced the following:

- Agencies were required to include strategies for office accommodation, capital expenditure (including property acquisition and development), property disposal programmes, and maintenance. These were to form part of the annual TAM submission and be related to the business objectives of the agency.

- A requirement for agencies to refer proposals for all new office leases and lease renewals to the Property Services Group (DPWS) for approval. This was the first attempt to control space utilisation.

Treasury introduced further reforms in 1997, which were aimed at introducing best practice into the management of office accommodation; achieving savings; promoting a whole of government approach to office accommodation planning and property disposal; and concentrating agencies on the amount of space being used. These included:

- Setting an office space utilisation target of 18 m\(^2\) per person;

- Submission of facility plans for all new office leases to DPWS for approval;

- All disposals over $3 million to be handled by DPWS; and

- Submission of annual Office Accommodation Strategies to DPWS for review. (Note: not approval).

---

\(^3\) Reconfiguration of office space.
Between 1999 and 2002, Treasury made further attempts to strengthen central control over the management of government’s office portfolio by:

- Requiring agencies to carry out lease vs. own analysis for investment proposals;
- Nominating locations for agencies that needed to be in the Sydney Metropolitan area;
- Co-locating agencies to enable lease rationalisation;
- Testing the viability for agencies to relocate to regional NSW; and
- Requiring agencies to submit business cases for core CBD locations to the Government Asset Management Committee for approval.

3.3.1.1. Government Asset Management Committee

The establishment of the Government Asset Management Committee (GAMC) in 1998 represented a move towards a strategic whole-of-government approach to the management of property. It was an attempt to ensure the effective management of Government’s investment in office accommodation.

The committee’s role was to act as a watchdog and controller over the use of government property. Its terms of reference were to provide advice to the Budget Sub-Committee of Cabinet on:

- The alignment of office accommodation with Government’s service delivery priorities;
- The appropriateness of agency asset management strategies;
- Strategic asset and accommodation issues involving more than one agency;
- Office accommodation strategies for metropolitan and regional areas;
- Major investment strategies for acquisition, major refurbishments, lease pre-commitments, leasehold, and asset and property disposals; and
- Benchmarks and performance standards for asset and property portfolios.

The Director-General Premier’s and Cabinet Department chaired the Committee. Members included the Chief Executive Officers of The Treasury, Department of Commerce, Attorney General’s Department, Roads and Traffic Authority, Department of Infrastructure, Planning and Natural Resources and Forests NSW.

The Committee generally met quarterly.

A Senior Officer Sub-Committee was established under GAMC to consider matters prior to their referral to it. A Treasury official chaired this sub-committee. Its membership comprised representatives of the members of GAMC. This Sub-Committee also generally met quarterly.

Treasury provided the Secretariat for the Committee.

In practice, GAMC rarely considered matters other than those brought before it by the sub-committee, which is managed by Treasury. GAMC had no permanent, independent or professional executive
officers that were expert in the management of assets; and took few policy initiatives of its own. In effect, GAMC performed little more than a review and rubber-stamping role, and showed a reluctance to enforce policy over government agencies.

3.3.1.2. Government Leasing Service

The Government Leasing Service (GLS) was formed in 2002 as a unit within State Property following a review of the negotiation and management of office leases. The GLS was mandated to manage the risks in this area by carrying out lease negotiations in the markets of most exposure.

At the same time, it was mandated that the CPP would manage multiple tenancies in the same building within these markets.

3.3.2. 2002 – 2006

Between 2002 and 2006, Treasury continued to tighten its hold over the management of property assets.

Agencies were required to support their bids for budget funding through the TAM process, and the submission of annual Results and Services Plans.

It was also at about this time that the Department of Commerce was established with the DPWS as one of its business units.

DPWS consisted of a number of divisions, which included Projects, Facility Management, and State Property.

The Projects and Facility Management divisions were service providers to government agencies intended to provide an internal government alternative to the private sector.

These three divisions were run as businesses, and expected to contribute profit to the Department of Commerce.

3.3.2.1. State Property

State Property comprised three operating units: Project Management, Ministerial Projects, and Corporate Real Estate. Their areas of responsibility are shown in Figure CS3.3.

This divisional organisation and its allocation of functional responsibilities is a good example of the public sector’s thought process:

- Two divisions were created to perform an identical project management function; and

- The functions of Disposals and Acquisitions were assigned to the Project Management division. These were unrelated to each other and required their own specialist skills.

There may have been political reasons for this but, whatever the reason, the effect was an organisational hierarchy that blurred and limited concentration of authority; and pitted divisional heads against each other.

There was minimal internal communication or cooperation, which led to the divisions to be managed as separate entities, rather than as integrated units of a single entity. This culture was carried forward into the State Property Authority.
This factionalism was mirrored in State Property’s relationship with the NSW Treasury, which was a key factor in prejudicing and minimising the effective implementation of potentially the most significant and radical change in the way the state’s property assets were to be managed: the formation of the State Property Authority (SPA) in 2006.

### 3.3.2.2. State Property Authority

#### 3.3.2.2.1 Formation

Although the governance of property asset management had been firmly within the grasp of Treasury, it is important to note that the concept of a separate authority did not originate from Treasury. The concept originated from within State Property. The original concept was for all state property assets to be transferred into an independent authority and managed on the lines of a property trust.

This met with Treasury’s opposition on a number of fronts, not least of which were the personal concerns of Treasury officials, who saw their roles as policy makers and property strategists coming under threat.

Following the departure of State Property’s CEO from government at the end of 2005, a patch war ensued between Treasury and the Department of Commerce as to what the Authority’s objectives and functions would be, which aspects of property asset management would be transferred to the new Authority, what would remain within Commerce, and where the control of the Authority would ultimately lie.

This resulted in a hiatus of one year during which no decisions regarding either the on-going or future needs of the management of government’s property assets were made. The effectiveness of the existing portfolio management function (which was limited, in any case), and the progress that had been made in the preceding two years suffered considerable setbacks over this period.

Nevertheless, Act of Parliament eventually established the State Property Authority (SPA) in December 2006 (“State Property Act,” 2006). In essence, all corporate real estate functions were simply transferred from the Department of Commerce to SPA without regard to their suitability, the Authority’s operating environment, and its objectives and functions. Furthermore, Treasury and the Treasurer expected that the Authority would immediately start producing results.
3.3.2.2.2 Legislated Objectives and Functions of the State Property Authority

3.3.2.2.2.1 Objectives

- Improve operational efficiencies in the use of properties of government agencies, particularly generic properties (such as offices, warehouses, depots and car parks);
- Manage properties of government agencies in a way that supports the service delivery functions of those agencies;
- Provide advice and support within government on property matters; and
- Operate at least as efficiently as any comparable business, consistently with the principles of ecologically sustainable development and social responsibility for the community (including the indigenous community).

3.3.2.2.2 Functions

- Hold, dispose, acquire property;
- Manage, maintain, improve & develop property;
- Arrange sharing of facilities;
- Advise the Treasurer on efficient use of property;
- Advice to the Treasurer on transfer of property to SPA and on budgeting measures; and
- Advise the Treasurer as directed.

3.3.2.2.2.3 Mandate

Despite its passage through parliament in December 2006, SPA was not ready to commence operations until sometime after the eventual appointment of a CEO in September 2007. The reasons for this were:

- SPA lacked a structure and the appropriate skills and experience beyond those inherited from the Department of Commerce to enable it to carry out its legislated functions. These functions were far in excess of those performed under the Department of Commerce, and required business, strategic and analytical skills beyond a mere operational property management capacity;
- No Business Plan had been put in place for SPA; neither did it have a Statement of Business Intent;
- Despite the enabling legislation, SPA’s operating policies, principles and mandate had not been agreed with Treasury for the necessary presentation to cabinet for approval; and
- SPA had four Interim CEOs (including a senior Treasury official) between January 2006 and September 2007, none of whom addressed these issues, but preferred to await the appointment of a permanent CEO.
SPA’s mandate was finally settled in April 2008 through the issuance of Premier’s Memorandum M2008-06 State Property Authority and Government Property Principles (NSW Government, 2008).

This mandate and operating principles are summarised as follows:

- **Sphere of operations:** General Government Sector agencies and Public Trading Enterprises, excluding State Owned Corporations;
- The mandate was limited to *generic* property: offices, warehouses, depots, car parks and some land;
- The ownership and management of all government owned office accommodation was to be vested into SPA;
- The ownership and management of all leased office accommodation was to be vested in SPA; SPA becomes head lessee;
- Implementation of commercial rental charges payable to SPA by government *tenant* agencies under Memoranda of Understanding and Service Level Agreements;
- SPA to undertake the negotiation and management of all lease transactions/events for *generic* property in Greater Sydney Metropolitan Area;
- SPA to undertake reviews of agency property portfolios and develop *Property Strategy Implementation Plans*;
- SPA to maintain a whole-of-government database for *generic* property; and
- All acquisitions and disposals of *generic* property to be endorsed by SPA, which is also to be considered as the preferred agency to conduct and manage acquisitions and disposals.

Significantly, responsibility and accountability for generic property, its utilisation and strategy remained with agencies. Agencies also retained ownership and control over specialised assets, which represent the vast majority of the State’s property asset value and expenditure.

### 3.3.2.2.3 Operational Priorities and Objectives

Within its mandate, the original priorities and objectives of SPA (all in relation to generic property) were:

#### 3.3.2.2.3.1 Savings and Economic Benefits

SPA was to provide $540 million in real and measurable savings and economic benefit between 2006 and 2011. This is broken down as follows:

<table>
<thead>
<tr>
<th>Area of Saving/Benefit</th>
<th>Saving/Benefit ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Management &amp; Maintenance</td>
<td>15</td>
</tr>
<tr>
<td>Fit out &amp; CHURN</td>
<td>25</td>
</tr>
<tr>
<td>Leasing &amp; Lease Management</td>
<td>50</td>
</tr>
<tr>
<td>Accelerated Property Disposal Programme</td>
<td>150</td>
</tr>
<tr>
<td>Property Disposals</td>
<td>300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$540</strong></td>
</tr>
</tbody>
</table>
There was little substance or basis to support these numbers, as they were prepared at Treasury’s request, prior to the settlement of SPA’s mandate, and with a limited knowledge of assets outside the Crown Property Portfolio. Despite SPA attaching comprehensive assumptions and riders to these assessments, the NSW Treasurer presented these savings/benefits to Parliament.

3.3.2.2.3.2 Property Vesting & Portfolio Management: Property Data

SPA’s Advisory Board and Treasury approved a plan in late 2007 for the implementation and integration of the vesting of ownership and management of the balance of generic property into the Authority. In terms of offices alone, it was thought that this would expand SPA’s portfolio by some 800,000 square metres of owned and leased property, of which it was estimated that some 140,000 square metres was owned by government.

State Property had previously looked at the potential for expansion of the portfolio, and the implications for integrating the management of this property with the Crown Property Portfolio. This was a complex issue for a number of reasons:

- Management philosophy (and resources) would require change from an investment approach to a corporate real estate model for whole-of-government. The difference in these approaches was not readily understood.

- Little was known about the inventory, use, holding, or management and maintenance history of these assets. (There was good reason to seriously doubt the accuracy and reliability of government agency records, as there was minimal reporting accountability placed upon them. For example, State Property had carried out a review of the Department of Commerce portfolio in 2004/05, which revealed owned assets that were not included on the register, and expenses continuing to be paid on properties no longer occupied by the department).

- SPA became responsible for the maintenance of a whole-of-government property database, the principal source for which was the Office Accommodation Strategies required to be submitted to Treasury by agencies under their Total Asset Management Plans. This was the sole central record of property data for the NSW Government.

  The accuracy of this data was tested when the Government Leasing Service examined lease details for the portfolio. Some 60 per cent of these records were found to be incorrect, and contained records of leases for properties no longer held by government.

3.3.2.2.3.3 Agency Review Programme

SPA was committed to have reviewed the portfolio of every government agency by 2011. These reviews were to include confirmation of inventories; asset condition and compliance; asset use, suitability and appropriateness; lease profile and analysis; data cleanse and information management; management history and current arrangements; financial management and reporting; and identification of surplus assets.

The outcome of these reviews was to be a Portfolio Strategy Implementation Plan, which was to have been jointly prepared by the agency and SPA. Each agency was to be responsible and accountable for the implementation and management of its plan, which would be monitored by SPA. SPA had the authority to recommend to the Government Asset Management Committee that it take over the management of these plans should it felt they were not being properly implemented by government agencies.

This process did not take place.
3.3.3. 2007 - 2012

3.3.3.1. Conflicting Roles of the State Property Authority
In addition to performing the function of government’s corporate real estate department, SPA was a separate government authority vested with the ownership of property.

As a government Authority, SPA was a business that had dividend targets, which it was required to return to Treasury. Furthermore, Treasury was the maker of real estate policy and the rules and regulations to which agencies were expected to be bound and conform. SPA was the vehicle used to implement and police those policies, rules and regulations.

These varied roles of property owner and landlord; property investor; property manager and service provider; policy adviser, monitor and enforcer; and asset strategy adviser to both central government and individual government agencies, had the potential for considerable confusion and conflict.

The position with regard to roles and responsibilities for government property during this period is shown in Table CS3.3.

<table>
<thead>
<tr>
<th>Role and Responsibility</th>
<th>Treasury</th>
<th>Government Asset Management Committee</th>
<th>State Property Authority¹</th>
<th>Agencies</th>
<th>Dept. of Commerce</th>
<th>NSW Business Link²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Management Policy</td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset Management Policy &amp; Strategy Advice</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy Implementation &amp; Enforcement</td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset Acquisition &amp; Ownership</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset Strategies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy Implementation &amp; Asset Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facilities Management &amp; Building Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Management &amp; Engineering Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procurement of Services</td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹Generic Property only ² See section 6 ³As service provider *As service provider and government’s central authority for procurement of goods & services

Table CS3.3: NSW Government: Current (2009) Property Asset Management Roles and Responsibilities

Figure CS3.4, reproduced from the author’s 2009 research paper for the University of Sydney, shows the complex myriad and diverse responsibility for the government’s property assets, which blurred transparency, responsibility and accountability (Seymour-Jones, 2009b).
3.3.3.2. Governance and Organisation: The Land and Property Management Authority

Organisationally, SPA came under the Ministry of Finance, with the CEO reporting directly to the Minister. However, in reality, and until the reorganisation of government into 13 mega departments in June 2009, very little could be done without the say-so of Treasury and, in some instances, without the approval of the Treasurer.

As part of this reorganisation, SPA was absorbed into the Department of Services, Technology & Administration (DSTA), which appeared to be an expanded Department of Commerce.

Within the DSTA, the Department of Lands, SPA, and a number of other related agencies, authorities and corporations, were incorporated into a separate and independent authority: the Land and Property Management Authority, under the management and direction of the Director General of Lands.

SPA had an advisory board chaired by the Treasury Secretary, with the Directors General of the Departments of Premier and Cabinet, and Education and Training as members. This was a very active board, which showed a keen interest in SPA’s activities. The Treasurer at the time had high expectations of SPA, and required regular reports to be submitted to Budget Committee of Cabinet.

Notwithstanding SPA’s new roles and responsibilities, its organisational structure differed little from that of its predecessor, State Property. (See Figure CS3.5)
SPA’s mandate extended to generic property only. This covered offices, car parks, depots, warehouses, and associated land.

The ownership of the Crown Property Portfolio, which comprised some 360,000 m$^2$ of owned and leased offices, was transferred to SPA from the NSW Treasury.

The ownership and management of the balance of government’s office portfolio (800,000 m$^2$), including budget allocations, was removed from individual agencies and vested into SPA. Some 1,000 leases were also transferred into SPA.

Agencies continued to occupy their previously owned property, but under Memoranda of Understanding with SPA, as landlord. As per the Crown Property Portfolio model, agencies paid rental to SPA, which was determined by independent valuer. They also paid management fees to SPA, which were determined by Treasury.

Agencies were budget funded for these costs by Treasury to the extent that the amount and type of space occupied was considered by SPA to be warranted for an agency’s operation. Treasury would not fund any space that it and SPA considered excessive, inappropriately located or under-utilised, unless the agency had an active strategy in place to address the situation.

Management standards of the portfolio previously owned by government agencies were varied and inconsistent. Very little was known of its composition, tenure, condition, cost, or management history.

There was no central government inventory or database of property assets; and there were considerable gaps and inaccuracies in the data and information that did exist.

In total, the estimated value of the owned portion of this portfolio was in the region of $500 million, versus a total government property asset value of approximately $66 billion.

Total annual office rental paid to third party landlords was approximately $320 million.

Responsibility for the management of NSW Police property portfolio rested with the Ministry of Police. This comprised approximately 500,000 m$^2$ with an annual budget of over $80 million.
The management of the NSW Police portfolio was subject to tension between the Police Ministry, the Police Force, Treasury, and SPA. As a consequence, portfolio performance was poor.

Government spent nearly $4 billion per annum on ‘maintenance’. This figure cannot be analysed by individual agency or by maintenance category, but it was estimated that approximately $1.26 billion of this relates to land and buildings (see Appendix 3.1).

Maintenance expenditure under the management and control of SPA was less than $20 million per annum.

There were no meaningful measures of performance, nor any requirement upon agencies to account for their property portfolios. Treasury did not rigorously manage its Total Asset Management policy.

3.3.3.3. Key Factors Affecting SPA’s Performance

3.3.3.3.1 Resources: Government Policy

The Government lacked appropriate resources in terms of experience, skills, systems, and relationship management within central government, the State Property Authority and departments and agencies, i.e. across government as a whole.

Government appeared not to appreciate and acknowledge that the need for skilled corporate real estate strategists and managers, both within SPA and the agencies would increase rather than decrease. There was a shortage of the necessary talent, experience and expertise, which was compounded by the effects of the policy at the time of a moratorium on recruitment, and the quotas imposed upon agencies to reduce the numbers of the Senior Executive Service. Some examples of the effects of these on SPA were:

- A significant proportion of SPA’s professional staff was composed of short-term contract personnel. SPA had to turn to NSW Business Link, a separate government authority that provided property and business services to government agencies (see section 6 below), for assistance in the management of its portfolio.

- Agencies such as the Department of Ageing, Disability and Home Care had to postpone or scrap asset management improvement programmes. This department held property assets with a value approaching $700 million.

- As part of the reduction in numbers of SES staff, the employment contract of the General Manager responsible for property at the Department of Education and Training was either terminated or not renewed. This department held property assets to the value of $16.3 billion.

3.3.3.3.2 SPA’s Internal Management and Value Proposition

SPA’s capacity to provide property services to agencies, which were to be subject to Service Level Agreements between the Authority and individual agencies, was dependent upon its own skills and capacity, the performance of outsourced service providers, and SPA’s management of those providers and the respective contracts.

The Authority had not critically reviewed its value proposition since its establishment. (It remained as it was under the original State Property, despite performing a vastly different role). It therefore made no progress in its own strategic management; capability sourcing, control and management; and organisational shape and development.

Despite having shown that it was far from capable of managing and performing the functions of property asset management strategy and the management of data, SPA maintained that it should
retain the *ownership* of these functions and the key capabilities necessary to perform them. In terms of the operational management of property, it retained resources that effectively duplicate the structures of its principal outsource property management service providers. This was deemed necessary to oversee and check the work of these organisations.

This rigid thinking meant that SPA (and government as the wider organisation) had sacrificed the organisational agility and flexibility, which would enable it to *control* and make the most of critical capabilities, whether located inside or outside the Authority. This hamstrung SPA’s development, and its ability to service government in any capacity beyond its original offering.

### 3.3.3.3 Agency Reviews

The review of property held by government agencies revealed properties (in the hundreds) of considerably different type and quality than had originally been anticipated. This would have implications for occupancy; cost; condition; compliance; on-going management; and the production of *Portfolio Strategy Implementation Plans*.

### 3.3.3.4 Financial

The foregoing put further pressure on SPA’s savings and economic benefit targets.

The level of dividend to be returned to Treasury by the Authority was entirely dependent upon its revenue from rental and management fees. SPA’s financial performance was to be significantly impacted by a reduced vesting programme in terms of both ownership and management, and by the apparent lesser quality of the portfolio generally.

### 3.3.3.4 Other Government Property Service Providers: NSW Businesslink Pty Ltd

NSW Businesslink Pty Ltd was the shared corporate services provider to the NSW Department of Ageing, Disability and Home Care (DADHC), the NSW Department of Community Services (DoCS) and Housing NSW (Housing).

It was established in 2002 as a joint venture between these departments to provide corporate services to its stakeholder organisations. This was also part of a policy across the public sector to improve the delivery of corporate services, to leverage technology and to reduce costs. Businesslink provided payroll, accounts receivable, accounts payable, finance, recruitment, industrial relations, human resources, fleet, records management, procurement, distribution, building management, as well as information technology and communications services.

Property services provided by Businesslink included Property Management and Leasing, and Facilities Management.

Businesslink managed a large number of commercial and residential leases on behalf of these agencies. A detailed review of NSW Businesslink is beyond the scope of this study. However, it is believed that its stakeholders had reason to be concerned over Businesslink’s systems, procedures and service quality. For example, in 2007 Businesslink managed approximately 180 leases on behalf of DADHC. Nearly 45 per cent of these had been allowed to expire without any action being taken.

At the end of 2008, Businesslink was considering a strategy to expand the offering of its property services to agency clients throughout government in competition to SPA. SPA then turned to Businesslink for assistance.

### 3.3.3.5 Reports by the NSW Auditor-General

The NSW Auditor-General published two reports dealing with the management of the state’s assets. In comparing the findings of these two reports, is clear that little action was taken, or progress made to improve the TAM process over the five years between the two reports, 2005 – 2010.
The findings and conclusions of these audits concur with those of this study, and are summarised below.

3.3.3.5.1 Auditor-General’s Report: Performance Audit: Implementing Asset Management Reforms (October 2005) (NSW Government, 2005)
This audit examined NSW Treasury’s efforts to improve asset management practices in the public sector, and the progress made by three sample agencies (the Department of Corrective Services, NSW Fire Brigades, and the Powerhouse Museum) towards the better management of their asset portfolios.

The audit reviewed the policy framework for asset management in general, and the asset management practices in the three agencies to identify:

- Factors contributing to effective asset management, including how agencies have built capacity and capability;
- Key issues affecting the integration of asset management with other business plans and processes; and
- Barriers and impediments to ‘best’ practice.

Table CS3.4 summarises the findings and recommendations of this audit.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Finding/Area</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Compliance with TAM</td>
<td>Not all plans had an asset strategy</td>
<td>Treasury to provide guidance to agencies on developing service standards and performance measures for assets</td>
</tr>
<tr>
<td>requirements</td>
<td>Asset plans were not linked to corporate strategy or service standards</td>
<td>Treasury to provide additional guidance to agencies on what assets should be covered in TAM plans in terms of contribution to service delivery.</td>
</tr>
<tr>
<td></td>
<td>Asset performance standards had not been developed</td>
<td>NSW Treasury require agencies to include in TAM plans:</td>
</tr>
<tr>
<td></td>
<td>Agencies had not adequately addressed risks affecting asset performance in plans</td>
<td>- The impact on services if proposals to acquire assets or maintenance costs are not funded</td>
</tr>
<tr>
<td></td>
<td>Asset management systems were not always adequate</td>
<td>- Deferred maintenance that is consistent with asset age, condition and service requirement</td>
</tr>
<tr>
<td></td>
<td>Plans did not cover all assets essential to service delivery</td>
<td>- Maintenance strategies to address this deferred maintenance and a funding plan</td>
</tr>
<tr>
<td></td>
<td>Plans did not assess the impact of maintenance on performance</td>
<td>- Implications if maintenance is not undertaken in terms of effect on service delivery, rectification costs and other risks.</td>
</tr>
<tr>
<td></td>
<td>Plans did not assess the impact on services if funding was not received</td>
<td></td>
</tr>
<tr>
<td>2. Improving Asset Management</td>
<td>Improvements to plan quality</td>
<td>TAM plan content to be reviewed annually to confirm priorities remain unchanged and that it continues to</td>
</tr>
</tbody>
</table>

3.3.3.5.2 Compliance Review Report – Total Asset Management: Auditor-General’s Report to Parliament 2009 Volume Twelve (NSW Government, 2009)

Twelve major NSW government agencies were reviewed in relation to their compliance with the requirements of TAM.

None of the agencies fully complied with the Government’s TAM requirements. Material exceptions were identified, which resulted in qualification of the compliance review report for each agency.

The following is an extract from the report, with emphasis and bold type inserted by the author.

“Action by agencies and central agencies, including Treasury, is needed to improve TAM submission processes.

“Treasury’s ability to make informed decisions to plan the funding of statewide asset expenditures for the next ten years was significantly diminished by late, incomplete, poor quality
and unreliable submissions. **We understand Treasury had to adopt alternative, time-consuming measures to collect the required information from key agencies.**

“The volume of qualification matters indicates **widespread non-compliance**. In addition to these key issues, a further 61 matters of lesser significance will be communicated in management letters to the agencies responsible.

“The following material non-compliance matters were identified:

**“1. Deficiencies in the development and submission of Asset Strategies,” including:**

- Failure to submit the asset strategy as part of the proposed TAM.
- Failure to document how the agency identified and aligned investment strategies with relevant regional and sub regional strategies.
- Failure to document agency consultations with local governments.

Seven agencies did not comply.

**“2. Deficiencies in submitting strategic gateway reports and final business cases,” including:**

- Late submission of required business cases and strategic gateway reports.
- Failure to submit required business cases and strategic gateway reports for projects exceeding designated thresholds.
- Estimating capital requirements by grouping broad expenditure categories rather than estimating expenditure on planned projects.

Six agencies did not comply.

**“3. Failure to provide all required TAM data” because some agencies:**

- Incorrectly used the previous year’s table format, which meant important information, such as work in progress, location of capital projects and maintenance measures, was not provided.
- Had difficulty extracting, collating and supplying information so they did not complete the tables or supply the required data, nor did they seek formal exemptions from complying with the reporting requirements.
- Felt they did not need to comply with the reporting requirements as information had been supplied elsewhere, or they felt the information requested was unimportant, not useful, or could be misconstrued. They did not confirm this by seeking formal exemptions from complying with the reporting requirements.
- Overlooked providing required information, such as property disposal information.

Eleven agencies did not comply.

**“4. Failure to meet deadlines occurred” because:**
Submission dates were considered as targets rather than hard deadlines.

Internal restructures, difficulties in securing Board approvals, onerous workloads or external pressures, such as the mini budget, delayed collation of the information. No agencies sought formal exemptions from complying with the reporting requirements.

‘Draft’ or unsigned TAM submissions were thought to comply with the reporting requirements even when these submissions were made after the due date. These agencies did not formally confirm this view with Treasury.

Agencies believed discussions with Treasury analysts constituted agreement that agreed or proposed TAMs could be submitted after the due date.

Ten agencies did not comply.

“5. Failure to obtain both Ministerial and CEO sign offs prior to submitting TAMs occurred because:

- The requirement to sign the TAM submission was overlooked or considered unnecessary because CEO approval was minuted in agency records.
- Ministerial sign-off was obtained after the ‘draft’ TAM was submitted. Some agencies believed that because the Minister did not require any changes to the submission it was unnecessary for the submission to be signed by the Minister.
- An agency did not believe proposed TAMs needed to be signed.
- An agency submitted a ‘draft’ TAM because it was unable to secure the Minister’s agreement or sign-off for the capital investment strategy.
- CEO and Ministerial sign off was only obtained after the ‘draft’ unsigned TAM was submitted. The signed version was only submitted with the Statement of Business Intent, much later in the year.

Eight agencies did not comply.

“6. Failure to submit proposed TAM and asset strategies in the required format thereby omitting important information.

One agency did not comply.”

Other deficiencies noted by the Auditor-General included:

- Not linking project priorities to identified risks, service delivery outcomes and asset gaps or identifying the risk to service delivery if major projects are not funded.
- Not prioritising proposed expenditure between asset expansion, asset renewal and maintenance of existing assets.
- Not referencing measures of existing and future asset use to support proposed disposals.
- Not considering cross-agency projects. Agencies incorrectly assumed other parties to multi-agency projects had included the project in their submissions.

- General, non-specific narratives were substituted where hard factual data was required.

- Uncertainty about reporting obligations resulting in under provision of information.

The Auditor-General made the following recommendations:

**“1. Review and simplify TAM requirements.”**

(Central agencies (SPA and GAMC) were unable to confirm, unequivocally, whether all information requested in the TAM template had a material impact on strategic decision making.)

- The need for the information required in TAM submissions be reviewed.

- Treasury and other central agencies (State Property Authority and the Government Asset Management Committee (GAMC)) should review and confirm the strategic value of the information requested.

- It is undesirable to make the process overly bureaucratic or prescriptive, but the mandatory requirements should be clearly and unambiguously defined in the reporting templates.

- The reporting requirements and format should be simplified, with mandatory fields clearly marked, and error messages that appear if a mandatory field is left blank.

**“2. Improve administration of the TAM submission process.”**

(Treasury, at times, found it difficult to confirm facts and retrieve details of communications with agencies.)

- Treasury to train its analysts to provide consistent advice and directions to agencies.

- ‘Draft’, unsigned and clearly deficient submissions should be promptly returned to the responsible agency for rectification. Lodgement should only be recorded when a compliant submission is received.

- Communications to be confirmed in writing and filed in a central easily accessible repository.

- Treasury to maintain and monitor milestones for key submission dates and send reminders to agencies where they have failed to achieve a milestone or have not been granted a formal exemption or an extension of time.

- Treasury should ensure its website only includes the latest and most current information and guidance about TAM requirements.

**“3. Formalise the exemptions process.”**

(There was considerable misunderstanding by all agencies reviewed as to whether compliance with all elements of the TAM strategy was required.)
Agency requests for exemptions from TAM requirements be initiated by the Chief Executive Officer or Director General. Approval of such requests should be restricted to senior Treasury staff responsible for TAM submissions.

“4. Obtain Ministerial and CEO sign-offs.
(Sign-offs confirm the commitment of the two parties to be bound by and honour an agency’s asset strategy.)

- All agencies and Ministers agree on proposed asset strategies before the required due date.
- Treasury to define what constitutes ‘significant’ changes to a proposed TAM submission. If Treasury determines changes are significant, the agreed TAM should be returned to the agency indicating Ministerial approval is required.

(Because Asset Strategies were generally not well developed, the information provided to Treasury was not as valuable as it could have been, and confidence in its use for State wide strategic asset planning was diminished.)

- Agencies review and strengthen internal controls that ensure compliance with TAM policy.
- Agency staff should be trained in TAM requirements.
- Treasury Policy Pronouncements should provide guidance to agencies on appropriate internal controls to ensure compliance with TAM submission requirements such as review by Audit and Risk Committees.

“6. Co-ordinate activities with other agencies and layers of government.
(Agencies are responsible for ensuring they do not duplicate or conflict with the activities of other Government agencies and local governments. Very few agencies documented consultations with local governments, or how they considered the Department of Planning’s regional and sub-regional strategies when developing their asset strategies.)

- TAM templates to highlight requirements for consultations with local governments, and consider the Department of Planning’s regional and sub-regional strategies.
- Such processes should be integrated with the development of business cases and strategic gateway reports.”

3.3.3.6. The Internal Government Red Tape Review
In February 2006, the NSW Government announced an internal review to reduce red tape.

This review was to examine red tape that NSW Government agencies create that affects other agencies.

In December 2006, Budget Committee of Cabinet endorsed the Stage 1 recommendations of the Review. Those relevant to this study are:

**Recommendation 5.1** That Treasury establishes clearer communication with agencies concerning Results and Services Plan (RSP) aims and requirements.
Recommendation 7.1 That Treasury communicate more clearly to agencies the aims and possible formats of Total Asset Management (TAM) plans, including that:

- TAM plans need not be lengthy; and
- TAM plans need not change substantially from year to year.

Recommendation 18.1 That the Government Office Accommodation Database generally continue to operate as previously.

Recommendation 18.2 That agencies with fewer than 200 staff only be required to update the Government Office Accommodation Database every three years, or when there are major changes in the data.

The information for this review has been obtained from a Department of Premier and Cabinet Circular C2007-26 Internal Government Red Tape Review Update, which was issued by the Department’s Director General on 15 June 2007 (NSW Government, 2007). At the time of this study (September 2009), the Department’s website still listed this update as current, and shows that the page was last updated on 30 March 2009.

3.3.3.7. Better Services and Value Plan

In his 2009/10 NSW Budget speech, the Treasurer announced that the Government would “…embark on a strong programme of efficiency improvement through our Better Services and Value Plan. This plan includes the creation of a Better Services and Value Taskforce, led by an independent external chair to:

- Critically examine government agency spending line-by-line;
- Strategically review all state-owned corporations; and
- Rationalise whole-of-government spending in areas such as IT and legal services.

“Our plan will also see a comprehensive reform of the public sector amalgamating 160 government agencies and offices to just 13 departments – the biggest overhaul in 30 years.”

It was the Government’s aim to deliver efficiency dividends by cutting the spending throughout government by 1 per cent a year for the following two years, and by 1.5 per cent a year for the two years thereafter.

The Treasurer further announced that:

“The Government will implement a five point Better Services and Value Plan to constrain expense growth within these sustainable levels including:

- Maintaining the Government’s wages policy, which requires productivity offsets for increases above 2.5 per cent, and extending the public sector staffing freeze;
- Amalgamating 160 government agencies and offices into 13 to improve service delivery and achieve economies of scale;

---

4 The website was visited on 26 September 2016. The next review date was recorded as 31 December 2014.
Establishing a Better Services and Value Taskforce to initiate a series of whole-of-government expenditure reviews, commencing with a review of ICT expenditures;

Performing line-by-line expenditure audits of agency activities by embedding review teams within agencies, overseen by the Better Services and Value Taskforce; and

Conducting performance reviews of all state owned corporations, including reviewing Board performance, overseen by the Better Services and Value Taskforce."

The Better Services and Value Taskforce was to focus on three areas:

- Critically examine all areas of spending in government agencies;
- Strategically review the performance of all state-owned corporations and ensure they are performing to commercial standards; and
- Rationalise whole-of-government spending in areas such as Information Technology and legal services.

The Department of Education was chosen as the first department for examination.

In August 2009, the Government appointed economist, Stephen Sedgwick as the independent chairperson of the Taskforce. Members of the Taskforce comprised the Secretary of NSW Treasury, and the Director General of the Department of Premier and Cabinet.

The Taskforce was to meet on a monthly basis, and to be supported by a new Expenditure Review Directorate in NSW Treasury.

This study notes the following:

- The enormity of the task assigned to the Taskforce, and the extent of the resourcing, administrative and management issues that would necessarily ensue.
- The absences of a reporting plan or schedule.
- The limited membership of the Taskforce.

- This was a review on spending. Government had specifically identified areas such as Information Technology and legal services where it was intended to rationalise whole-of-government spending. Although it was intended to critically examine all areas of spending in government agencies line-by-line, no specific reference was made to the efficiency, effectiveness and performance of the state’s real property assets.

- The amalgamation of 160 government agencies and offices into 13 clusters should in itself have created almost limitless opportunities for improved productivity, efficiency, value and services. Such a reorganisation would be akin to a major corporate merger or acquisition. In property terms, this should have resulted in a review to realign assets to the affects and needs of the new organisation; develop disposal strategies; and achieve considerable operational savings.
3.3.4. 2012 – Present (2013)

3.3.4.1 NSW Commission of Audit – Public Sector Management (the Schott Report)
With the return to government of the NSW Liberal Party in 2011, the new government established a Commission of Audit to develop a framework for the future of the NSW public sector. Dr. Kerry Schott, a former Executive Director of the NSW Treasury and former Chief Executive of Sydney Water, led the Commission of Audit.


Although this case study is limited to the examination of the Schott report’s review of Asset Management in the NSW public sector, this cannot be done in complete isolation to the report as a whole. The report found that poor systems, management, and capacity are systemic across all areas of the NSW public sector. Much of this is shown to be a result of poor governance and management structures and a lack of accountability, poor strategic planning, and a lack of policy. This case study therefore considers the Schott report’s findings and recommendations in these areas, and their effect on the management of assets.

3.3.4.1.1 Overview of the Schott Report
The tenor of the report is established in the third paragraph of its Introduction (p.5), where it states,

“...In this Interim Report, the Commission of Audit examines public sector management. It is not good news. The Commission has seen pockets of good practice in the NSW public sector, but generally managerial performance is far from excellent. This will hinder the achievement of the Government’s strategies. Capabilities need improving and the Commission is surprised at the low importance that has been attached to financial, people and asset management.”

The report noted that, whilst there are some issues that can be addressed as ‘low-hanging fruit’, there were others of a “cultural or more complicated” nature that would take years to correct.

There are a number of very basic and fundamental points relating to the raison d’être and functions of government that the report felt necessary to highlight:

- There is an “indispensable” role for government in providing help and services to those in need, i.e. providing access to education, health care, and housing;
- Government must be efficient. It has a “duty of care” to ensure that taxes paid by the community are not wasted. If a third party can provide services more efficiently, then that is how they should be sourced;
- A number of public services, such as transport, directly contribute to the NSW economy. More efficient transportation of people and freight would improve productivity; and
- All aspects of government require accountability. The report found “poor systems, poor clarity about roles, insufficient coordination and limited strategic foundations. All this hinders achievement of policy and inability to keep pace with societal change.” (p. 6).

3.3.4.1.2 Machinery of Government and Accountability
In considering the structure of government, the report noted that the NSW Government has over 4,400 entities employing some 322,000 people, 22 Ministers, nine Directors General, and a multitude of Chief Executives and senior personnel running into the hundreds. The report emphasised needs for:
Clear roles and responsibilities and relationships at all levels within the executive and administration;

Regular performance checks;

A flexible structure to cope with societal change; and

New entities to be easily created, and for redundant ones dispensed with.

The Schott Report analysed the development of the structure of the NSW Government. It concluded that, with growing public expectation for integrated services, government agencies operating as independent organisations was no longer appropriate as it promoted duplication, confusion, lack of clarity, and an erosion of public confidence in government.

Multiple independent government agencies also result in fragmentation and inefficiencies in terms of deployment and use of resources, terms of employment, and financial and legal accountabilities.

The report examined the recently implemented structure of government grouped into nine clusters, with similar groups of government services co-ordinated (more effectively) within the broad policy area of a single cluster. The nine clusters are:

- Premier and Cabinet
- Treasury
- Finance and Services
- Education and Communities
- Health
- Transport
- Family and Community Services
- Trade and Investment, Regional Infrastructure and Services
- Attorney General and Justice.

### Governance

The report attached particular importance to the governance and reporting challenges to government, and examined the experience of other government jurisdictions and large private sector corporate organisations. It concluded that government clusters could learn valuable lessons from the governance and reporting arrangements of the private sector.

The report recommended that each cluster establish a strategic leadership group under its Director General, comprising the Chief Financial Officer, Chief Human Resources Manager, and operational cluster Chief Executive Officers.
3.3.4.1.4 Accountability and Reporting within Clusters

Given the noted absence of clear articulation of accountability arrangements within clusters, and that such uncertainty can often lead to tensions and conflict, the report set out a proposed delineation of roles. Figure CS3.6, reproduced from the Schott report (p.23), illustrates this.

![Figure CS3.6: Proposed Delineation of Roles](image)

Of particular relevance is the highlighted inclusion of assets in the Chief Executive Officer's role to “develop service planning and integration strategies within the entity (including assets”).

3.3.4.1.5 The Role of Central Agencies

Of the nine clusters, three are central government agencies, the Department of Premier and Cabinet, NSW Treasury, and the Department of Finance and Services. The Schott report identified six key roles that are typical to central agencies:

- Advisory – the provision of “frank and fearless advice” on policy and strategy;
- Allocating – advice to Cabinet on resource trade-offs within fiscal limitations;
- Appointments – managing public sector human resources as a single corporate entity;
- Co-ordination – co-ordinating government business that crosses departmental boundaries;
- Monitoring – measuring and reporting whole-of-government performance; and
- Regulation – enabling the functions of government.

Notably, the Commission pointed out that the central agencies should avoid any temptation to micro-manage the activities of individual departments and agencies. The Principal Cluster Departments
should in effect become the de facto central agencies for their clusters, and must retain financial and budgetary responsibility, and responsibility for staff and asset management.

The Commission envisaged the central agencies providing a “hub” to improve learning and capacity by bring key professional groups together to facilitate exchange of leading practices, identifying trends, and developing solutions to emerging issues.

The report identified monitoring and reporting on sector-wide performance as a key role for central agencies to ensure the consistency and accuracy of data and information that is common to the needs across clusters. This would require an overall information model so that requests for data and information are available and known by clusters and agencies. In turn and in time, such an integrated Management Information and Reporting Framework would enable benchmarking between clusters.

Figure CS3.7 is reproduced from the Schott Report (p.31). It shows the various requirements for information and reporting relating to service performance, human resources management and financial management, and the enablers of ICT, Fleet management, procurement, asset management, and corporate services.

![Figure CS3.7: Integrated Management Information Framework](image)

The report identified “natural custodians” of government-wide information, which, it said, “ should be seen as the ‘single source of truth’ for each category of information”. The report nominated the Department of Finance and Services as being responsible for managing the delivery of the asset management corporate enabler.

The report’s recommendations included the review of central reporting requirements with a view to developing an integrated reporting framework and specifying minimum data sets in association with clusters, and reducing the compliance burden.

3.3.4.1.6 Asset Management: Findings and Recommendations of the Schott Report

3.3.4.1.6.1 Asset Management Principles

At the outset of its chapter (pp. 101 -140) dealing with the management of the State’s assets, the Schott report outlined the following principles for the management of public sector assets, which, it noted, have been adopted within the asset management frameworks of other jurisdictions:
Physical assets generally “exist to support service delivery”;

- Good asset planning in the public sector should be based on determining which assets are required to best meet current and future service delivery needs, and whether these needs can be met through alternative methods;

- Asset planning evaluates alternatives, and assesses costs and benefits, considers risks and value for money on the whole life-cycle of an asset;

- Asset management and asset decision-making (including asset maintenance, acquisition and disposal should be integrated into a cluster’s and agency’s strategic and organisational planning; and

- There should be effective governance structures over the management of assets, together with accountability for risk management, asset condition, utilisation and performance.

### 3.3.4.1.6.2 Asset-related Frameworks

It was the Commission’s view that the NSW Government asset-related frameworks, such as TAM Plans (refer to section 4.2) and Statements of Business Intent, are “conceptually sound but implementation is far from assured” (p.103).

The Commission concurred with the Lambert Review “that rigorous and holistic asset planning in New South Wales is sometimes absent and tends to follow, rather than lead, the commitment to an infrastructure investment.” the Schott report cited a number of the findings of the Lambert Review:

- Projects have been implemented “for their own sake” with little consideration to objectives or outcomes;

- Anecdotal evidence has been used to support the adoption of asset projects;

- New assets are provided in favour of improving the utilisation or maintaining existing assets; and

- Project evaluations are often treated as compliance box-ticking exercises, rather than assessing optimal service delivery models.

### 3.3.4.1.6.3 Asset Management Governance and Administration

The Commission found the governance and administration of the planning and management framework for assets to be fragmented and spread across a number of central government agencies. For example, Treasury, which administers TAM policies and guidelines; and the Department of Finance and Services (DFS), which administers procurement policies and guidelines, and includes the Government Asset Management Committee and the State Property Authority within its cluster (refer to sections 4.3.1.1 and 4.3.2.1).

Other departments or agencies involved with the governance and administration of assets include Public Works and management of social housing under the DFS, the management of Crown Lands under Trade and Investment, Regional Infrastructure and Services, and Infrastructure NSW.

---

The Commission found these arrangements to be confusing, and felt that the roles of central agencies; agencies and clusters need to be clearly expressed.

3.3.4.1.6.4 Asset Management Policy

Similar to Governance and Administration, the Commission found that there is no over-arching policy statement that establishes asset management objectives.

The Commission recommended the release of such a policy, which it considered should include:

- Clarification of roles and responsibilities across the various tiers of government;
- Descriptions and explanations of the various asset planning and procurement frameworks and their linkages;
- A commitment to the existence of assets to facilitate service delivery outcomes;
- Asset planning and investment to be an integral part of an agency’s strategic, corporate and financial planning;
- Non-asset solutions and extending the use and/or utilisation of existing assets to be considered as options for service delivery in addition to the provision of new assets;
- Assessments of risk and adopting a life-cycle approach to managing assets to be included in the asset planning process;
- A requirement for transparency in and accountability for all asset-related investment decisions; and
- A requirement for continuing improvement in asset management.

3.3.4.1.6.5 The ‘Free Good’ Perception and Capital Charging

The report noted that, because of the reliance on central funding for most of their asset needs, general government agencies often considered them as ‘free goods’. Agencies are not required to fund their own capital asset needs and, in many cases, receive funding for the upkeep and operation of their assets. This has led to the creation and acquisition of new assets as the preferred solutions to service demand in favour of considering improvement or greater use of the existing asset base.

The Commission recommended that Treasury explore the implementation of a capital charging scheme to encourage more efficient use and deployment of capital.

3.3.4.1.6.6 Asset Planning and Management in Government Clusters and Agencies

The Commission recommended that, inter alia, the following be adopted to improve and promote “disciplined and effective cluster asset management”:

- Co-ordinating Ministers and Directors General be required to sign-off on capital budget submissions as the agreed priorities of their clusters;
- Clusters are required to investigate opportunities to rationalise and consolidate asset management functions across cluster agencies; and
- Benchmarking data on the asset management of agencies be improved and expanded from the current limited practices, and increased attention given to benchmarking the asset management practices of agencies, in addition to the performance of their physical assets.
3.3.4.1.6.7 Total Asset Management Planning

The report listed the merits of Treasury’s TAM policy, which includes how an agency’s Asset Strategy “integrates to support a cohesive service delivery strategy, within expected spending levels, to achieve efficient, effective use of all assets”. The Asset Strategy includes strategy for office accommodation, maintenance requirements and performance indicators.

The Commission concluded that the quality of TAM plans and compliance with the TAM policy had become “inconsistent”, and of limited value in compiling the State’s Budget.

The report included the 2009 Auditor-General's Review of TAM Compliance as a case study. (This Review has been considered in detail in section 3.3.3.5.2 of this Case Study into the Australian Public Sector).

The Commission found that, through the streamlining of data and modifications to the submission process, Treasury had taken steps to improve the TAM process since the Auditor-General’s report in 2009. However, the Commission noted that Treasury’s statement that 100 per cent of nominated agencies comply with TAM policy does not translate into good quality TAM submissions. Many agencies still regard the process as an exercise in compliance.

The Commission recommended that the “efficacy” of TAM be increased by:

- Ensuring TAM submissions are timely, complete, and of good quality; and
- Treasury having sufficient resources and training across its staff to support quality and meaningful feedback on all TAM submissions.

The Schott report addressed the limited information that the TAM process provides on the quality of an agency’s asset management practices. It recommended that regular rolling evaluations be undertaken at a strategic level concentrating on:

- An agency’s method and capability for identifying, evaluating and prioritising asset needs;
- Assessment of performance and risk, maintenance, service and asset alignment, and asset utilisation and rationalisation;
- Strategic Asset Management governance, systems and processes, and approach to continuous performance;
- Benchmarking and ways to improve through the facilitation of knowledge and skills transfer across agencies.

The report highlighted that these evaluations should be undertaken in conjunction with external experts, and be used to “identify ‘good practice’ in public sector asset management for a wider knowledge and skills sharing across the NSW public sector”.

3.3.4.1.6.8 Asset Maintenance

The Commission noted that the maintenance of assets has a direct relationship to their performance and, in turn, to the quality of service delivered through them. The Commission also noted that evidence that maintenance is of a lesser priority in the general government and non-commercial Public Trading Enterprise (PTE) sectors than investment in new assets or service delivery programmes. Within these findings, the report emphasised the importance of asset maintenance in relation to the following principles:
- Maintenance is essential to ensure that asset continue to support service delivery and the business operations of government;

- Deferred maintenance will increase asset degradation, which decreases the ability to provide services at the required level and at a reasonable cost, and results in maintenance backlogs, which transfer greater capital and operational financial burdens to future expenditure budgets.

The Commission did not attempt to estimate the value of maintenance backlogs in the general government and PTE sectors. It found that there are too many variations in maintenance standards, approaches to performance and risk management monitoring and measurement, and asset management practices and capability within agencies (including systems, expertise, processes and data quality). However, it did comment that NSW Health, Housing NSW, NSW Police, and Education and Communities, which have large physical and property asset bases, are known to have significant maintenance backlogs. In 2008 the value of backlogs in schools was estimated at $400 million.

The Commission commented that the significant capital investment in schools and social housing from the Commonwealth Government's Economic Stimulus programme would create additional unfunded maintenance liabilities for the NSW Government.

The report concluded that agencies should accord greater priority to asset maintenance, and that the existing policy requirements should be more rigorously applied. The report contained the following recommendations in relation to asset maintenance:

- The significance of investing in asset maintenance should be more visible and better communicated;

- Treasury should engage with agencies to establish maintenance-related Key Performance Indicators to be include in the annual TAM submissions;

- Performance levels should relate to the role that assets play in service delivery and agency business operations. This will require maintenance needs and KPIs to be established (including the condition of the asset base and its capacity to support levels of service delivery), the effectiveness of maintenance practices in maintaining the required condition of assets, and maintenance efficiency in terms of cost benchmarks;

- Treasury’s assessment of an agency’s TAM compliance should consider the quality of the Asset Maintenance Strategic Plan;

- Reviews of capital submissions and business cases should more thoroughly examine whole-of-life costs and how they will be funded;

- Clusters and agencies should have robust and transparent corporate asset management governance that is supported by proper systems and processes. This would be intended to:
  - Ensure clear lines of responsibility and accountability for strategic maintenance planning and achievement of results;
  - Enhance the link between maintenance and service delivery and business operations;
  - Provide links between maintenance objectives and asset performance;
  - Prioritise maintenance in relation of other asset investment; and
  - Define maintenance programmes appropriate to remaining useful life of assets.
3.3.4.1.6.9 **Asset Utilisation and Rationalisation**

The Commission commented that the extent of utilisation of existing assets should be considered in, and influence asset investment decisions. Where assets are under-utilised, decisions on investing in new assets may be postponed if the utilisation of existing assets can be improved without adversely affecting service delivery.

The report referred to “various reviews” that had previously concluded that better use of under-utilised assets reduces waste, improves service efficiency and quality, and can release capital for investment in other areas.

The report also referred to the future establishment of a Property Asset Utilisation Taskforce to review property asset holdings at a whole-of-government level for the development of property disposal strategies.

Of particular concern to the Commission in regard to the ability of agencies to make meaningful and informed asset decisions was the lack of understanding of asset bases through inaccurate asset registers and the lack of processes for identifying and recording assets and asset-related information and data. In this respect, the Commission referred to, and agreed with the Auditor-General’s recommendation that the “Government needs to address its process for identifying, valuing and recording land and related assets it controls as a matter of priority so it can effectively manage the full extent of its land and infrastructure holdings” (Audit Office of New South Wales, 2011).

The Commission recommended that the Department of Finance and Services should implement the Auditor General's recommendations.

3.3.4.1.6.10 **Priority Actions**

Chapter 6 of the Schott Report sets out its recommendations for priority action. A selection of these that relate to and/or affect and effect the management of assets in particular include:

**The Structure of Government**

- Clarification of accountabilities and reporting lines;
- Leadership groups to be established in each cluster;
- Improve management information systems within clusters and central agencies to lead the development of minimum data sets and data sharing across government;
- Central agencies to establish key professional groups; and
- Central agencies to develop an Integrated Reporting Framework to link cluster and central data systems.

**Managing Finances**

- Investigate those government-owned assets and businesses that could generate capital through their disposal or long-term lease.

**Managing People**

- All position descriptions to be reviewed and updated;
Increase focus on the performance management of staff;

Increase skills of the professional corporate support groups – finance, human resources and asset management – throughout government.

Managing Assets

- Release a whole-of-government asset management policy statement to communicate objectives, explain the asset planning and maintenance framework linkages, and clarify the roles and responsibilities of central agencies, clusters and agencies;
- All clusters to have transparent governance arrangements for asset management that are supported by proper systems and processes; and
- All clusters to ensure the accuracy and completeness of their asset registers.

4. Australian Local Government Sector

4.1. Introduction

The author’s work in this sector forms the basis of his hypothesis for a ‘leading’ or ‘good’ practice in public sector asset management, and for further on-going research and experimentation in the area.

The Commonwealth Government originally championed good asset management practice in the Local Government sector in 2006 when the Local Government and Planning Ministers Council (LGPMC) called for the development of “nationally consistent financial sustainability frameworks”. Councils were to protect sustainability by managing assets and infrastructure through effective asset management and financial planning.

This case study is presented in the form of the following author’s publications, articles and presentation of conference papers:

- *Australian Local Government Assets: a case for excellence in their management* prepared for the Australian Centre of Excellence for Local Government (ACELG), and presented at ACELG’s Local Government Research Showcase and Forum held in Melbourne on 30 April 2014.


This case study also records the work of the author’s professional practice in local government, which, combined with his formal research, exposes one of the flaws of a federal system of
government, namely, a lack of co-operation, communication and knowledge-sharing between the three tiers of government, particularly between the State and Local Government sectors.

It is for these reasons that the LGPMC’s call for consistent financial sustainability frameworks did not materialise and, as a result of this the Local Government sector has made such little progress in improving financial sustainability in the ten years since 2006.

This flaw also extends between government agencies of the same state government jurisdiction. It is common for local governments, which have Integrated Planning and Reporting (IPR) requirements imposed upon them by their state governments through legislation and regulation, to cynically criticise their state governments for ‘not practicing what they preach’. This is especially noticeable in Western Australia and New South Wales, where IPR has been introduced as the first part of a two-part local government reform programme; council amalgamations being the second part.

This has led to considerable ill feeling and long-term relationship damage between the two tiers of government and local communities, and the expenditure of much political capital by the state governments of Western Australia and New South Wales.
Abstract

Local governments have an absolute dependence upon assets to manage themselves and to provide services to their communities. Growing concern over the financial sustainability of local governments in Australia over the last decade has seen the federal and state governments embark on a policy of local government reform in the area of Integrated Planning and Reporting. This is an attempt to improve financial and service sustainability through community consultation and a series of frameworks that seek to promote long-term corporate and financial planning, including the effective long-term strategic management of assets. However, these reforms have rarely been implemented with any degree of effectiveness. This paper examines Asset Management as a professional discipline; analyses the need for it to be recognised as a strategic resource management function; its role in local government sustainability; the reasons behind the lack of an integrated strategic approach to asset management; the clear and present dangers of maintaining the status quo; and the case for promoting excellence in their management through awareness, education, further research and practical experimentation.

Key Words: Integrated planning and reporting, strategy, asset management, financial sustainability

Introduction

‘Strategy’ and ‘Planning’ are often concepts associated with more modern management principles and skills. However, their definition and application can be found in one of the earliest ‘management manuals’, Sun Tzu’s The Art of War, 6th century BC.

“Strategy is the means by which all actions are coordinated and all resources allocated.” (Sun Tzu 2001, p. 104); and

“Because all things are interconnected, you must know each one, and how each one affects and effects every other. Only then can you plan effectively.” (Sun Tzu 2001, p. 66).
The management of Australian local government assets is almost exclusively governed by state and territory regulation over the conduct of local government business through Integrated Planning and Reporting requirements (Tan & Artist 2013, p. 5).

Tan and Artist (Tan & Artist 2013 p. 7) conclude that more work is required to understand whether the various IPR legislation is resulting in better strategic management in local government. This paper seeks to fill that gap in understanding.

This paper demonstrates that Asset Management may well be the most important local government corporate activity. It is local government’s business fulcrum that connects community aspirations, corporate objectives, financial imperatives and service levels. It determines business, financial and service sustainability. It deals with the current state of local governments and shapes their future state (Audit Commission 2000 pp. 4-10).

Apart from being the strategic and planning tool that brings community and corporate strategies to reality, good asset management challenges the status quo and questions service levels, service models and service delivery (Howarth 2006, p. 25).

Notwithstanding efforts by federal, state and territory governments to reform and improve the management of public assets, this paper shows how and why the Australian public sector has not been successful in adopting a strategic approach to their management; and that this failure poses very real threats to local government financial and service sustainability.

This paper concludes that there is an overwhelming and urgent case for a national standard of excellence for the management of local government assets as strategic business, corporate and community resources, that goes beyond the national technical manuals and frameworks that have so far been developed for the management of built and infrastructure assets, and the assessment of asset management maturity.

**Assets and Asset Management in the Public Sector**

**Local Government Assets**

Although responsible for the delivery of common services to their communities, no local government is the same. Councils vary significantly in size and composition of their asset base (Audit Commission 2000, p.7). However, all governments face similar challenges in service delivery, changes in community expectations, the influence of technology, and getting the best out of their assets to deliver services in the most effective and cost efficient manner (Jones & White 2008).

All councils will have common obligations and compliance requirements; common categories of assets to manage, pay for, operate, maintain and repair; and to plan for. Infrastructure and built assets will account for some 80% - 90% of the total asset value of most councils.

Local governments are absolutely dependent upon assets to manage themselves and to provide services to their communities.

These assets include roads, cycle and footpaths, bridges, community centres, recreation, sport
and entertainment facilities, parks and gardens, sewerage, water and drainage systems, accommodation, libraries, galleries and museums, heritage assets, plant and equipment, information and communication technology (ICT), and major infrastructure such as airports.

Local governments will therefore always be “asset rich…” (Carter 2013, p.3). Assets represent a government’s value and wealth, but they can quickly become liabilities physically, financially, legally and politically if they are poorly maintained, obsolescent, inappropriate, in the wrong place, ineffective or inefficient.

**Asset Management and its Recognition as a Professional Discipline in Public Administration**

There are a growing number of governments across the developed world, including the USA, Mexico, Canada, the Scandinavian nations, Germany and New Zealand that have implemented far-reaching reforms in the management of their assets. However, this paper uses the experience of the UK as the benchmark for good asset management practice, as the author’s current doctoral research (currently unpublished) has shown it to represent the closest parallel to Australia’s reform journey.

**Asset Management Awareness and Common Misconceptions**

It is the corporate and whole-of-organisation context with which the strategic management of assets is concerned (Lyons 2004). This is neither properly understood, nor does it receive the necessary recognition and attention (Howarth 2006).

Asset Management is an issue of strategic importance to all levels of government. In relation to the management of government property assets, Kaganova and McKellar wrote in the preface to their edited book:

“This is a topic that, surprisingly, has not attracted sufficient attention of scholars and researchers, despite the importance of deploying the full range of government real property assets, in both mature and emerging economies, to achieve strategic public policy objectives.

“Given the enormity of the challenge in addressing the topic of public property asset management from an international perspective, further investigation, research and practical experimentation are much needed.” (Kaganova & McKellar 2006, p. ix).

There is a common misconception and belief in government that Asset Management is engineering, maintenance, property or facility management. It is not. These are technical and operational subsets of Asset Management that implement an organisation’s Asset Management Strategy (Male 2006, p. 25).

Howarth put the distinction very succinctly when he wrote “There are therefore differences between the property management view of assets and the asset management view of property.” (Howarth 2006, p. 12).

During the 1990s and early 2000s, successive governments in the UK had under-invested in
infrastructure, particularly in the national road network. In seeking alternative and new sources of capital, the Chancellor of the Exchequer commissioned Sir Michael Lyons in 2004 to assess the possibility of achieving £30 billion from asset disposals and £760 million per annum in savings by 2013 through better asset management. Lyons concluded that these targets were achievable (Lyons 2004)6.

Lyons said that “…. good asset management planning must complement an organisation’s strategic or business planning.” (Lyons 2004, p. 23). He also positioned responsibility for Asset Management with the Finance Director and for it to be regularly reported at board level (Lyons 2004, p. 7). Significantly, this has formed the basis for the subsequent reform of asset management throughout the UK public sector and the development of a routemap to asset management excellence (UK Office of Government Commerce 2006).

Asset Management Definitions

Lyons defined Asset Management, as “a key part of business planning, which connects, at a strategic level, decisions about an organisation’s business needs, the deployment of its assets, and its future financial needs.” (Lyons 2004, p. 34)

Professor Stephen Male of Leeds University expanded on the Lyons definition of Asset Management by describing it as:

“A subset of Resource Management and is the effective and efficient direction and utilisation of assets, both tangible and intangible, to sustain the business. This definition covers all asset classes including production, facilities, fleet assets and IT infrastructure, for example. This definition encapsulates the processes of:

- Planning
- Prioritisation
- Deployment
- Performance targets and KPIs
- The management of strategic risks to the asset base” (Male 2006, p. 24).

In summary, Asset Management is:

- An activity that sees assets as key strategic resources;
- Involved with business, corporate and organisational objectives;
- Concerned with both non-financial as well as financial matters;

• Connected with the operational management of individual assets and asset categories;
• Concerned with service delivery and whole-of-asset life;
• Involved with planning on a medium and long term basis; and
• A corporate activity and not solely the province of property, engineering, construction and facilities professionals

**Skills**

In concurring with the views of Lyons and Male, Howarth (Howarth 2006, p. 24) identified and recommended the following necessary skills for asset management:

• **Data Management** (asset registers; data accuracy; type, scope and analysis of data);
• **Performance Management** (KPIs, performance measurement and benchmarking; contract management; stakeholder management);
• **Strategic Business Planning** (business and service drivers and strategic thinking; asset strategy and management plans; risk management and project and programme management; sustainability);
• **Financial Management** (resource accounting; operating and capital budgets; whole-of-life costing; business case preparation and options analysis); and
• **Leadership** (capacity and capability building; change management; management of professional staff, contractors and consultants)

Howarth’s recommendations were made against the need to embed “asset management awareness and associated skills across government” focusing “on ensuring that asset management becomes an intrinsic component of mainstream strategic thinking and financial management” (Howarth 2006, pp. 4-5).

Howarth’s report included research into the professional skills already existing in government that were related to asset management, for example property management, facility management and finance. He found that these existed to a degree of experience and competence at a “tactical level” with managers seeing property as a “strategic function”, but few understanding it as a means of “optimising the use of assets to benefit the service”. He also identified a noticeable lack of awareness of the strategic value of property assets at senior management level (Howarth 2006, pp. 3-4).

It will be seen that Australia’s lack of progress in developing asset management capacity and capability closely resembles the lack of asset management awareness experienced by the UK government in the 2000s.

**Professional Development**

Although largely concerned with property assets, Lyons (Lyons 2004) applied his thinking to
all categories of assets, roads, infrastructure and intangible, as did Male (Male 2006, p. 24). Lyons, Male, Howarth and the Office of Government Commerce consulted the property profession and the finance sector widely in their research and for the development of a routemap towards excellence.

In addition to calling for a robust asset management and planning framework, Lyons (Lyons 2004, p. 7) recommended that asset management skills and expertise be expanded and improved within the public sector. The property profession was used a base for the development and improvement of these skills.

The Royal Institution of Chartered Surveyors (RICS) had already been involved with local government in the management of property assets and was seen to represent a practice benchmark for other major asset categories.

The RICS has published *RICS Public Sector Property Asset Management Guidelines: A guide to best practice* for its professional members (Jones & White 2008). (The author of this paper was consulted on these guidelines and represented the RICS at their official launch in Australia).

As an offshoot to these guidelines, the RICS has also published a series of best practice guidelines for use in the management of local government assets (Royal Institution of Chartered Surveyors 2009).

Howarth in particular, called for asset management to be recognised and treated as a profession in the public sector by recommending that it be developed through the government’s Professional Skills in Government programme and be included in the training and development for *“all”* staff (Howarth 2006, p. 4).

The objective was to widen the awareness of asset management as a strategic corporate resource among senior managers, and to encourage strategic thinking amongst existing professional staff. One result of this has been the appointment of a whole-of-government ‘Head of Asset Management’ profession at a very senior level of government.

**Integrated Planning and Reporting in Local Government**

**New Public Management Paradigm**

The introduction of Integrated Planning and Reporting (IPR) frameworks and regimes over local government in Australia can be traced to the New Public Management Paradigm (NPM), which became a dominant principle of government administration in the 1980s and 1990s. The key objectives of NPM were:

- Improved financial efficiency and cost effectiveness;
- Performance monitoring and incentives;
- Application of private sector management approaches;
- Decentralisation and reduced bureaucracy; and
Greater accountability and transparency.

In terms of local government, this meant an increased requirement for longer-term community and corporate strategic planning. (Tan & Artist 2013, p. 9)

Tan and Artist, in their University of Technology, Sydney (UTS) and Australian Centre of Excellence for Local Government (ACELG) research report, Strategic Planning in Australian Local Government: A comparative analysis of state frameworks (Tan & Artist 2013, pp. 9-14), trace the development of integrated planning and reporting in local government. This, together with findings of the author’s research, is summarised in the following paragraphs.

**Corporate Planning**

Corporate planning as a means of the effective and efficient deployment of resources was first introduced as public policy in New South Wales (NSW) in 1972. Its subsequent development mirrors the transformations of government characterised by the NPM in the 1990s.

**Local Government Legislation**

In response to a number of local government association reports expressing concern over the approach to resource planning and the associated difficulties arising from limited sources of revenue, state governments enacted legislation requiring councils to adopt resource strategies and planning.

All states and territories, with the exception of the Australian Capital Territory (ACT) have enacted legislation requiring councils to adopt strategic community, corporate, workforce, financial and asset management planning to varying degrees. The most rigorous and extensive of these are NSW, Victoria and Western Australia (WA), which have set comprehensive planning and reporting frameworks covering:

- Strategic Community Plans;
- Corporate Business Plans;
- Annual Plans;
- Long-term Financial Plans (LTFP);
- Asset Management Plans; and
- Workforce Plans

Table 1, adapted from Tan and Artist (Tan & Artist 2013, p. 6), summarises the planning and reporting frameworks adopted by the state and Northern Territory governments.
Table 1. Strategic and Corporate Planning Frameworks

It is interesting to note the different interpretation and planning emphasis taken by each jurisdiction.

Queensland’s framework originally required a ten-year Community Plan, but this requirement was repealed in 2012 “to cut unnecessary red tape and streamline provisions about the financial sustainability and accountability of local government” (Local Government and Other Legislation Amendment Bill 2012, Explanatory Notes in Tan & Artist 2013, pp. 21-22).

Financial Sustainability Concerns

From the mid-2000s, concerns have been raised at both state and national level over the financial sustainability of councils.

In 2005 the Local Government Association of South Australia released an independent report that showed “councils had put community needs and demands for services ahead of their own financial sustainability” (Tan & Artist 2013, p. 10).

In 2007, the Queensland Treasury Corporation carried out financial sustainability assessments for 105 councils. Forty per cent were assessed as ‘financially weak’, ‘financially very weak’ or ‘financially distressed’ (Martin 2009 in Tan & Artist 2013, p. 21).

PricewaterhouseCoopers (PwC) published a report in 2006 that stated “… that a sizeable proportion of councils face long-term financial sustainability problems” (PricewaterhouseCoopers 2006, p. 6). It observed a tendency to reduce and defer expenditure on the maintenance and renewal of existing infrastructure and major community assets when councils encountered operating cash flow deficits. These deferrals have been the cause of large asset renewal and replacement backlogs.

Current examples, which show that this situation continues, will be described later in this paper.

The PwC report concluded that local government unsustainability is a result of poor resource planning, which leads to long-term financial problems.

In 2006, the Local Government and Planning Ministers Council (LGPMC) called for the
development of nationally consistent financial sustainability frameworks. Councils were to protect sustainability by managing infrastructure through effective asset management and financial planning.

State and territory governments accepted the LGPMC’s determinations for a national approach to these frameworks, which led the states to require councils to undertake long-term planning in financial and asset management. Notwithstanding this, table 1 above shows that Tasmania undertakes neither, and the Northern Territory does not plan for the management of its assets.

This paper will show that, despite the warning signs, the involvement of the LGPMC and legislation enacted by the states, financial unsustainability remains a major threat to local government.

**Clear and Present Threats to Local Government Financial Sustainability**

The threats to the financial sustainability of local government are very real, and not dissimilar to those faced by the UK public sector.

This paper identifies three principal dangers and threats to the on-going financial sustainability of local government and its continuing capacity to provide community services:

- Local government revenue sources;
- Local government assets and their management; and
- IPR reform – the very thing designed to improve sustainability.

**Threat: Local Government Revenues**

There is growing evidence that local government is becoming less self-sufficient.

Fiscal and budgetary pressures are being felt at all levels of government with ‘AAA’ credit ratings coming under threat and downgrading imposed. Standard and Poor’s Ratings Services downgraded Western Australia’s credit rating in September 2013 to AA+ on account of declining revenues and increases in the state’s debt (Standard and Poor’s 2013).

Federal and State Treasurers are calling for efficiency dividends from their departments and agencies, including from Departments of Local Government.

As seen from the 2006 PwC report, it is often the management, maintenance, renewal or replacement of the existing asset base, which is essential to service provision, that is forfeit to provide the efficiency returns. This results in maintenance backlogs and funding gaps, reduces the capacity to deliver services at the desired levels, and threatens the very future of some councils.

Local government, having a large dependence on federal and state funding, bears a significant share of the consequences of the inefficiencies of its more senior counterparts. These consequences are the withdrawal of direct federal or state funding, making access to
funds more difficult, and withdrawing support to assist councils to improve their capacity and capability.

At the same time, councils must continue to manage their affairs and provide services in compliance with their legislative and other obligations.

The net effect is to put the sustainability, financial viability, and physical fabric of councils, essential services and their ability to meet the expectations of their communities under severe pressure.

In short, councils have to find ways to become more self-sufficient and increase their productivity.

In his briefing paper to ACELG, Mervyn Carter (Carter 2013, p. 3) examined local government funding and expenditure. Further analysis of these statistics (Australian Bureau of Statistics 2013 in Carter, 2013 p. 3) is set out below. Table 2 summarises the sources of local government revenues between 2002-03 and 2011-12. Figure 1 shows the changes in the proportion of total revenue for each revenue source over the same period.

<table>
<thead>
<tr>
<th></th>
<th>2002-03 $ Billion</th>
<th>% Total Revenue</th>
<th>2011-12 $ Billion</th>
<th>% Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Revenue</td>
<td>7.2</td>
<td>38.5</td>
<td>13.2</td>
<td>35.8</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>3.0</td>
<td>16.0</td>
<td>9.2</td>
<td>24.9</td>
</tr>
<tr>
<td>Sales of Goods &amp; Services</td>
<td>6.0</td>
<td>32.1</td>
<td>9.0</td>
<td>24.4</td>
</tr>
<tr>
<td>Current Grants &amp; Subsidies</td>
<td>2.1</td>
<td>11.2</td>
<td>4.3</td>
<td>11.6</td>
</tr>
<tr>
<td>Interest</td>
<td>0.4</td>
<td>2.2</td>
<td>1.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Total</td>
<td>18.7</td>
<td>36.9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2: Local Government Revenue 2002/03-2011/12

Figure 1: Local Government Revenue Profile 2002/03 – 2011/12
Total revenue in 2011-12 was $37 billion, of which $13.2 billion (only 36%) was raised through recurrent tax revenue.

Although an element of revenue was raised through infrastructure levies for new or upgraded assets in the Other Revenue category, the balance of revenue was provided through capital grants, sales, subsidies and interest income, i.e. non-operational recurrent sources.

Significantly, over this period:

- Revenue from taxes increased by some 83%, but its proportion of total revenue declined by 8%;
- Revenue from sales of goods and services increased by 50%, but its proportion of total revenue fell by 31%;
- Other revenue increased threefold and represents 25% of total revenue, an increase of 38%; and
- The proportion of grants and subsidies rose by 3%, but more than doubled to $4.3 billion.

The significance of these trends is that they indicate an increasing dependency on other revenue and grants and subsidies, and a declining capacity on behalf of councils to sustain their own self-sufficiency through the sale of goods and services and collection of tax revenue.

Completing the earlier citation (Carter 2013, p. 3), “Local Government is asset rich and income poor.”

Given the current pressures faced by state governments, the level and availability of grants and subsidies as a funding source is being reduced. This will have considerable impact and further test sustainability.

As an example, the Western Australian Local Government Association (WALGA) reported in its August 2013 Economic Briefing (Western Australian Government Association 2013) that the level of the Country Local Government Fund (CLGF) in the 2013-14 state budget was to be reduced by nearly 55% from an estimated $76.4 million in 2012-13 to $34.5 million.

The 2012-13 contribution by the CLGF towards Local Infrastructure Asset Renewal and New Assets was $28.3 million. This was reduced to zero in the 2013-14 state budget.

**Threat: Local Government Assets and Asset Management**

The Western Australian Regional Development Trust’s (WARDT) 2012 Review of the Royalties for Regions Country Local Government Fund stated:

“Asset management systems improve the financial sustainability of CLGs if they result in a properly prioritised, managed, and manageable asset maintenance renewal and replacement program that is affordable and productive.
“Financial sustainability exists for CLGs where a conservative realistic assessment of future own source and transfer income mean that asset operation, maintenance, replacement, renewal and creation can occur on a structured and planned basis over the longer term” (Western Australian Regional Development Trust, 2012 p. 14); and

“Asset management is at the heart of considerations of CLG financial sustainability. The main requirement is asset data integrity and sector comparability” (Western Australian Regional Development Trust 2012, p. 23).

Notwithstanding this, anecdotal evidence suggests that funding cuts are also affecting the WA Department of Local Government and Communities. Anticipated funding to assist councils to develop IPR capacity and capability has not been budgeted.

Additionally, although the state government’s 2014-15 programme to assist Country Local Governments (CLGs) to self-assess their levels of asset management maturity under the National Assessment Framework is open to participation by all 110 CLGs, funding availability limits participation to 75 CLGs.

In 2011-12 local government expenditure totalled $37 billion. (Australian Bureau of Statistics, 2013). Although reported by expenditure category, no meaningful data is provided on asset related operating, maintenance, and repair and management expenditure. However, a gross investment in infrastructure of $10.6 billion was recorded for 2011-2012.

In 2009-10, local councils owned $302 billion in land and fixed assets, comprising:

- Land: $88 billion;
- Major Assets (buildings, roads, infrastructure etc.): $213 billion

(Australian Centre of Excellence for Local Government 2013 in Carter 2013, p. 4).

There is good reason to believe that these values are understated due to an acute lack of asset data, asset knowledge and poor asset systems that are not linked to financial systems. Many councils lack accurate asset inventories and data.

However, using an average of 2.5% of asset replacement cost for annual routine maintenance expenditure and assuming the value of major assets represents replacement cost and had grown to $235 billion by 2011-12, some $5.9 billion would have been required to maintain local government assets in 2011-12.

This represents 16% of total expenditure and 45% of recurrent tax revenue.

If investment in infrastructure continues to increase by $10 billion per annum over the next ten years, an additional $13.75 billion, at an average of some $1.4 billion per annum, will be required for its maintenance.

The continuation of these trends could result in the annual expenditure on asset maintenance outstripping recurrent tax revenue in five to ten years. (Anecdotal evidence suggests that the recurrent tax revenue of some local governments is already insufficient to cover salary costs.)
With assets not having been managed at a strategic level, it is most likely that expenditure on maintenance has been well below the benchmark standard for many years.

This will have resulted in the build-up of significant maintenance backlogs giving rise to the premature need for asset renewals and replacement. This represents a threat to asset values and balance sheets, financial ratios, and puts avoidable and unnecessary pressure on long-term financial requirements.

Figure 2, drawn from the author’s consulting experience, is an example of the Asset Renewal and Replacement Gap calculated for a council in 2013.

![10-Year Cumulative Renewal & Replacement Gap](image)

**Figure 2: Asset Renewal and Replacement Gap**

In this case, the ten-year renewal and replacement gap of $163.2 million was built from an incomplete asset inventory and limited and unreliable asset data, which was recorded on separate and unrelated spreadsheets maintained by different parts of the organisation. This sum has been accepted by council as a ten-year financial requirement and included in council’s Long-Term Financial Plan, from which major funding and investment decisions will be made.

**Threat: Integrated Planning and Reporting Reform**

It was noted earlier that in 2006 the LGPMC called for nationally consistent financial sustainability frameworks and effective asset management and financial planning.

The conclusions of Tan and Artist (Tan & Artist 2013, p. 14) show that this has not been achieved.

“The national picture is one of a complex web of legislation with differing approaches, requirements and strength of hierarchies in terms of links between strategic (community), corporate and resource planning”; and

“Community strategic plans set the context and priorities for corporate resourcing strategies,
ensuring that local governments are better able to meet community needs, expectations and priorities.”

Given that community engagement is the dominant principle of IPR, it is surprising to note that three jurisdictions do not require these from their local governments.

The “complex web” and “differing approaches” are set out in Table 1.

Carter said, “It is therefore crucial that local government be expert in financial and asset management.” (Carter 2013, p. 4).

There is strong evidence showing that “better strategic management” (Tan & Artist 2013) is not being achieved and that local government is not “expert in financial and asset management” (Carter 2013).

This is illustrated by the 2013 New South Wales Treasury Corporation (NSW TCorp) independent review of the financial sustainability of the NSW local government sector (New South Wales Treasury Corporation, 2013).

NSW TCorp (New South Wales Treasury Corporation 2013, p. 5) defined financial sustainability for a local government over the long-term as “when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community”.

The NSW TCorp key findings and recommendations (New South Wales Treasury Corporation 2013, pp.7-9) are consistent with the overall national position. They also reflect the author’s professional experience and doctoral research into the wider public sector. The NSW TCorp findings and recommendations are summarised below.

**NSW TCorp Findings**

- The operating deficits of NSW councils are unsustainable. Most councils are in deficit with only 50 councils (33%) recording operating surpluses. The cumulative deficit for NSW local governments totalled $1.0 billion between 2009 and 2012.

- The federal government pre-paid half of the 2013 Financial Assistance Grants in 2012. Many councils accounted for these pre-payments as revenue, which resulted in the level of the 2012 cumulative operating deficit being understated by $181 million, the true operating deficit being $469 million.

- Analysis of Long-Term Financial Plans showed that the sustainability situation is forecast to deteriorate for nearly half of NSW councils. Forty-six per cent (70 councils) of all councils are in danger of being rated ‘Weak’ or lower by 2016. Figure 3 is reproduced from the NSW TCorp Report (New South Wales Treasury Corporation 2013, p. 11).
Councils will need to consult widely with their communities to redress current unsustainability or prevent further deterioration through a combination of balanced financial, fiscal and service level measures.

Breakeven operating positions are essential to stem further financial deterioration. TCorp estimated that this would generate sufficient funds to meet on-going asset maintenance and service requirements. However, this would not be sufficient to deal with the current infrastructure maintenance backlog of $7.2 billion. The shortfall in asset maintenance spending has grown by $1.6 billion since 2008.

Not all NSW councils have completed their initial implementation of IPR. TCorp noted that this should be done urgently to provide reliable information on their true financial positions and on-going financial demands.

The levels of certainty of Asset Management Plan outputs will not improve until a higher degree of asset management planning expertise is achieved.

The proportion of councils rated as ‘Weak’ and ‘Very Weak’ is higher in the regional areas of NSW, particularly the north coast and far west of the state where population density is lower than other regions. This means a lower number of ratepayers to meet the demand of asset maintenance and renewal.

The financial sustainability of NSW Local Government continues to deteriorate notwithstanding that comprehensive IPR legislation has been in place since 2009.

**NSW TCorp Recommendations**

- Councils must achieve at least breakeven operating positions on an on-going basis. Sustainability is dependent upon councils becoming operationally self-sufficient to
halt expenditure deferral, undertake asset maintenance and renewal and deliver services. Surpluses should be used to deal with infrastructure backlogs.

- All future increases in rates and council charges for services should be based on the underlying costs of providing those services, i.e. a zero budgeting approach.

- Asset Management Planning must be a priority of councils to provide a reliable, certain and accurate picture of the status of their assets, future service demand and, hence, funding requirements.

- Awareness of, and capacity in the IPR process of linking long-term strategies, asset management planning and long-term financial plans must be promoted, and developed within council elected members and at all levels of council management.

WA is the last of the states to introduce IPR legislation, which it enacted in August 2011.

The Department of Local Government and Communities (DLGC) developed the WA IPR Framework in 2010 (Department of Local Government and Communities 2010), under which all Councils were required to develop a suite of strategies and plans for submission to the DLGC by 30 June 2013. These comprise:

- Strategic Community Plan (following community consultation);
- Corporate Business Plan;
- Workforce plan;
- Long-Term Financial Plan; and for
  - Asset Management
    - Asset Management Policy;
    - Asset Management Strategy;
    - Asset Management Plan; and
    - Asset Management Improvement Plan.

The DLGC allowed less than two years for councils to comply with the IPR requirements.

This indicates a lack of appreciation and awareness on behalf of the WA Government of the enormity and complexity of IPR reform and the very considerable organisational, skills and cultural changes that councils would be expected to understand, embrace and implement.

The level of support and training offered and provided by the state government and other agencies and institutions for councils to cope with and manage this change reflects that lack of awareness and understanding.
Anecdotal evidence shows that funding restrictions have limited the DLGC’s review of the submitted documentation to a random selection of councils, with the key performance indicator being the number of councils that have prepared strategies and plans, rather than their quality and capacity to improve financial sustainability. Nevertheless, the DLGC’s review of the IPR documentation of 22 (out of 140) councils has revealed serious concerns in data knowledge and management, staff capacity and plan integration (Daniels 2014).

In particular, gaps have been identified in all essential elements of Asset Management (Daniels 2014), namely: non-compliance with IPR requirements; lack of cross-organisational responsibility; performance measurement; Asset Management Policy; Asset Management Strategy; data management; knowledge of asset condition and useful life; service levels; and operation and maintenance, renewal and replacement strategies.

Although ultimately the responsibility of individual councils, the state government appears to have cast local government adrift on the IPR journey in favour of concentrating its efforts on the amalgamation of Perth metropolitan councils, believing that IPR and amalgamation are two separate and unrelated pieces of reform.

This is likely to have negative consequences for sustainability in both the metropolitan and country councils.

**Barriers to Excellence in Asset Management**

This paper has sought to demonstrate the benefits of, and the real need for IPR, and Asset Management in particular, to support the sustainability of local government throughout Australia.

This paper has also sought to show that the implementation of IPR has been deficient in a number of areas, which have resulted in the objectives of the LGPMC not being achieved and it not making a significant difference to-date to local government sustainability.

The reasons for these failures in the context of the Asset Management Framework stem from a lack of understanding and awareness on the part of the federal, state and territory jurisdictions that asset management is a professional discipline in its own right; the continuing belief in its traditional engineering place in local government; a lack of leadership and experience in asset management; limited research; and a lack of engagement with professional practitioners outside the engineering and technical spheres of expertise.

In addition to these, the unintended effects of IPR reform can be attributed to the adoption and implementation of the New Public Management Paradigm turning to paradox.

**New Public Management Paradox**

It was established earlier in this paper that the development of IPR reform, or at least its characteristics, is linked to the concepts and principles of the New Public Management Paradigm.

Hood and Peters (Hood & Peters 2004) support evidence that the paradigm has turned to paradox in that reform can result in “cultural clashes or blind spots” (Hood & Peters 2004, p. 272), which “include paradoxes of organisational resistance to pressures for second-order change, variants on institutional self-reproduction paradoxes, and related ‘triumph of hope
over experience’ paradoxes in which learning from error is somehow suppressed.”

As observed through many studies of implementation, Hood and Peters identify a tendency “…. for one culture’s broad vision for change to be translated into something quite different when it passes to another level of organisation or a different cultural environment. Cases of this type that relate to the ambitions of NPM include measures intended to produce broader strategic thinking by public servants that turn into yet another middle-level bureaucratic paper chase…. (Hood & Peters 2004, p. 273). This is a “two-level cultural and social paradox.”

The federal, state and territory governments are largely responsible for both the IPR paradigm and its paradox. They saw the need for improved planning and reporting, but implementation shows that they had not the foresight to consider the Pandora’s box that it might be.

Figure 4 illustrates the Local Government IPR Asset Management Paradox.

Figure 4: Local Government IPR Asset Management Paradox
A two-level paradox is observed between federal and state governments (level 1) and local government (level 2). This is attributed to unrealistic expectations for the outcome of reform; ad hoc and inconsistent implementation nationally; adoption of frameworks by some states largely based on an assumed ‘best practice’ from other states, rather than from good research and learning from wider experiences; the mandating of reform with apparent insufficient planning and consultation with grass-roots local government in terms of how councils might build capacity and capability; and a lack of incentives, expert and financial support.

The unintended consequences of this have been observed as:

- Councils are not much the wiser following the implementation of reform, which means that capacity and capability has been difficult to build and improve;
- A real and cynical resistance to change on behalf of councils to the imposed reform,
which, in some instances, has strained relations between councils and state government;

- Councils have often been overwhelmed by the extent and complexity of reform, which has led them to be driven by box-ticking compliance rather than improving financial sustainability. In the case of calculating and meeting the requirements of the asset management financial ratios, this has resulted in an over-reliance on systems and an unquestioning acceptance of modelling outputs. Systems are leading reform in many councils in the belief that it is they that develop asset management strategy;

- It is difficult to conclude that good value for money has been received from the investments made to-date in IPR reform; and, most significantly,

- ‘Nationally consistent financial sustainability frameworks and effective asset management and financial planning’, the 2006 LGMPC objectives, are no closer to being achieved. $302 billion of public assets are still mostly not subject to effective asset management and strategic planning.

**Conclusion**

Despite calls from a number of learned individuals, institutions and organisations, Asset Management, the skills that it requires and its critical role in local government financial sustainability have not been sufficiently understood across the public sector.

As a consequence, the approaches taken by state and territory governments towards the adoption and implementation of good practices through IPR have not met the objectives set by the LGMPC in 2006; nor have they appreciated the complex cultural, capacity, capability and organisational challenges that would be posed to local governments.

The financial sustainability of local governments across the country shows a worrying trend of continuing deterioration and growing infrastructure renewal backlogs. The proportion of revenue derived from taxes is decreasing and federal and state government grants and subsidies are being withdrawn or reduced. Financial self-sufficiency may prove to be ‘a bridge too far’ for some local governments.

Developing excellence in local government asset (and financial) management within the framework of IPR is therefore a clear priority for the public sector.

For an enduring and effective outcome, this will require all levels of government to regroup and jointly commit to nationally consistent frameworks under a common understanding, minimum standards and common principles for legislation.

This should be undertaken as a national three-tier government project, perhaps under the direction of ACELG, with clear terms of reference, defined outcomes, milestones, progress and performance reviews.

The project should include the involvement of industry experts, professional practitioners and academia. A major focus should be to build a body of knowledge in asset management, and
on-going learning and education programmes to improve capacity and capability throughout the public sector as a professional management skill.

References


Martin, J. 2009, *From Local to Regional Governance: How the Queensland State...*

New South Wales Treasury Corporation (NSW TCorp) 2013, Financial Sustainability of the New South Wales Local Government Sector, NSW TCorp, Sydney.


4.3. **Asset Management in Integrated Planning and Reporting Frameworks: some war stories; and**

**Asset Management in Local Government: more than ever a people business, and business for people.**

The author prepared the following paper, which was presented on 17 November 2015 at the *Local Government Financial Sustainability – Preparing for the future* conference, 17 & 18 November 2015, Sydney Boulevard Hotel, Sydney. Conference organiser: Criterion Conferences.

The paper was revised in March 2016, and presented by the author on 9 March 2016 at the Institute of Public Works Engineering Australasia 2016 Western Australia State Conference (9 – 11 March 2016) held at the Esplanade Hotel, Fremantle, under the title, *Asset Management in Local Government: more than ever a people business, and business for people.*

The images in the paper are extracted from the author’s visual conference presentations.

**Asset Management in Integrated Planning and Reporting Frameworks: some war stories; and**

**Asset Management in Local Government: more than ever a people business, and business for people.**

Trevor Seymour-Jones
November 2015
Revised March 2016

**Abstract**

This paper has been prepared for presentation at the *Local Government Financial Sustainability – Preparing for the future* conference, 17 & 18 November 2015, Sydney Boulevard Hotel, Sydney.

The reform of local government through efforts to improve its administration by the introduction of Integrated Planning and Reporting (IPR) has been a hot topic throughout Australia for over a decade. This reform has been driven by the ever-present threat to the financial sustainability of the sector as a whole.

Despite local governments having an absolute dependence upon assets to manage themselves, and to provide services to their communities, IPR has rarely been implemented with any degree of effectiveness.

Drawing upon the author’s doctoral research, case studies, and direct experience with the National Assessment Framework, this paper identifies a principal reason for this as the treatment and implementation of IPR and Asset Management as little more than a set of business practices, processes and procedures, rather than recognising how they would affect individual councils with their own identities and cultures, and limitations in terms of capacity and capability.

This paper will also show asset management is dependent upon a wide range of skills; organisational and inter-government communications, relationships and collaboration; and a sound academic and professional base.
Introduction

The theme of this paper is how the management of assets affects sustainability, and what it takes for a local government to be Asset Management fit-for-the future.

The author has specialised in the management government assets for more than ten years. He now concentrates on the role of assets in Local Government.

Over the last 15 to 20 years, Asset Management around the world has evolved into a core organisational business management function. It is no longer the technical activities of engineering and maintenance.

However, the Australian public sector is still struggling to come to terms with what asset management is, and how to make the leap from managing assets as operational and technical components, to managing them as strategic organisational resources.

In 2006, the Local Government and Planning Ministers Council called for the states and territories to develop and adopt nationally consistent financial sustainability frameworks. Councils were to protect sustainability by managing infrastructure through effective asset management and financial planning.

These frameworks were to improve financial and service sustainability through community consultation and business management processes to promote long-term corporate and financial planning, including the effective strategic management of assets. The call was for the adoption of a consistent regime by the local government sector nationwide.

This is what has happened across the country. It is an important lesson from recent history.

Underlying Problems and Solutions

The problems of Local Government sustainability are clear. The solutions seem to be understood. But the more things change, the more they stay the same. Why?
Two solutions have generally been offered by state governments: IPR for all councils, and amalgamations for some.

Much of the answer lies in not having the capacity and capability to plan and implement the solutions. The theme of this conference would therefore seem vital to addressing this.

Some of the author’s observed characteristics of local governments are that they rarely intellectualise what they do, and why they do it; they rarely co-operate in learning, and solving common problems; and, perhaps most importantly, they often fail to provide leadership and generate a culture of ‘serving their communities’.

Too little effort is applied to thinking about the business of local government, and how to improve it beyond the incremental tweaking of methods and service. Insufficient attention is given to the larger threats and dangers outside the normal working environment.

Generally, all local government problems and issues are common; yet it is rare for councils to co-operate, share knowledge, information, experiences, procedures and systems, and assets.

Many would say that what they do, and the services they provide are for the benefit and betterment of their communities. But, is this really the case?

Does local government really have the political, moral, and business leadership and culture to make a difference?

The author contends that the management of public assets falls short in all these areas, which is why IPR has so far failed to improve the prospects of local government sustainability, and in some cases, survivability, across the country.

This sustained failure represents a breach of contract that all levels of the public sector implicitly has with the community.
Central to these questions is the management of assets.

Assets are strategic organisational resources. In local government, communities depend upon them for all aspects of life. Their management shapes the social, environmental, physical and financial fabric of our communities.

Even though land, buildings and infrastructure represent more than ninety per cent of local government’s fixed asset value, they seem to be taken for granted, and treated as a free good.

There can be no doubt that the continuing threats to financial sustainability and, in some cases, survivability, are in a large part due to poor asset-related decisions, and the continuing tactical and operational approach to their management.

Poor asset management has a domino effect throughout local government. It leads to poor information, which leads to poor investment decisions, which lead to poor allocation of capital, high operating costs, and maintenance backlogs, which lead to financial instability, which leads to fewer public services of a lesser quality, which leads to the degradation of the environment, public buildings, amenity, and infrastructure, economic prosperity and, hence, community.

Revitalising local government will be a long and complex task, and it is imperative that we learn from the lessons of the last ten years.

The first lesson is a lack of appreciation for the task and its implementation complexity by the federal and state governments, which have generally offered two solutions: IPR for all councils, and amalgamations for some.

IPR is tested world’s leading practice, but the jury is still out on amalgamations.

However, to successfully amalgamate two or more communities will require the councils to be expert at financial and asset management. This expertise is not represented by asset ratios that ‘tick the box’.

The merging of systems, business architecture, processes and procedures and asset portfolios to provide services to the new single community will be a gargantuan effort.

Asset knowledge in terms of value, cost-in-use, condition, use, utilisation, and performance is indispensable. Those that have this will have an influential position in the amalgamation process.

Without this expertise, any economic and financial benefits will be limited, which is why the amalgamation jury is still out.
However, so far, the implementation of both aspects of reform has been far from a leading practice in change management.

The figure above shows the diagrammatic representations used by the New South Wales and Western Australia State Governments to depict their IPR frameworks. Both underestimate the position and importance of assets. The perception is that the management of assets occupies almost a secondary position in the IPR hierarchy. However, Western Australia shows stronger links with strategic and operational planning.

There appears to have been an expectation by federal and state governments that local governments will simply accept what has been imposed over them, and somehow source the capacity and capability to implement the reforms, which, themselves have a 'one size fits all' look about them, and show minimal regard for the individuality of councils, their identity, culture, size, type and location.

Because of this, cultural and social gaps have opened between state and local governments. These have often led to mistrust between the two.

The second lesson, therefore, is the lack of ongoing commitment, resources and expertise on behalf of state governments to support and continue reform beyond a short-term policy initiative.

Thirdly, very little is known about the public sector asset base. We have poor data, poor information, an over-reliance on systems and modeling outputs, and a fascination with asset ratios as performance measures.

There is strong evidence in Western Australia that this over-reliance on systems and the readiness to accept the outputs from modeling exercises produces misleading asset ratios, which are the only prescribed asset management performance indicators.

Simply, not enough is known about local government assets, or how they are performing operationally and strategically.

Fourthly, there is reluctance for councils, particularly in regional areas, to consult, communicate, and collaborate between themselves. Many opportunities for sharing, and improved efficiency are missed.

Lastly, and perhaps most importantly, there is a dearth of Asset Management capacity and capability. This is largely because Asset Management is not seen by the public sector as a mainstream professional activity.
There is a strong case for academia to take a proactive role to develop this in conjunction with the public sector, professional institutions, state Local Government Associations, Local Government Professionals Australia, and professional practitioners.

Lack of Leadership from Federal and State Governments

The author’s research into the management of assets by the federal and state governments shows that the adoption of good IPR practice in local government is not helped by how few of these governments have effectively implemented good management practices over their own finances and assets.

Western Australia lost its AAA credit rating on the back of poor financial and asset management, a consequence that the author identified to the government some 18 months before the event, as a potential danger, on the back of the size of its maintenance backlog (see below).

The following is an analysis of the Western Australia Government’s position relating to its property assets in 2011/12.

WESTERN AUSTRALIA GOVERNMENT PROPERTY ASSETS

Current Replacement Cost: $25 billion
- $12,500 per WA capita
- 13% Gross State Product (GSP)
- 23% Non-Financial Public Sector Net Asset Value (NAV)

Annual Maintenance Costs: $300 million
- $136 per WA capita
- 0.15% GSP
- 1.2% Current Replacement Cost (CRC)

Maintenance Backlog: $1.2 billion
- $600 per WA capita
- 1% GSP
- 5% CRC
- 1.2% NAV (NFPS)

These metrics tell the story of poor asset condition, consumption, and sustainability of the state’s property portfolio:
- Commitment to maintenance at 1.2% of replacement cost is far too low;
- The maintenance backlog at 5% of replacement cost reflects this, and should be particularly concerning; and
- At the time these figures were prepared, backlog was estimated to be increasing by some $110 million pa.

A wider analysis of the metrics shows the significance of the impact of asset management on the state’s financial position as a whole, with the backlog being equivalent to 1% of GSP, and more than 1% of the state’s non-financial net asset value.

It should be remembered that these figures only relate to property: buildings, bricks and mortar, police and fire stations, offices, hospitals and schools.

(Post conference note: At the Institute of Public Works Engineering Australasia 2016 Western Australia State Conference (9 – 11 March 2016), the Minister for Local Government and Communities, Hon. Tony Simpson MLA, announced that the value of the maintenance backlog for all asset classes in the Western Australia Local Government sector was estimated at $1.8 billion. This is
equivalent to 4.5 per cent of local government’s non-financial asset value; 0.73 per cent of the Western Australia 2014/15 Gross State Product; and $692 per capita of the state’s population.

This means that the Western Australia public sector has an aggregated asset maintenance backlog of at least $3 billion (and growing). For the State Government, this only includes real property assets in the general government sector. State infrastructure and other asset classes, and the assets of Public Trading Enterprises have not been estimated.

The risk profile would be interesting. It is often not understood that maintenance is a risk management function.

However, there are some signs that the lessons may have at least been recognised by the New South Wales Government.

**Local Government Revitalisation: the role of Asset Management**

The author’s research shows clear evidence that councils in New South Wales have made little progress in implementing IPR since its introduction in 2009. This is based, in the main, on:

- The NSW Treasury Corporation’s (NSW TCorp) 2013 report on the financial sustainability of the state’s local government sector;

- The 2013 report of the Independent Local Government Review Panel, which made far-reaching and leading practice recommendations for the revitalisation of local government in New South Wales, many of which concerned the proper implementation of IPR and management of assets within the IPR framework; and

- The report in 2015 of the Independent Pricing and Regulatory Tribunal (IPART) on each council’s ‘fitness for the future’.

Notwithstanding the acceptance of any of the conclusions and recommendations of these reports, the real test will be how they are implemented as long-term integrated projects. Great care and attention must be given to the implementation process, which must be expected to continue well into the next decade.

The objective must be to ingrain the principles of good management across both state and local government.

It must be enthusiastically sponsored and managed at the very highest level of government. It will require sustained political will and administrative effort and support across at least two electoral cycles.

It will also require strong policy and governance; a wide range of professional know-how; and a judicious allocation of financial commitment towards capacity and capability building, for both the local and state government sectors.

Good asset management is vital and core to all aspects of the revitalisation of local government across Australia.
Asset Management is here to stay as a strategic business function. Not considering it as such is a fundamental business and governance error.

Asset Management shapes the future by linking current and future asset requirements with business needs; it supports services through appropriate asset deployment and efficient utilisation; it challenges the status quo by questioning services levels and models, and methods of delivery; it projects long-term investment needs; it is central to the identification and mitigation of all categories of strategic risk (financial, business, service, legal, physical, environmental and political); it contributes to organisational performance, and provides information for good decision-making; it serves internal and external clients, and requires open and formal communication and reporting across the organisation; and it deals with all categories of fixed assets, such as land, buildings, infrastructure, plant and machinery, and information and communication technology.

The executive responsible for Asset Management must know the business; be a strong leader; understand the technical and operational aspects of managing assets; be able to interpret economic indicators; and be skilled in data and information management, strategic planning, and performance and financial management.

He should have authority and accountability, and a seat at management’s top table.

**Asset Management as a Leading Professional Practice**

- **Resource Management & business fulcrum**
  - Asset requirements
  - Deployment & utilisation
  - Financial needs
  - Prioritisation
  - Strategic risk
  - Current & future state
    - Challenges status quo
    - Planning
    - Deployment
    - Performance

- **Skills**
  - Data & information
  - Performance
  - Strategic planning
  - Financial
  - Leadership
  - Economic

The executive responsible for Asset Management must know the business; be a strong leader; understand the technical and operational aspects of managing assets; be able to interpret economic indicators; and be skilled in data and information management, strategic planning, and performance and financial management.

He should have authority and accountability, and a seat at management’s top table.

**Asset Management Framework**

"Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat."

*Sun Tzu, 6th century BC
Asset Management has its own framework.

It is a framework within the IPR framework, which requires a greater effort to get to grips with than the IPR concept as a whole.

Firstly, governance.

There must be a formal policy that commits the organisation to leading practice; recognises its strategic position; assigns roles, responsibilities, and accountabilities; and commits to ongoing evaluation and improvement.

Asset Management Strategy is often confused with Asset Management Plans.

The strategy is a high-level description of the direction the asset portfolio will take over the long-term, ten years. It should be no longer than say, 15 to 20 pages.

It is the why, how, where and when of moving from the current state to the future state. It is inextricably linked with the Strategic Community Plan, Corporate Business Plan, and Long-Term Financial Plan.

The strategy should at least:

- Contain a description of the strategy’s purpose and expectations;
- Refer to organisational goals, objectives, business drivers, and financial context;
- Describe the current portfolio;
- Identify critical assets, and what assets and organisational resources will be needed over the next ten years;
- Show the gap between the current and future state; and the implications for the portfolio;
- Define critical success factors of the strategy, and how they will be measured;
- Define the required governance and management arrangements; and
- Contain an action plan.

Asset Management Plans should enable good decision-making by translating strategy into implementation activity. They will contain asset reviews, asset programmes, business cases, and financial needs.

Plans for individual assets will cover the shorter-term tactical and operational delivery of assets and asset services.

Here are some numbers that show why there are threats to local government financial sustainability.
In 2014 the author presented a paper outlining the case for excellence in asset management at the ACELG research forum.

Research for ACELG by Mervyn Carter cited figures provided by the Australian Bureau of Statistics, which showed that the national value of local government fixed assets in 2009/10 was over $300 billion. This represents approximately one third of the value of the total public sector fixed assets.

Investment in infrastructure was shown at about $10 billion per annum.

Because of the lack of asset data across the local government sector, the fixed asset value is likely to be severely understated. Although no doubt quality of data will improve with more rigorous valuation and accounting standards, there is strong evidence that these values will remain suspect for some time yet.

Quite simply, councils do not know enough about their assets. Inventories are often incomplete and inaccurate; and data is often inappropriate and not kept at all levels and categories of an asset hierarchy, or in sufficient detail. A minimal number of councils have asset consumption, sustainability, and renewal funding ratios that have been calculated on good and reliable data.

The author’s research and experience shows that all tiers of government have:

- Incomplete and inaccurate inventories;
- Poor asset data, not least of which relates to asset condition;
- Inaccurate financial information on their assets, including open market values, written down values, replacement and maintenance costs; and
- Depreciated values that do not reflect asset condition, lifecycles, and major asset components.

(In 2010, the author consulted to one major Sydney metropolitan council that did not have a basic inventory of assets. Unsurprisingly, it was trying to sell a piece of land that it did not own. It is noted that the New South Wales Independent Pricing and Regulatory Tribunal’s (IPART) report has rated this particular council, which has been identified as part of a proposed major metropolitan amalgamation, as ‘not fit’ by reason of its scale and capacity. But, it was rated ‘fit’ in the area of...
infrastructure and service management. This apparent anomaly is considered in the following
section).

The maintenance issue is having a significant impact on revenue. Through extrapolation and a
number of ‘educated’ assumptions, the author estimates that maintenance costs in 2011/12 may have
accounted for about 45 per cent of local government tax revenue.

If the level of investment in assets continues, this could increase to 100 per cent by 2017/18.
Because there is insufficient information on the asset base, it is difficult to appreciate the full extent of
the problem. However, one thing is certain; it is a ticking sustainability time bomb that must be
defused very quickly.

IPART NSW Report

IPART concluded that “the system of local government in New South Wales is broken”.

The author has examined the IPART report, particularly its assessment of how assets are managed,
and how that relates to scale and capacity.

This is of interest because, in Western Australia, there is a direct relationship between scale and
capacity and the asset financial ratios. As might be expected, lower capacity ratings result in ratios
that either do not meet the performance criteria for asset replacement and sustainability, or they
provide distorted and questionable results. Additionally, councils in Western Australia are relying on
the ratios as the sole indicators of performance, without looking at how assets are performing in terms
of affecting service provision, cost-in-use, utilisation, adequacy, functionality, location, and so on.
These are the true indicators of performance, which, if managed properly will result in healthy
financial ratios.

On the face of IPART’s report, 93 per cent of all New South Wales councils are “fit” in relation to the
management of infrastructure and services. They have either satisfied the ratio criteria, or have
shown that they have improvement plans to meet them.

However, nearly half were deemed “not fit” because they lack sufficient “strategic capacity” in the
following areas:

- The ability to undertake new functions & major projects;
- The ability to employ skilled staff;
- Sufficient knowledge, creativity, and ability to innovate;
Advanced strategic planning & policy development skills;

Effective regional collaboration;

Resources to cope with change; and

Political & managerial leadership.

This does not seem to be consistent with the New South Wales Treasury Corporation and other reports that have identified a lack of asset and financial management expertise, i.e. strategic capacity, as a cause of ongoing deterioration of local government sustainability.

Councils, particularly those in amalgamation situations, should be encouraged to take a long look at their asset management capacity, and consider wider performance criteria for their assets.

On a related issue, there is also evidence of many councils believing that, having an asset management software system with a modeling capability, provides answers to all their asset management issues. Without applying asset management expertise and experience in the use of these systems, their outputs can produce some very dangerous outcomes.

The following are examples of the author’s experience to illustrate some of the foregoing. All councils in Western Australia were required to submit IPR strategies and plans to the state government’s Department of Local Government and Communities by 30 June 2013, demonstrating compliance with minimum core standards.

The author assisted Council 1 to establish its Asset Management Framework under the government’s IPR requirements.

**Council 1: Renewal & Replacement Gap**

The ten-year Renewal and Replacement Demand was calculated as $240.3m.

This was done:

- On a hastily-built asset inventory consolidated from six unrelated spreadsheets;
- Cursory visual inspections of assets to determine condition;
- An arbitrary condition rating system; and

![Bar chart: 10-Year Renewal & Replacement Demand $240.3m](image1)

![Bar chart: 10-Year Current Renewal & Replacement Expenditure $77.1m](image2)

![Bar chart: Annual Renewal & Replacement Gap](image3)

![Bar chart: Cumulative Renewal & Replacement Gap $163.2m](image4)
And back-of-the-envelope Current Replacement Cost calculations.

In the absence of any renewal and replacement projections, Planned Renewal & Replacement Expenditure was extrapolated from a five-year maintenance plan, with the second five years simply being a repeat of the current year’s projected maintenance expenditure.

This gave a projected expenditure of $77.1m

Overlaying one with the other, an annual Renewal and Replacement Gap was prepared, which, when totaled, showed that the council required an additional $163.2m to fund the renewal and replacement of its asset base.

Without questioning the validity of this, the entire amount of $163.2m was adopted by council in its Long-Term Financial Plan as required funding.

Council 2 had reasonably good data and a working knowledge of its asset base in relation to service demand.

Council 2: Renewal & Replacement Gap

Having initially calculated the renewal and replacement gap at $2.3 million, potential asset strategies were considered that would reduce the gap by 42%.

The following table is a comparison of the asset management capacity and capability of the two councils.

Council 1 had virtually no capacity and capability, including none of the strategic capacity criteria used by IPART. Council 2 was on the right path, and had a strategic direction.
The two councils’ ratios:

<table>
<thead>
<tr>
<th>Key Performance Indicator</th>
<th>Measure</th>
<th>Basic Standard</th>
<th>Council 1</th>
<th>Council 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Consumption Ratio</td>
<td>Written Down Asset Value Divided by Current Replacement Costs</td>
<td>Ratio can be defined; and is ≥ 50%</td>
<td>32.8%</td>
<td>80.5%</td>
</tr>
<tr>
<td>Asset Sustainability Ratio</td>
<td>Capex on Renewal &amp; Replacement Divided by Depreciation Expense</td>
<td>Ratio can be calculated; and is ≥ 90%</td>
<td>30.3%</td>
<td>94%</td>
</tr>
<tr>
<td>Asset Renewal Funding Ratio</td>
<td>NPV of Planned 10-year Capex on Renewals Divided by NPV of Required 10-year Capex on Renewals</td>
<td>Ratio can be identified; and is ≥ 90%</td>
<td>Not identified</td>
<td>97%</td>
</tr>
</tbody>
</table>

Council 1’s ratios held little meaning because of the lack of quality data, and capacity and capability to strategise and plan the management of its assets.

Council 2’s ratios conform to the prescribed basic standard.
The above table is an extract from the service levels matrix of a council that the author provided asset management advice to in 2015.

This council was reasonably mature in community strategy and corporate business planning, but less so in asset management.

It had constructed a matrix of service levels in relation to its strategic goals and desired outcomes. This was done to some level of detail, but it initially gave no consideration to the potential impact on assets, either current or future needs.

A workshop was conducted with council, which added a column to the matrix linking assets to services.

This formed a major element in the development of strategy, planning, and performance criteria.

So, how can councils find out how they're progressing, and whether they have reached core standard in asset management?

The National Assessment Framework (NAF) is the only official tool available to local governments in Australia to assess how they are progressing towards a 'core' or 'advanced' standard of asset management maturity. This is a self-assessment model, which was developed on behalf of the LGPMC by the Institute of Public Works Engineering Australasia (IPWEA) in association with ACELG. It was launched in mid-2012.

The model is an online questionnaire to evaluate progress with implementing the elements of the LGPMC Financial Sustainability Frameworks. The outputs of the questionnaire are intended to enable a local council to measure its progress against the Sustainability Frameworks. The intended outcome was “for Federal, State and Territory Governments to see aggregated information on current status and trends with implementing the key elements of the LGPMC Financial Sustainability Frameworks”.

The NAF model bears a striking similarity to the framework developed for the UK government in 2006/07 for departments and agencies to self-assess their asset management capacity and capability.

The UK model has nine elements, the maturity levels for which are:

- Excellence;
- Competence;
- Knowledge;
- Awareness; and
- Unawareness.

Each of these is provided with simple and easy-to-understand performance descriptors.

The UK model originally contained about 90 questions, which was soon reduced to 35.

It should be pointed out that the UK government treats asset management as a mainstream public administration profession, which is governed and managed through the Office of Prime Minister and Cabinet. Annual performance is formally reported to parliament.

NAF is not quite as friendly as its UK cousin. It comprises 72 questions to assess core standard, and a further 69 for advanced standard, across 11 elements.

The language is technical, and has an academic flavour.
Even as a supposed expert, the author has found it complex and demanding. Councils are certainly intimidated by it, and find it difficult to understand and interpret without expert help.

On average, it takes the author 2.5 days to guide a council through a NAF assessment.

This demonstrates that expert professional practical advice and support, that reflect individual council circumstances, must be provided to local government as part of any revitalisation or reform programme.

The Department of Local Government and Communities in Western Australia has established a panel of consultants, of which the author is a member, to undertake these assessments for Country Local Governments. These assessments are funded by the state government. The following is a consolidated graph of the councils in Western Australia assessed by the author, either as a member of the panel or through individual council appointments.

**Fit for the future: National Assessment Framework**

All fall well below core standard in the essential asset management elements of capacity and capability, data, service levels, governance, policy, strategy, and plans. Very few measure their performance.

The Western Australia state average is included on the graph. This information has been obtained from the ACELG NAF portal.

The author is not aware of any other local government jurisdiction having participated in this self-assessment.

This paper has emphasised the importance of asset data, and its translation into meaningful information.
Simple data is certainly “squat”. It is the conversion of data into information that creates value. This requires strategic capacity.

The above is a suggested list of the essential elements of data that are relevant for council assets. It is most important that all data is accurate, complete, and well maintained and managed.

Whichever system is selected to store and manage data, it must be capable of being linked with the financial asset register.

The following is a summary of the essentials that councils need to make their asset management ‘fit for the future’:

- Assets must be managed as whole-of-organisation strategic resources, which must be linked to financial management and service delivery;
- Councils must source the right capacity and capability. Not doing so is a false economy;
- Councils should use the IPR principles to create a framework that suits their individual circumstances. This should include:
  - Policy and governance arrangements that are formally adopted by council;
  - An Asset Management Strategy and Asset Management Plan that are also formally adopted by council; and
  - Shorter-term operational plans for individual assets.
- Nothing can be achieved without good, full, and accurate asset data; and an appropriate system to store and manage it; and
- There must be systems, processes and procedures to measure and evaluate the performance of assets and their management.
Much of this will be beyond the economic reach of many, particularly small regional councils.

Administrative boundaries are merely marked by a sign. There are no physical boundaries; the roads continue; the landscape doesn’t change; and the air is still the same.

All councils deliver the same services with the same types of assets.

Individual survivability may well depend on inter-council collaboration, and sharing in asset ownership, common management systems and programmes, and service delivery models.
4.4. Has Integrated Planning and Reporting Encouraged Poor Asset Management Practices? A Practitioner’s Perspective for Good Practice

The following is the text of the speech and visual aids of the presentation given by the author on 29 June 2016 at the Local Government Asset Management – Improving asset strategy, planning and maintenance conference, 29 & 30 June 2016, Radisson Blu Plaza Hotel, Sydney. Conference organiser: Criterion Conferences.

Has Integrated Planning and Reporting Encouraged Poor Asset Management Practices?

A Practitioner’s Perspective for Good Practice

I have been researching the management of public sector assets for over five years, and think this is a fair question to ask.

Superficially, the answer is fairly simple, but getting there reveals a number of things that need to be addressed with some priority.

I shall look at why so little progress has been made in developing systems of management; and suggest an approach to ‘good’ asset management practice.

I stress systems of management because this is the area that is holding everything back. There is little wrong with local government’s technical and engineering capabilities. They simply need to be given direction.

Albert Einstein said:

“In the middle of difficulty lies opportunity.” And,
“The measure of intelligence is the ability to change.”

He also defined insanity as, “doing the same thing over and over again and expecting different results.”

Local Government is in a world of difficulty. For New South Wales and Western Australia, I think that the amalgamation debate, with its singular focus on financial efficiencies and fitness ratings, has distracted attention from some very pressing management issues.

These are issues presenting a once-in-a-generation opportunity to change for the good.

However, the opportunities are not widely recognised, or grasped. In addition, there is little evidence of ability to change, or a desire to look at doing things differently.

The difficulties that local government faces come from a changing world, which means most are out of its control. This means it has to adapt, and change the way it does things.

Councils have to be sharper and smarter, and more agile if they are to retain their independence and culture, and provide a future for their communities.

The alternative is a threat to survivability, not just sustainability.

The difficulties are financial, economic, social, political, and also relate to governance.

- Financial:
  - Achieving balanced operating positions in the face of declining recurrent revenues in real terms;
  - The decreased access to federal and state funding; and
  - The realisation that assets have to be funded over the whole of their life. Hence, the growing backlogs in the maintenance, renewal, and replacement of assets.

    Assets are becoming liabilities.

- The economic realities of our time.

  The national economy is experiencing major structural changes.

Local governments must look beyond their boundaries, and consider external influences, e.g. the value of the dollar, price of iron ore, decline in manufacturing, the future of agriculture and our traditional primary industries, climate change, Brexit, China, federal, state and regional planning, and so on.

- The social aspect relates to local government’s relationships with their communities.
Across the developed world, it is becoming increasingly important to do more than just consult and hold satisfaction surveys. Councils must involve, inform, communicate, and interact with their communities, and include them as partners who share the accountability. To achieve this, councils must be open and transparent in providing information and advice to communities.

- The political issue of the day is amalgamations. I shall not going to go into the wisdom or otherwise of this policy, but the debate does highlight things that individual councils and groups of councils need to address for themselves.

However, there is one thought that I would like to share with you.

The leading article of the UK’s Spectator magazine on 18 June 2016 about Brexit said, “Alliances work when they are between nations with a shared agenda, with the ability and (crucially) the will to act.”

Substitute the word ‘nations’ with ‘councils’……

- By governance, I mean providing and managing services in accordance with a governance hierarchy, and decision-making protocols.

This takes strong leadership and the ability for elected members to change in their outlook.

IPR and Asset Management are opportunities to change for the good, and get the different results, by not “doing the same thing over and over again”.

They are the leading practice, developed in UK Local Government in the 1990s, to protect sustainability.

Asset Management is the biggest and perhaps the most important part of IPR. But not in the traditional way of thinking as things to be built and maintained.

Assets are economic and business ‘resources’; but are often not recognised and managed as such.

When they are, opportunities are presented to question the status quo, and look for different and better ways of doing things.

Change in understanding assets, and their place as organisational resources is essential to the future of ALL councils.
I spoke at my first public sector asset management conference in 2004. The themes have barely changed.

They have always been important, crucial, and key. They still are.

In 2006, the Local Government and Planning Minister’s Council called for the development of “nationally consistent financial sustainability frameworks” to be adopted for local government.

The idea was to protect sustainability by managing infrastructure through effective asset management and financial planning.

All of this was to be based on community consultation.

The federal and state governments did not deliver these ‘nationally consistent frameworks’.

What we’ve ended up with is a hodgepodge of legislation, some of which does not require contact with communities.

During the early 2000s, the Australian National Audit Office published a series of scathing audit reports about the Commonwealth’s management of its assets.

The New South Wales Audit Office has published similar audits over the management of the state’s Total Asset Management Policy.

So, for the States to oversee IPR in Local Government has been a case of the blind leading the blind.

It still is according to the Schott Report of the NSW Commission of Audit into the management of the New South Wales public sector (2012), the reports of the NSW Property Asset Utilisation Taskforce
(2012), and Independent Local Government Review Panel (IPART) (2013), and what the Independent Pricing and Regulatory Tribunal (2015) has had to say.

I wanted to know why so little progress has been made in ten years when all the evidence has been before us for so long.

These are the systems of IPR currently in place in the New South Wales and Western Australia Local Government sectors.

Their similarity is mostly because Western Australia effectively copied New South Wales. But New South Wales actually refers to ‘Resourcing Strategy’!

They are both one part of two-part reforms: IPR and council amalgamations.

The government lost the amalgamation debate in Western Australia amid much controversy and ill-feeling.

This cost it a great deal of political capital, and soured relationships throughout the local government community.

The same is happening here (New South Wales).

Both states struggle with building capacity and capability in IPR and asset management.

Both are also required to undertake major reviews of their strategies and plans - this year for Western Australia; next year for New South Wales.

New South Wales has had the IPART intervention. Similar to this, the Western Australia Department of Local Government and Communities (WADLGC) has recently opened a MyCouncil website, which effectively creates a league table of the financial health of councils.
This is already proving to be unpopular, misleading and divisive.

In response to the potential to ‘misinterpret’ the information in MyCouncil, the Western Australian Local Government Association has launched ‘know your council.com’, which “gives clarity on residential rates”.

And so, punches continue to be traded in Western Australia.

I would like to introduce you to a friend of mine. Sun Tzu.

Despite living about 2,500 years ago, he would be a management guru today, but without the annoying jargon.

These three propositions are the very essence of IPR, and the principles of Asset Management.

They are logical and uncomplicated.

In the local government context, without a community vision or objective, and without knowing and understanding the factors that might influence its achievement, it is not possible to develop a proper and well laid out community strategy.

Without such a strategy, it is not possible to determine a future direction for the community.

Without this direction, services, how they are delivered, and to what level cannot be defined.

If these are not defined, how does one know what combinations of resources are required – land, infrastructure, buildings, spaces and places, people, technology, and capital?

And what will they cost over the period of their useful lives?
Without knowing this, and without knowing what we have got, how can we develop strategies and plans to co-ordinate, allocate, and manage resources?

Please take a moment to consider your own councils.

Do you have a long-term strategy that truly projects the vision for the future of your community?

Does it actually consider internal and external influences, explain the assumptions, consider risks, and say how its success will be measured and reported?

Is it supported by good resources frameworks to achieve the vision that are fully integrated with your corporate planning and reporting regimes?

Or, can you hear an ever-increasing volume of noise?

Has IPR Encouraged Poor Asset Management Practices?

On its own, "no". But, poor practice is widespread. Here is some evidence.

My answer to the question of whether IPR is to blame for the poor asset management practices, which are widespread from one side of the country to another, is that it is not simply because of IPR, but because of the way it has been implemented.

IPR is not difficult. It follows Sun Tzu. The principles are logical and uncomplicated.

However, I think it has become too bound-up with a need to be seen to be complying with some sort of unnecessarily complicated ‘best’ practice or standard.

Similar to not having the latest smart phone.

New South Wales has had a review and reporting merry-go-round into Local Government in recent years:
- The Treasury Corporation Report, and the Independent Local Government Review Panel in 2013; and
- IPART last year and this year.
- Also, throw in reports commissioned by the government from the private sector.

Whatever one may think of them, I do not believe that there can be smoke without some fire.

All expose defects in the management of assets, and stress the importance of their management as a critical strategic function.

IPART concluded that "the system of local government in NSW is broken."

It may well be.

The conclusion was based on two criteria: Scale and Capacity; and Financial Ratios to determine whether a council is ‘fit’ or ‘not fit’ for the future.

Much of IPART’s assessment relates to amalgamations, which I believe to be a bit of a sideshow as far as long-term sustainability is concerned. Juries around the world are still out. There is simply not enough evidence to suggest that big is beautiful.

IPART says that 48 per cent of New South Wales councils are ‘not fit’ by reason of insufficient Strategic Capacity.

If this is so, nearly half of New South Wales councils:

- Are incapable of undertaking new functions and major projects;
- Do not have the ability to employ skilled staff;
- Have insufficient knowledge to be creative and to innovate;
- Cannot plan strategically, and develop policy;
- Cannot collaborate effectively with their neighbours;
- Cannot cope with change; and
- Lack political and managerial leadership.

In fact, these issues are actually the root of poor asset management practices.

However, I fail to understand how a mere 7 per cent of councils are ‘unfit’ because of poor infrastructure and service management (asset management), which is largely judged on questionable financial data.
If nearly half of councils lack this strategic capacity, how can 93 per cent be managing their assets properly?

And how can they look to improve their asset management capacity and capability?

This is misleading, and will have lulled many councils into a false sense of asset management security.

Good IPR frameworks, and Asset Management capacity and capability are the real pathways to a well-managed and financially healthy council. With this, the ratios will look after themselves. Nevertheless, they are merely indicators of how much is being spent or not spent on assets. And they are easy to manipulate. They do not indicate whether or not good practices are being followed, how assets are performing, whether the right assets are in place, or whether assets are performing in support of service levels.

This is all to do with strategic capacity and capability, which is, without doubt, within the reach of every council.

All it needs is the right leadership and support.

I would like to talk about the National Assessment Framework (NAF).

The Western Australia Government knows that its local government sector has a real problem with IPR and Asset Management.

What it doesn’t know, and never has known, is how to equip councils with the right capacity and capability.
Its approach has been fundamentally flawed in that it seemed to expect that it would just happen from a set of guidelines, and after a few master classes and workshops.

The same applies to New South Wales.

Councils in Western Australia had to show compliance with IPR requirements by 30 June 2013. Most did just enough to tick the boxes.

Most have done very little about managing their assets since then.

Over the last year or so, the WADLGC has funded a panel of specialist asset management consultants to assist 74 country local governments to self-assess their asset management maturity under the NAF assessment model.

My firm is a member of this panel.

I have assessed over 20 councils either through the panel, or by direct appointment.

The NAF model is complex and demanding, and can take several days to properly complete an assessment.

Also, it cannot be carried out unless the assessor is expert in IPR and Strategic Asset Management. Self-assessment is therefore beyond most councils.

That said, I have grown to quite like NAF. It covers all the right things, asks all the right questions, and forces one to think about the management of a council as a whole.

It provides an accurate baseline, and a firm basis for improvement.

This chart shows that not one council in Western Australia is anywhere near to core standard in any of the elements.

I have consolidated the ratings of my NAF and other assessments into the NAF scoring model.

The green line is the Western Australia average obtained from the Australian Centre of Excellence for Local Government NAF portal.

There is a long way to go, particularly in the areas of data, levels of service, governance, strategy and planning.

This low level of asset management is one of the causes of the persistent budgetary and financial pressures, which threaten the future of many councils.

Here is an example of the impact of where there is no system for managing assets.
The Pilbara region in WA is suffering from the legacy of poor asset-related decisions made during the mining investment boom.

Port Hedland is the port through which much of the country’s iron ore is shipped.

It still has an asset renewal/replacement backlog of $163 million, which I estimated for it four years ago.

This is now compounded by a further $2.2 million annual funding gap directly related to just four assets, which were gifted to the Town in recent years.

To paraphrase another classical character, the ancient Roman poet Virgil in The Aeneid, when he wrote about the Greeks at Troy, “I fear the mining companies, federal assistance grants, and royalties for regions, even those bearing gifts.”

The Western Australia Minister for Local Government and Communities recently announced that the local government sector has an infrastructure backlog of about $1.8 billion.

By my calculations, this equates to:

- 4.5 per cent of local government’s non-financial asset value;
- The best part of 1 per cent of WA’s Gross State Product; and
- Over $690 for each Western Australian.

I spoke at the Institute of Public Works Engineers Australasia Western Australia state conference in March.
One of my fellow speakers received a lengthy email blaming engineers for the failings of IPR. I’ll read a few excerpts.

“You are going to need to change the culture of the engineer.

“Decision-makers are afraid to make decisions and implement change because they are afraid of screwing up.

“Decision-makers no longer feel empowered to make change because of job insecurity.

“99 per cent of all engineers that I have met are risk averse by their very own personal nature”.

Lack of courage and fear for one’s job? Maybe, but not exclusive to engineers!

Besides, this is not an issue for engineers. It is a corporate management issue.

It is a legislated management standard for Elected Members and Chief Executives.

This gives the empowerment!

Ignoring it, or being afraid, is not an option. Doing so will bring costly consequences. Look at Port Hedland.

But, it does raise three important things, culture, leadership, and change, which I prefer to associate with ‘improvement’.
These are the real reasons for so little good practice across Local Government in Australia.

They stem from a “clash of cultures” caused by a lack of:

- Understanding
- Experience
- Capacity & Capability
- Knowledge
- Communication
- Co-operation & Collaboration.

Please indulge my academic side for a moment to explain this cultural thing.

In the 1980s and 1990s public sectors across the world sought to improve efficiency and accountability by adopting private sector-like approaches.

The concept was that ideas used in the private sector **must** work in the public sector.

This became known as the New Public Management Paradigm.

IPR bears all the hallmarks of this.

It has been shown that the paradigm has turned to paradox across all public sectors.
Eminent researchers have found that the broad vision of one culture translated into something quite different when passed down to another cultural environment.

In the case of our IPR, this can be traced to a lack of understanding and poor implementation of ideas, stemming from a lack of communication and unrealistic expectations.

IPR has the classic symptoms of the unintended consequences.

I’ve listed some of them here. You might recognise them.

The management of about $350 billion of the nation’s local government assets is mostly still not subject to effective governance, nor driven by community and corporate strategy.

So, it is the NPM paradox that is to blame, not the engineers!

This is what should have been communicated about a New Asset Management Paradigm.
Asset Management is not engineering or maintenance. These are activity-based sub-sets, which are given their direction by asset strategy.

Asset Management is to do with integrating the planning and management of resources with community strategies, and corporate, service, and financial planning.

It is about deploying the right assets in the right place, at the right time, at the right price.

It determines and prioritises the operational and capital financial needs to provide services at desired or determined levels.

This requires a combination of managerial, analytical and business skills. Not least of which is leadership.

I find that local government has developed a fascination for two things. Best practice; and systems modelling, which I’ll get to later.
Certifications to a ‘best’ practice standard seem to be a growing fashion.

My advice is, BEWARE!

A year or so ago, an Asset Manager from a sizeable Perth metropolitan council asked me if his council should have ISO 55000.

I asked him why, and what benefits he expected from it. End of conversation.

Many councils have a long way to go before they should even contemplate something like this.

Please don’t misunderstand me. ISO standards are excellent. I had an indirect involvement with the PAS 55 and the 55000 standards.

Please understand that the ISO standard is really nothing new. It is a consolidation of pre-existing wisdom.

It only specifies the system of management to support asset management. This is what the IPR frameworks do.

My next slide will show this.

ISO 55000 does not specify best practices for the discipline of asset management.

Taken in isolation, it will not make an organisation more competitive or improve its practices. It should therefore be considered as part of the implementation of a comprehensive asset management function.
I say, “Do what works for you.” But first, decide what that should be, and test it. Above all, keep things simple.

I have some experience with this.

In a previous life, I put ISO 9000 into a mature professional asset management organisation.

It took two years to do properly, including examining and re-writing most of our procedures. Then, we saw real and tangible benefits that we could put large monetary values to.

I have also seen organisations become so absorbed by process that their ISO certifications become millstones, which soak-up time and resources, rather than be the means to quality assurance that they should be.

The Institute of Asset Management (IAM) Assessment Manual warns not to attempt a self-assessment unless you are expert in Asset Management.

Its Asset Management Maturity Scale and Guidance, which is only an “introduction”, is 100 pages long. It took 12 years to develop.

It has a maturity scale of 0 to 5; zero being innocent, and 5 excellent. Interestingly, if you are certified to ISO 55000, the IAM rates you at 3 as competent – the mid-maturity range.

This is much the same as the NAF self-assessment model, which also requires an expert to carry out.

So, a bit of a minefield shrouded in complexity, mystery and mystique.

My view is that local governments should seek independent advice before diving headlong into the world of certification. Also, I query the benefit of these certifications to the public sector generally.

This is how ISO portrays the hierarchy of managing assets as strategic resources.
The IPR Framework mirrors this, and should be considered as the organisational ‘good’ practice benchmark.

ISO 55000 deals with the green area.

As I have said, Asset Management is an integrated and co-ordinated activity to realise value from assets.

This relates to planning the deployment of resources in the most economic and appropriate combination, to achieve community, service, and financial goals and objectives.

A system of management is crucial to making this happen, and setting direction for the actual management of assets.

Asset Management is a strategic business function, and must be integrated into the planning and reporting regime.

It must be built on sound and proven principles, but it should also be intuitive – back to Einstein again – and based on the needs, context, and circumstances of an individual council.

Very few of us would commit to something unless we understood it, and our intuition told us that it was right.

So, develop a policy, governance arrangements, and processes; build the skills and resources, acquire or develop systems that suit and do the job for your council and your community.

It should be kept as simple as possible and understood by all levels of the organisation.
Developing a system of management is a journey, can be a daunting venture into the unknown. It cannot be done overnight, and will likely take several years to fully embed throughout council.

Given that the Major Strategic Reviews are just around the corner, many councils will be on catch-up. But, there should be no reason to panic just yet.

I am currently assisting a council to build its asset management framework almost from scratch, and develop first-cut Asset Management Plans over the next 6 months, so that it is in a position to have at least a basic system of management to use in its Major Strategic Review, to start in February next year.

These things are important:

- Having an IPR Asset Management Supremo at Directorate or senior executive level, who is empowered with the appropriate authority to manage the function across and throughout the organisation.

  Ideally, the position should report to the Chief Executive Officer.

- Get independent help and advice from an experienced professional, who can work with you to develop Asset Management frameworks and strategies that are relevant to you.

Only too often have I seen the effects of what I call 'conveyor belt consulting' when councils have simply been delivered a glossy set of documents that they have had no involvement with.

Also, I have rarely seen a council with either the expertise or spare capacity to do this for itself.
Look at your existing system of managing assets – establish a baseline, and compare it to ‘good’ asset management principles. Find the gaps.

Narrow the gaps by building your system, capacity and capability to a plan.

Do it in bite-sized chunks.

Do not rush to buy a software system because of what it can do. Choose a system because it can do what you need it to do.

I mentioned earlier that I have seen over-reliance on the output of modelling from asset systems. The capacity of these systems is impressive, and they are fantastic when used properly.

But, many councils, to their great cost, misinterpret these modelling outputs as proxies for an asset management strategy, which do not reflect community objectives, nor the reality of an asset's use in providing services.

A good knowledge of your assets is an absolute priority; and

Write an Improvement Plan; formally communicate it, manage it, report upon it, and update it.

If there is no clear organisational vision, strategy, goals and objectives; a ‘good’ asset management system won’t help. You will hear the “noise before defeat”.

These are the elements of a ‘good’ practice asset management system.

**Essential Elements of ‘Good’ Practice’**

1. Managing the Organisation – IPR Framework

<table>
<thead>
<tr>
<th>Strategic Community Plan (10 years)</th>
<th>Corporate Business Plan (4 years; annual review)</th>
<th>Informing Strategies &amp; Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>States community aspirations, vision etc.</td>
<td>Implements SCP</td>
<td>Asset Management</td>
</tr>
<tr>
<td>Assumptions &amp; impacts</td>
<td>Assigns responsibilities</td>
<td>Long Term Financial Plan</td>
</tr>
<tr>
<td>Service expectations, assets &amp; land-use</td>
<td>Services, operations &amp; projects</td>
<td>Workforce Plan</td>
</tr>
<tr>
<td>Measurement</td>
<td>Methods of delivery &amp; cost</td>
<td>ICT Plan</td>
</tr>
<tr>
<td>Linkages</td>
<td>Plan measures &amp; reporting</td>
<td>Issue specific strategies</td>
</tr>
<tr>
<td>Inform, consult, communicate</td>
<td>Resources implications</td>
<td></td>
</tr>
<tr>
<td>Approved by Council</td>
<td>Adopted by Council (absolute majority)</td>
<td></td>
</tr>
</tbody>
</table>

The community strategy informs the direction for asset management.

It must be more than a document of feel-good motherhood statements and wish lists.
It sets the direction for the next ten years. It needs to be dynamic.

This requires more than just consultation with communities.

For them to have a vision for the future, their expectations need to be tempered by good communication.

They should be given information and feedback on the influences that will affect them, and how council can or cannot meet their expectations – mostly to do with affordability.

This is important if the Major Strategic Reviews are to be meaningful.

The Corporate Business Plan can be considered as the meat in the sandwich between the Long-Term Strategy, and planning for all the resources required to achieve it, and the resource limitations on achieving that strategy.

This should be a fairly detailed operational plan to implement the community strategy.

It needs to identify, describe, and prioritise specific projects to be delivered over the following four years, how they will be delivered, how much they will cost, who is responsible for them, and how their success will be measured and reported.

Because the first year of the Plan should be the Annual Budget, it must be reviewed every year.

Having a formal system of management **MUST** be a non-negotiable and integral element of your management regime.

Not having this will result in a deafening level of noise before the loss of the sustainability battle.

**Essential Elements of ‘Good’ Practice’**

2. Asset Management Framework

<table>
<thead>
<tr>
<th>Asset Management Policy</th>
<th>Asset Management Strategy (10 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AM objectives, targets &amp; plans</td>
<td>How assets will meet future community needs</td>
</tr>
<tr>
<td>AM’s place in IPR</td>
<td>Integrate AM into Plan for the Future</td>
</tr>
<tr>
<td>Governance &amp; management</td>
<td>Prioritise services &amp; service delivery</td>
</tr>
<tr>
<td>Roles &amp; Responsibilities</td>
<td>Current state of assets &amp; AM system</td>
</tr>
</tbody>
</table>

- Whole-of-organisation approach
- Whole-of-life approach
- Approved by absolute majority
- Detailed future state of the asset base
- Identifies & analyses gaps (incl. financial)
- Evaluation and reporting mechanisms
- Inform AMIP

There must be an Asset Management Policy that is understood by and committed to by the whole organisation. From Elected Members down.
This policy must, at the very least:

- State your asset management objectives;
- Integrate asset management into the organisation and its Plan for the Future;
- Set governance and management arrangements, including a decision-making process for investing in assets;
- Define and assign roles and responsibilities; **and** accountabilities;
- Commit council to a whole-of-organisation, and whole-of-life approach to managing assets.

The Asset Management Strategy is often confused with Asset Management Plans.

Plans implement strategy.

But, the two can be combined. Hence, the confusion.

The Asset Management Strategy provides strong linkages with the Asset Register, Strategic Community Plan, Corporate Business Plan, and Long-Term Financial Plan.

It is a high-level description of how each asset class will meet future community needs over ten years. And how much it will cost.

It is a broad statement of how the existing asset base and system of management need to respond to achieve the vision and objectives of the Strategic Community Plan.

Effectively, it analyses gaps and provides strategies to narrow them.

It should probably be no more than 15 - 20 pages in length.

There should be detailed plans to implement strategy for each asset class based on service levels agreed with ‘asset owners’.
These plans are for the programming and delivery of assets, and their management and operation. They should consider risks, and the consequences of their occurrence; give full financial information; and provide for the measurement and reporting of performance.

Dealing with risk is terribly important – categories of risk are numerous, and the consequences of occurrence can be catastrophic. And liability can extend to individuals.

I shall soon be considering this with Local Government Insurance Service in Western Australia.

It will also be necessary to develop individual asset plans for significant or critical assets, and major asset components.

They should consider accommodation needs, disposal of surplus assets and acquisition of new assets, operation and maintenance programmes, and capital projects.

These are the parts of the Asset Management System that enable everything to be done properly.
Levels of service are developed from the demand side of the equation, i.e. Community Strategy. They need to be considered for both within the organisation, and externally.

They must also be developed for services provided to the community, as well as to satisfy technical and compliance requirements.

A good practice is to develop a matrix listing all services by reference to the Strategic Community Plan, describing their priority, current levels, and future levels.

I recently worked on a Major Strategic Review where I included a column on the matrix for the implications of service levels on assets - very useful for asset planning, and providing strong linkages all the way across the IPR framework.

Everything that we do in managing assets is dependent upon reliable and accurate data; and the RIGHT AND RELEVANT data.

Don’t get carried away. Only maintain the data that you need.

Without this, and without the ability to translate data into good information, asset management cannot develop strategy, or support informed decision-making.

All assets must be organised into classes, sub-classes and components, and your Asset Management Information System must link with your Financial Asset Register.

I spoke earlier about getting the right skills, and putting good processes in place.

But, it is paramount that the organisation understands what asset management is, and has the right leadership to make sure that that understanding is spread throughout.

Evaluation and improvement is really about culture, and the leadership to promote that culture.
Very little survives without being kept under people’s noses. Information and communication strategies will help to keep your communities interested and engaged, and generate a sense of ownership and accountability.

If you haven’t heard about the extraordinary things done at the Lambeth Council in London, I encourage you to look at its website. This is a great example of a troubled community coming back from the brink.

**Lambeth Cooperative Council**

- UK’s first cooperative council

- The council will do things with local people instead of doing things to them.

Thank you.
Appendix 3.1

Non-Financial Public Sector Property Asset Values and Maintenance Expenditure

- Commonwealth and State Governments – Summary of Real Property Assets
- Commonwealth Government – Real Property Assets
- NSW Government – Real Property Assets
- Queensland Governments – Real Property Assets
- Victorian Governments – Real Property Assets
- Governments of South Australia, Western Australia, Tasmania, Australian Capital Territory & Northern Territory – Real Property Assets
- Commonwealth and State Governments – Value of Real Property Assets : Total Asset Value
Commonwealth and State Governments\(^1\), and Local Government Sector\(^2\) – Summary of Real Property Assets (Non-Financial Public Sector)

<table>
<thead>
<tr>
<th>Government</th>
<th>Value of Real Property Assets $000</th>
<th>Notional Allocation of Maintenance Expenditure (2% of Value) $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth</td>
<td>21,516,943</td>
<td>430,000</td>
</tr>
<tr>
<td>New South Wales</td>
<td>78,600,424</td>
<td>3,856,000(^4)</td>
</tr>
<tr>
<td>Queensland</td>
<td>56,937,905</td>
<td>1,138,758</td>
</tr>
<tr>
<td>Victoria</td>
<td>53,640,000</td>
<td>1,072,800</td>
</tr>
<tr>
<td>South Australia</td>
<td>19,781,000</td>
<td>395,620</td>
</tr>
<tr>
<td>Western Australia</td>
<td>31,372,904</td>
<td>627,458</td>
</tr>
<tr>
<td>Tasmania</td>
<td>5,235,000</td>
<td>104,700</td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>9,043,284</td>
<td>180,866</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>3,363,059</td>
<td>67,261</td>
</tr>
<tr>
<td>Local Government Sector</td>
<td>45,300,000</td>
<td>906,000</td>
</tr>
<tr>
<td>Total</td>
<td>324,790,519</td>
<td>6,495,810</td>
</tr>
</tbody>
</table>

\(^1\) Source: respective governments’ Budget Papers 2009-10, and Annual Reports 2007-08.
\(^2\) (Australian Bureau of Statistics, 2013)
\(^3\) Analysis of NSW expenditure used as a basis.
\(^4\) Actual budgeted expenditure.
## Commonwealth Government Real Property Assets (Non-Financial Public Sector)¹

<table>
<thead>
<tr>
<th>Department</th>
<th>Land &amp; Buildings Value¹ $000</th>
<th>Value of Additional Land &amp; Buildings Administered on behalf of Government</th>
<th>Total Value Land &amp; Buildings $000</th>
<th>% of Commonwealth Total Value ($21.517bn)³</th>
<th>Notional Allocation of Maintenance Expenditure (2% of Value)⁴ $000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Government Sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture, Fisheries &amp; Forestry</td>
<td>55,158</td>
<td>-</td>
<td>55,158</td>
<td>0.3</td>
<td>1,103</td>
</tr>
<tr>
<td>Attorney General</td>
<td>52,971</td>
<td>120,102</td>
<td>173,073</td>
<td>0.8</td>
<td>3,462</td>
</tr>
<tr>
<td>Broadband, Communications &amp; Digital Economy</td>
<td>63,058</td>
<td>-</td>
<td>63,058</td>
<td>0.3</td>
<td>1,261</td>
</tr>
<tr>
<td>Defence</td>
<td>13,503,000</td>
<td>-</td>
<td>13,503,000</td>
<td>62.8</td>
<td>270,060</td>
</tr>
<tr>
<td>Education, Employment &amp; Workplace Relations</td>
<td>115,625</td>
<td>-</td>
<td>115,625</td>
<td>0.5</td>
<td>2,313</td>
</tr>
<tr>
<td>Environment, Water, Heritage &amp; Arts</td>
<td>261,000</td>
<td>161,322</td>
<td>422,322</td>
<td>2.0</td>
<td>8,447</td>
</tr>
<tr>
<td>Families, Housing, Community Services &amp; Indigenous Affairs</td>
<td>182,059</td>
<td>-</td>
<td>182,059</td>
<td>0.9</td>
<td>3,641</td>
</tr>
<tr>
<td><strong>Finance &amp; Deregulation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Land &amp; Buildings</td>
<td>296,138</td>
<td>5,858</td>
<td>1,153,672</td>
<td>5.4</td>
<td>23,074</td>
</tr>
<tr>
<td>- Investment Property (non-Defence)</td>
<td>851,676</td>
<td>-</td>
<td>851,676</td>
<td>40.2</td>
<td>1,153,672</td>
</tr>
<tr>
<td>Foreign Affairs &amp; Trade</td>
<td>2,010,549</td>
<td>-</td>
<td>2,010,549</td>
<td>9.3</td>
<td>40,211</td>
</tr>
<tr>
<td>Health &amp; Ageing</td>
<td>91,184</td>
<td>27,869</td>
<td>119,053</td>
<td>0.6</td>
<td>2,380</td>
</tr>
<tr>
<td>Human Services</td>
<td>52,659</td>
<td>-</td>
<td>52,659</td>
<td>0.3</td>
<td>1,053</td>
</tr>
<tr>
<td>Immigration &amp; Citizenship</td>
<td>578,713</td>
<td>-</td>
<td>578,713</td>
<td>3.0</td>
<td>11,574</td>
</tr>
<tr>
<td>Infrastructure, Transport, Regional Development &amp; Local Government</td>
<td>34,354</td>
<td>61,892</td>
<td>96,246</td>
<td>0.5</td>
<td>1,925</td>
</tr>
<tr>
<td>Innovation, Industry, Science &amp; Research</td>
<td>70,757</td>
<td>-</td>
<td>70,757</td>
<td>0.3</td>
<td>3,538</td>
</tr>
<tr>
<td>Prime Minister &amp; Cabinet</td>
<td>-</td>
<td>41,196</td>
<td>41,196</td>
<td>0.2</td>
<td>824</td>
</tr>
<tr>
<td>Resources, Energy &amp; Tourism</td>
<td>-</td>
<td>152,000</td>
<td>152,000</td>
<td>0.7</td>
<td>3,040</td>
</tr>
<tr>
<td>Treasury</td>
<td>10,816</td>
<td>-</td>
<td>10,816</td>
<td>-</td>
<td>216</td>
</tr>
<tr>
<td>Parliamentary Services</td>
<td>-</td>
<td>1,626,627</td>
<td>1,626,627</td>
<td>8.0</td>
<td>32,533</td>
</tr>
<tr>
<td><strong>Total General Government Sector</strong></td>
<td><strong>18,229,717</strong></td>
<td><strong>2,196,866</strong></td>
<td><strong>20,426,583</strong></td>
<td><strong>95.0</strong></td>
<td><strong>410,000</strong></td>
</tr>
</tbody>
</table>

### Public Non-Financial Corporations⁶

| Australian Government Solicitor Corporation                               | -                           | -                                                                     | -                                |                                          |                                                               |
| Australian Postal Corporation                                            | -                           | -                                                                     | -                                |                                          |                                                               |
| Australian River Co. Ltd                                                 | 777,000                     | -                                                                     | 777,000                          | 3.6                                      | 15,540                                                         |
| ASC Pty Ltd                                                               | 104,669                     | -                                                                     | 104,669                          | 0.5                                      | 2,093                                                          |
| Australian Technology Group Ltd                                          | -                           | -                                                                     | -                                |                                          |                                                               |
| Australian Hearing Services                                              | 5,750                       | -                                                                     | 5,750                            | -                                        | 115                                                            |
| Health Services Australia Ltd                                            | 8,133                       | -                                                                     | 8,133                            | -                                        | 163                                                            |
| Air Services Australia                                                   | 177,604                     | -                                                                     | 177,604                          | 0.8                                      | 3,552                                                          |
| Australian Rail Track Corporation Ltd                                    | 17,204                      | -                                                                     | 17,204                           | 0.1                                      | 344                                                            |
| **Total PNFCs**                                                          | **1,090,360**               | **1,090,360**                                                         | **21,516,943**                   | **100.0**                                | **430,000**                                                    |

### Total Non-Fin. Public Sector

1. Source: Commonwealth Government Budget Papers 2009-10
2. Only aggregate values provided.
4. No maintenance expenditure provided. Analysis of NSW expenditure (see Appendix 1.3) used as a basis.
5. Difference due to rounding of figures.
7. Difference due to rounding of figures.