LEGISLATIVE ASSEMBLY
STANDING COMMITTEE ON PUBLIC WORKS

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CHAIRMAN'S FOREWORD

This report on the management of office accommodation in the public sector is the first in a series of reports the Committee will carry out as part of its inquiry into Infrastructure Delivery and Maintenance. The inquiry was set in train with a reference from the Minister for Public Works and Services in 1999.

The Minister's reference proved timely for it followed closely on the heels of the Committee's report into Capital Works Procurement (tabled in September 1999).

That report had identified a number of avenues which the Committee felt warranted further inquiry in order to improve capital works procurement in New South Wales. The new reference dovetailed neatly with a number of issues identified by the Committee.

In order to manage the scope of the Minister's reference, the Committee decided to divide the inquiry into discrete tasks and report on each of them separately.

This first report provided the Committee with the task of looking at issues relating to the management of capital assets. The Committee does not shy away from such a role. In its view, not only should capital works be provided as cost effectively as possible, capital works assets must be managed properly.

In recent years, there has been substantial reform in the way agencies manage their office accommodation. This reform has resulted in considerable savings to the taxpayer. However, there is still room for improvement and the Committee has made a number of recommendations which, if implemented, will improve the management and lead to further savings as well as better service delivery.

It is clear to the Committee that there is a lack of professional expertise being brought to bear in managing accommodation. This is of particular concern when inexperienced officers come up against highly experienced negotiators.

Not all agencies need to be located in expensive Sydney CBD sites. Locating agencies outside the Sydney CBD brings services closer to those who need them and gives the Government the opportunity to stimulate local and regional communities. These are areas where accommodation costs are much lower. So the benefits actually accumulate.

The Committee identified a number of agencies whose leases are coming up for renewal. The Government should look at these leases to ensure that staff/space ratio targets are being reached and the best deals are made. Savings in the order of $11 million per year are possible here.

The Committee looks forward to moving on to the next phases of this inquiry.

Diane Beamer MP
Chairman

EXECUTIVE SUMMARY

The cost of government accommodation is a significant outlay for the taxpayer. After wages and salaries, accommodation costs are the largest expenditure item for agencies.

In 1996 agencies spent a total of $385 million on over one million square metres of office space.

These figures have been reduced in the last few years. The reductions are no accident. They are the result of a well targeted policy - the Government Accommodation Reform Program.

This reform process, which commenced in earnest in 1996, recognised that accommodation costs had ballooned in the late 1980s when agencies were given too much latitude in managing their own accommodation.

Since 1995, the actual cost of accommodation per public sector employee has been reduced by over 15 per cent. This represents real savings of approximately 35 per cent (present value), after factoring in the average rental growth in the property market over the same period.

By 1994 the amount of space for each public sector employee in office accommodation had increased to 24 square metres (from 20 square metres in the late 1980s). This has now been reduced to 19.3 square metres per employee. If the 1994 figure had been maintained (ie 24 square metres per employee) the government's annual rental expenditure today would have been $63 million higher.

An essential element of the success of the reform program has been that a single agency (in this case the Department of Public Works and Services) has been charged with coordinating and focusing the lease management process to bring appropriate expertise and the considerable market power of the government accommodation portfolio to obtain the best deals possible.

However, there is still room for improvement.

Leasing is a complex task, requiring expertise. The Committee found that some agencies lacked that expertise, and/or were not complying with Government policy for a number of reasons.

A number of agencies, some of which should have the necessary skills and resources, have failed to negotiate favourable accommodation deals. Public sector administrative staff are often at a disadvantage when dealing with professional lease negotiators acting on behalf of large organisations. This is a systemic issue. The policy needs to be tightened in some areas to ensure that appropriate expertise and review is brought to bear on agencies' arrangements and that agencies actually comply with Government policy.

Agencies can and should, with expert assistance, negotiate better rentals. Considering the stakes, the Committee came to the view that it was important that leasing expertise was brought to all aspects of office accommodation management. Agencies do not necessarily require lease management expertise permanently. It just needs to be available at the right time and agencies must know when, where and how to obtain it. It is a matter of proper systems and expertise, which need not necessarily be provided in-house, particularly by small agencies

Rather than agencies using inappropriate in-house resources, the Committee has recommended they employ the services of only accredited negotiators, either private sector or public sector. Public sector organisations with property management as their core business could provide such a service, as could DPWS or the private sector. Under the Committee's proposal, GAMC would accredit agencies and dispense exemptions from the obligation to use professional expertise.

The Committee is concerned that the problems identified with lease management might well apply to broader property management and has, therefore, recommended that the Council on the Cost and Quality of Government look at this issue.

Staff/space ratios can be reduced further. (A "back of the envelope" calculation indicates that a further $75 million per annum savings could be made by reaching the 15 m^2 target across the board.)

The notion that all government agencies need to be located in the CBD has well and truly been rejected. Agencies should be located in more cost-effective locations.

Most importantly, agencies need to be located where they can best deliver services. Some agencies are located in Sydney's CBD when their core constituents live in Western Sydney or regional centres. Careful consideration needs to be given to relocating these agencies.

Locating agencies outside the Sydney CBD gives the Government the opportunity to stimulate local and regional communities, where, happily, accommodation costs are much lower . So the benefits actually accumulate. The communications revolution strengthens the argument for non-CBD locations.

The Government is already going down this path and the Committee strongly endorses the Government's relocation policy. However, it has found, particularly in relation to WorkCover's recent move to Gosford, that there are some major teething problems with the current implementation of agency relocations. In essence, the Committee is convinced that the decision to relocate any agency has to be driven by a whole-of-government approach (looking at, for example, regional, economic, transport issues), not simply an office accommodation approach.

In all cases of relocating office accommodation, a comprehensive benefit-cost analysis needs to be undertaken. Such a whole-of-government approach necessitates central funding and the Committee has recommended that Treasury establish a central funding for whole-of-government programs.

The Wharf Road Newcastle site has brought to the attention of the Committee some unresolved problems with the implementation of head leases on multiple tenancies.

Whether the issue is excessive rents, underutilisation of sites or potential relocations, the task is to reduce costs and make savings. The savings should be retained by agencies and put back into service delivery which, after all, is their core business.

There are merits in ownership of accommodation, which the Government should consider.

The DPWS database is an important tool in implementing and monitoring the reform program. Agency returns to the database need to be mandated and the information needs to be accurate and complete.

PTEs and SOCs are not bound by the accommodation reform policy, yet they represent a considerable part of the accommodation portfolio. Without hindering their performance, the Committee believes they should be strongly encouraged to be part of the strategic, targeted approach being directed by DPWS and GAMC.

The Committee acknowledges and supports the important role that DPWS has played in the implementation of accommodation reform. The Committee believes that role should be strengthened. However, there has been confusion on the part of some agencies when dealing with DPWS which the department needs to address.

The Committee has undertaken an analysis of the DPWS database and identified savings in various leasing arrangements which should be given priority attention by GAMC.

The potential savings identified by the Committee are estimated to run to $11 million per annum.

FINDINGS & RECOMMENDATIONS

Recommendation 1

1.1 That only agencies with accredited expertise should be responsible for the management of their office accommodation including mid term rent reviews. All other agencies should utilise professional management services.

1.2 That GAMC establish a list of public and private sector lease management professionals that are accredited to provide these lease management services. The list is to be reviewed on a regular (say two yearly) basis.

1.3 That GAMC become the approval authority for government agencies which wish to manage their own office accommodation.

The following checks will ensure that the process is effective:

- Agencies to present a case to the GAMC demonstrating relevant in-house expertise in property services is part of their core business in order to seek exemption from this policy
- Agency exemptions to be reviewed every three years with reference to the quality of their Strategic Office Accommodation Plans.
- Agencies granted exemption to continue to notify the DPWS of all lease expiries, reviews and renewals for office accommodation.

Recommendation 2

That the Council on the Cost and Quality of Government investigate the duplication of property management services across the public sector, with particular reference to:

- extent of property services provided by agencies,
- level of expertise available in agencies,
- cost of providing the services
- extent to which the services could be provided by professional public and private sector property management services
- resource savings if the services were provided by external (public or private sector management professionals)

Recommendation 3

The Government Office Accommodation Reform Program is delivering substantial *benefits and savings to the NSW public sector and looks set to achieve its target of $500 million in savings over ten years.*

That the effectiveness of the Government Office Accommodation Reform Program be enhanced by the following measures:

- DPWS to be notified of impending lease renewals and mid-term market rent reviews for office accommodation sites over 500 m^2 at least six months prior to the cut-off date for negotiations.
- The GAMC issue a formal requirement that agencies provide DPWS with advance notice of major lease renewals according to the following criteria:

    a) under 2,000 m^2, at least twelve months in advance
    b) 2,000 m^2 - 5, 000 m^2, at least two years in advance
    c) over 5,000 m^2, at least three years in advance.

- That DPWS be advised in advance of any accredited provider which an agency proposes to retain.

These measures will enable proper strategic planning of office accommodation which ensure a whole of government approach, fully utilises relocation options and maximises the negotiating power of agencies with lessors. It will also enable DPWS to ensure that agencies have certified professional negotiators available as needed.

Recommendation 4

That GAMC conduct an immediate audit of compliance with the Government Office Accommodation Reform Program (including Premier's Memoranda 97-2 and 99-6) which focuses on:

- The quality of Strategic Office Accommodation Plans by General Sector Government agencies
- The extent to which agencies have been advising DPWS of office leasing proposals (in accordance with 97/2, Attachment 1)
- The level of voluntary adoption by PTEs and SOCs of the Reform Program (as urged by 99/6).

The Committee is to be provided with a copy of this audit upon its completion to consider follow-up action.

Recommendation 5

The DPWS database on office accommodation is a valuable tool for monitoring and controlling rental costs.

5.1 That its effectiveness be enhanced by the following actions:

- GAMC to direct all General Government Sector agencies to complete annual returns on office accommodation to the DPWS database.
- The information collected will include the dates of all lease renewals and mid-term rent reviews.
- The GAMC to sample the returns to ensure the information is accurate and complete.

5.2 That GAMC to write to relevant Ministers requesting that SOCs and PTEs complete annual returns on office accommodation holdings to the DPWS database. In the event that PTEs and SOCs do not submit returns, they should be asked to provide reasons for this decision to the GAMC. ("Commercial in confidence" would not constitute such a reason, given the confidentiality protocols attached to the database).

Recommendation 6

That GAMC develop a policy to financial reward agencies who achieve savings through the reduction of office accommodation costs.

Recommendation 7

That GAMC:

7.1 Oversee a reappraisal of the Wharf Road Newcastle tenancy to develop a whole-of-government solution, including the cost effective relocation of agencies if necessary.

7.2 Carry out an audit of all multiple lease sites under non-government ownership to identify any similar situations and to develop cost effective solutions, if necessary.

Recommendation 8

8.1 That Premier's Department in consultation with GAMC, the Department of Public Works and Services (and other relevant agencies) develop comprehensive relocation guidelines for agencies, to ensure the full range of whole-of-government issues are considered in any agency relocation proposals.

8.2 That a dedicated fund within Treasury for whole-of-government relocation projects be established.

8.3 That GAMC initiate an independent review (for example, by way of a performance audit) of its risk profile for whole-of-government projects for which it assumes responsibility from individual agencies.

Recommendation 9

That the Department of Public Works and Services ensures that:

9.1 its commercial and whole-of-government roles remain clearly separate and that its staff and clients are fully appraised of the separate roles, and

9.2 clients be regularly updated on contact points and procedures in DPWS.

Recommendation 10

That GAMC evaluate the merits of ownership of accommodation, as opposed to leasing, particularly where the Government has a significant or long-term presence.

Recommendation 11

That GAMC review as a priority the office accommodation needs of agencies identified by the Committee in chapter 6, particularly those agencies which have leases expiring in 2000/2001, to ensure that

- office space utilisation targets are achieved,
- agencies in high cost locations make a case as to why they should not move from those locations, and
- relocation or collocation is considered as possible solutions to reduce excessive costs as leases expire.

CHAPTER ONE

Introduction

1.1 Public Works Committee

The Standing Committee on Public Works was originally established in New South Wales in 1887. Its operations were suspended in 1930.

It was re-established by Motion of the Legislative Assembly on 25 May 1995 with the following Terms of Reference:

> *That a Standing Committee on Public Works be appointed to inquire into and report from time to time, with the following terms of reference:*
>
> > *As an ongoing task the Committee is to examine and report on such existing and proposed capital works projects or matters relating to capital works projects in the public sector, including the environmental impact of such works, and whether alternative management practices offer lower incremental costs, as are referred to it by:*
> >
> > - *the Minister for Public Works and Services, or*
> > - *any Minister or by resolution of the Legislative Assembly, or*
> > - *by motion of the Committee.*

The Standing Committee on Public Works absorbed the functions of the Standing Committee on the Environmental Impact of Capital Works, established during the 50th Parliament.

The terms of reference were renewed on 3 June 1999.

The Committee comprises seven members of the Legislative Assembly:

- Ms Diane Beamer MP, Chairman
- Mr Matthew Brown MP, Vice Chairman
- Mr Paul Gibson MP
- Mr Kerry Hickey MP
- Mr Andrew Humpherson MP
- Mr Adrian Piccoli MP
- Mr Tony Windsor MP.

The Parliament's intended role for the Committee was detailed in a speech given to the Parliament by the Hon Paul Whelan, Minister for Police and Leader of the Government in the House, on 25 May 1995:

> The Committee may inquire into the capital works plans of State-owned corporations and joint ventures with the private sector. The Committee will seek to find savings in capital works programs whilst achieving a net reduction in environmental impacts by public sector developers. The Committee's work is expected to provide incentives to the public sector to produce more robust cost-benefit analyses within the government budgetary process and to give more emphasis to least-cost planning approaches. The Committee will be sufficiently resourced to enable it to conduct parallel inquiries into specific projects and capital works programs generally.... it will have sufficient resources to inquire into the capital works program of all government agencies whose capital works programs affect the coastal, environmental and transport sectors.

In the Fifty-First Parliament, the Committee examined health, education, Olympics, waterways and transport infrastructure as well as urban and environmental planning issues. It also investigated the development and approval processes for capital works procurement across the public sector.

In the current Parliament, the Committee has tabled two reports:

- *Report on Capital Works Procurement* (Report No.1, September 1999).[1]
- *Report on the National Conference of Parliamentary Public Works and Environment Committees 1999, Hobart, Tasmania*

Currently, the Committee is conducting the following inquiries:

- Infrastructure Provision and Maintenance (Project Management and Technical Services) [2]
- Sick Building Syndrome.
- Government Energy Targets.

1.2 Terms of Reference

[1] This Report represents Volume II of a joint inquiry in the Fifty-First Parliament with the NSW Public Bodies Review Committee into the Provision of Goods and Services and the Delivery of Capital Works in the NSW Public Sector. The draft Report was carried over to the Fifty-Second Parliament by a motion of the Legislative Assembly of 29 June 1999, which referred all documents and proceedings of Committees of the Fifty-First Parliament to current Committees.

[2] This inquiry will generate multiple reports including Government Office Accommodation and Property Services, Plant and Equipment, Asset Maintenance Systems, Capital Procurement Issues, and the Role and Performance of the Department of Public Works and Services.

In June 1999, the Committee received the following reference from the Minister for Public Works and Services, the Hon Morris Iemma MP:

The Committee will examine and report on the acquisition and maintenance of building and infrastructure, with focus on the provision of management and technical services to government agencies and bodies, addressing:

1. *Examples of best practice in the provision of these services that have reduced unnecessary bureaucracy and real costs; and produced quality work on time and on budget;*

2. *The strategies and allocations of resources by each agency or body for those services, whether provided in-house or by outside expertise;*

3. *Areas of overlap and duplication across Government agencies and bodies;*

4. *The optimal utilisation of the available expertise; and*

5. *The application of government policies.*

The Committee will report to the Parliament by the end of September 1999.

Given the potential scope of the inquiry, the Committee wrote to the Minister advising of the commencement of the inquiry as requested but seeking an amendment to the reporting date. The Minister agreed to dispense with the reporting date on the condition that the Committee expedite the inquiry.

Again given the scope of this reference, the Committee decided that the most effective approach would be to divide the inquiry into a number of discrete tasks which would be subject to separate reports. Each report would address a specific issue in the light of the criteria determined by the terms of reference.

This report on the provision of office accommodation services is the first in the series.

1.3 Method of Inquiry

In carrying out this inquiry the Committee has made use of a number of tools and techniques. These are briefly outlined below.

Following its resolution to carry out the inquiry, the Committee advertised in the press calling for submissions. Public hearings were then held. Regrettably, due to the inconsistency and limitations of a number of submissions, the Committee developed a survey which it circulated to all agencies for a response (agency respondents are listed in Appendix 1) Specific information was sought from a number of agencies as a consequence of these inquiries. The Department of Public Works and Services provided the Committee with a copy of its accommodation database. Other reference material on public record (for example, annual reports) provided further material for the Committee's deliberations.

The resulting information has been compiled and analysed by the Committee. From this it has made a number of finding and recommendations.

In the next chapter, the Committee outlines the policy framework for the management of government office accommodation.

CHAPTER TWO

Government Accommodation: Overview and Policy

2.1 Introduction

Office accommodation is usually the second highest recurrent expenditure item for government agencies (after salaries and wages). The efficient and effective management of the public sector office accommodation portfolio has, therefore, the potential to provide considerable savings.

By way of example, the revised Total Asset Management Manual (November1998) aimed to "return savings in occupancy costs of around 25 per cent" and reduce office space by 300,000 m^2 over 10 years across the public sector. This would mean a reduction of up to $100 million in rental costs alone each year. In nett present value terms, the Office Accommodation Reform Program (described below) has a savings target of $500 million over 10 years.

Since 1995, the actual cost of accommodation per person has been reduced by over 15 per cent. This represents real savings of approximately 35 per cent (present value), after factoring in the average rental growth in the property market over the same period.

By 1994 the amount of space for each public sector employee in office accommodation had increased to 24 square metres (from 20 square metres in the late 1980s). This has now been reduced to 19.3 square metres per employee. If the 1994 figure had been maintained (ie 24 square metres per employee) the government's annual rental expenditure today would have been $63 million higher.

Given the very significant savings to be made in this area the Committee, as the first part of this inquiry into the provision of technical and management services for building and other infrastructure, has looked closely at how government agencies are managing their accommodation assets.

As the major player in the CBD office accommodation market, the NSW Government should be able to exert substantial leverage in office accommodation leasing negotiations with the private sector. The outcomes achieved by individual agencies have a direct flow-on effect as benchmarks for both the public and private sectors. Thus, poor practice in lease and rent review negotiations has negative repercussions both in individual cases and further down the track for other government agencies.

Bad practice in individual cases does not simply constitute a one-off loss. Office accommodation is a recurrent expenditure item which affects agency budgets and service delivery for many years.

Further, the money lost by poor performance in an individual contract can be dwarfed by the cost across the entire public sector when that example is used as a benchmark in later negotiations.

2.2 Government Office Accommodation Snapshot

In 1996, the NSW Government occupied approximately 1.1 million m^2 of office accommodation for 45,000 employees at a cost of $385 million across New South Wales. It is the largest lessee in the Sydney CBD, occupying 10 per cent of office space. (*Office Accommodation Planning May 1997*)

The NSW Government office accommodation portfolio is made up of a mixture of freehold and leasehold space. The proportion has been changing over the last few years with the amount of leasehold on the increase. Currently, 65 per cent is leased and 35 per cent owned. (This issue is dealt with in detail in Chapter Five).

The following table indicates the distribution of office accommodation across NSW in 1999.

NSW Government Accommodation 1999		
Region	**Area (m^2)**	**% of area**
Sydney CBD	386,946	36
Greater Sydney	413,790	39
Country	260,654	25
TOTAL	1,061,390	100

This is a reduction of almost 76,000 square metres (or 6.7 per cent) from 1996 levels. This represents (at a 1996 statewide rental average of $243 per square metre) a saving of some $18 million.

The NSW Government has reduced Sydney CBD office space from 485,592 m^2 to 386,946 m^2 since 1996, as a result of the reform process, which is part of a strategy to reduce recurrent expenditure on office accommodation and relocate government services and jobs to areas where they will optimise economic development. This reform process is detailed later in this chapter.

The following table provides a comparison of average rental costs across NSW.

Site	**$/$m^2$**
City Core	$514.92
Midtown	$332.53
Southern CBD	$280.22
Western CBD	$337.28
The Rocks	$440.00
Metropolitan	$255.43
Regional NSW	$199.05

This table indicates that rental costs in the Southern CBD and Metropolitan Sydney are around half that of the City Core. Regional NSW offers even greater potential savings, although there are some notable exceptions due to specific cost factors involved in regional relocation. These will be considered later in this report.
A comparison of Sydney CBD office space in 1996 and 1999 demonstrates the reduction in overall office space, especially in expensive locations.

CBD Sector [3]	**1996 Area (m^2)**	**1996 % of CBD**	**1999 Area (m^2)**	**1999 % of CBD**	**Reduction 1996-1999 in m^2**
Mid Town	153,986	31.7	96,922	25	57,064
City Core	123,062	25.4	102,955	27	20,107
Southern CBD	88,849	18.3	121,276	31	– 32,427
Eastern CBD	36,876	7.6	-	-	n/a
Western CBD	65,141	13.4	58,995	15	6,146
The Rocks	17,678	3.6	6,798	2	10,880
Total	485,592	100	386,946	100	98,646

City Core and Midtown accommodation has been reduced by 77,171 m^2 (from 57 to 52 per cent) since 1996, while Southern CBD has increased from 18 per cent to 31 per cent as a proportion of total accommodation.

If current market rates were applied, the reduction in City Core office space of 20,000 m^2 would translate into a potential saving of $10.35 million each year. Likewise, the reduction in Midtown office space by over 57,000 m^2 would translate into a potential saving of almost $19 million per year. Clearly, the policy has the potential to make considerable savings.

Further cost savings are being generated by improving space utilisation.

In 1996, average office space in the NSW public sector was almost 24 m^2 per employee, which was higher than both the Australian private sector and the international public sector. Best practice standards indicate that this figure can be reduced to15-18 m^2 per employee.

The savings identified above have been the result of a range of policy initiatives and reforms. These have created a framework for achieving the best possible outcomes in office accommodation planning and lease negotiations across the entire public sector. The policy framework is summarised below.

[3] A map displaying CBD sector classifications is contained at Appendix 2

2.3 NSW Government Accommodation Policy

Prior to 1990, the Office Accommodation Bureau conducted lease negotiations in major markets. Individual agencies assumed this responsibility in 1990. The Chair of the Government Asset Management Committee, Dr Gellatly, explained to the Committee what happened when office accommodation was removed from central oversight:

> **Dr GELLATLY:** What has happened is that we have gone through the cycle where back in the 60s we had the Public Service Board, which ran everything - total central control. That was then disbanded. Then the management literature and the attitude of the Government of the day was devolution - let agencies do their own thing - and now you are seeing in some areas like this a gradual, or probably more than a gradual, winding back of that and going back to people recognising that there are some real benefits in having some central co-ordination in those sorts of things.

As a consequence of this recognition, a range of policy initiatives have been introduced over the last few years to more effectively manage office accommodation.

These NSW Government policy initiatives recognise that the key to achieving sector-wide savings in office accommodation is good planning and coordination. The aim is to allow appropriate flexibility in negotiations with the private sector while bringing a whole-of-government perspective, backed up by good practice and expertise in every individual lease negotiation.

2.3.1 Total Asset Management

Total Asset Management (TAM) was introduced by the NSW Government in 1993 to streamline service delivery. By linking the physical asset base of agencies with planning for service delivery and whole-of-government policy, it aimed to shift from capital investment to better management of existing resources and alternative delivery solutions.

TAM spans the entire asset lifecycle including:

- Identification of the need for the asset
- Provision of the asset including refurbishment
- Operation of the asset including maintenance
- Disposal and effective removal.

Agencies are required to develop a Total Asset Strategy each year which includes strategic plans for:

- Capital Investment

- Asset Maintenance
- Asset Disposal.

TAM provided a framework for agencies to develop strategic plans for different asset categories such as capital investment, maintenance and asset disposal.

However, in 1993 TAM did not deal specifically with office accommodation.

2.3.2 The Government Office Accommodation Reform Program

In 1997 the Carr Government initiated a major reform of government accommodation through a series of policy initiatives on office accommodation and property services. These aimed to improve planning by individual agencies and achieve integration with whole-of-government targets.

2.3.2.1 Premier's Memorandum 97-2 – February 1997

Premier's Memorandum 97-2, released in February 1997 (copy with attachments at Appendix 3) signalled the commencement of this reform program. It provides procedures for integrating the management of government office accommodation and property into the TAM process[4] as well as identifying objectives for office accommodation for the first time. It also clarifies and refines some aspects of the annual review and approval process.

Principally, it extends asset reporting requirements to include office accommodation as part of a Total Asset Management Strategy to be submitted to DPWS and Treasury each year as part of the budget process.

Four attachments outline objectives, procedures and targets on the following issues:

- Government Office Accommodation Leasing Procedures - to plan, coordinate and implement changes in accommodation for sites above 500 square metres.
- Government Office Accommodation Facility Planning Procedures - guidelines on accommodation changes for sites above 500 square metres.
- Procedures for Disposal of Surplus Property – to coordinate asset disposal.
- Strategic Office Accommodation Plan - guidelines to integrate office accommodation into TAM.

The Memorandum also reiterates targets for office space of 18 m^2 per employee.

DPWS was assigned a central role in all aspects of the TAM process including:

- Advising the Budget Committee of Cabinet and relevant Ministers on current and future strategic property and accommodation needs.
- Assisting agencies in preparing Total Asset Management Strategies.

[4] Operational accommodation such as schools, courthouses and hospitals were excluded as the TAM Manual dealt with them separately.

- Responsibility for the centralised coordination and management of leasing office accommodation and property disposal to reduce duplication and overlap.
- Driving the actual process of contracting-out leasing and property disposal on behalf of government agencies except where exemptions are granted on the basis of in-house expertise.

Premier's Memorandum 97-2 states clearly that:

> No agency is to enter into a lease for office space or change lease arrangements without reference to DPWS… (2)

Attachment 1 to the Memorandum outlines six procedures on office accommodation:

1. Agencies should determine leasehold needs at least 12 months prior to lease expiry.
2. A facility plan must be prepared and submitted to DPWS for premises over 500 m^2.
3. Budget sector agencies must obtain in-principle approval from Treasury for any office accommodation proposals.
4. (a) DPWS must be provided with any proposal by a budget sector agency to lease office space or vary existing lease arrangements, whether by renegotiation or renewal option, prior to any approach to the private sector.
   (b) Non-budget sector agencies should give preference to government owned or leased vacant space in reviewing office accommodation options. DPWS should provide advice before selecting and reviewing options. State Owned Corporations must seek and consider DPWS advice on surplus government accommodation, although they do not need to give it preference.
5. Prepare Accommodation Options.
6. Obtain Treasury approval (supported by DPWS evaluation report).

Attachment 2 provides detail on preparing the analysis of leasehold needs, a facility plan and accommodation options (points 1, 2 and 5 above).

Attachment 4 outlines the requirement for all agencies (including GTEs) to prepare a Total Asset Management Strategy each year for provision to Treasury and DPWS. It includes parameters for a Strategic Office Accommodation Management Plan which cover leasehold office accommodation, freehold office accommodation and key performance indicators.

2.3.2.2 Office Accommodation Planning Guidelines

In May 1997, a stand-alone TAM strategy document called "Office Accommodation Planning Guidelines" was released. Its aim was to integrate office accommodation planning into the TAM process through the following stages:

- Stage 1: Prepare needs analysis.

- Stage 2: Assess existing accommodation.
- Stage 3: Identify and evaluate accommodation.
- Stage 4: Prepare accommodation plan.
- Stage 5: Implement and monitor plan.

Appendix A provided an Example Development of an Agency Office Accommodation Plan. Appendix B summarised Office Accommodation Planning criteria and standards.

(The revised TAM Manual (draft released in November 1998) contains updated guidelines for developing an Office Accommodation Strategic Plan, which reiterates instructions contained in Premier's Memorandum 97-2.)

2.3.2.3 Government Office Accommodation Reform Program Strategies

The Government Office Accommodation Reform Program document was released in December 1998 to consolidate and extend existing government policies.

The document contained 12 strategies to align agency decisions on office accommodation with the principles of Total Asset Management and achieve whole-of-government objectives for corporate services reform, urban and regional planning, transport and economic development.

The Program addresses:

- Acquisition and disposal decisions including ownership versus leasing of office accommodation.
- Reduction in Sydney CBD Core lease costs by promoting agency relocation to CBD South and Parramatta (in line with the government's wider planning objectives).
- Regional development with agencies to annually test the viability of relocating staff and units from the Sydney metropolitan area.
- Space utilisation targets of 15 m^2 per person for new buildings and fitouts.
- Lease pre-commitments, in which office space is leased by government agencies prior to construction by the private sector.
- Lease consolidation into a "head lease" where multiple government agencies lease space in the same building.
- Collocation opportunities for government agencies to achieve economies of scale and provide a "one stop shop" for services.
- Alternative workspace options and the effective use of heritage assets.

These strategies will enable agencies to develop long term accommodation plans that will optimise space use and reduce costs.

The document also announced the formation of the Government Asset Management Committee (GAMC), which had been approved by Cabinet in June 1998, as an oversight authority (see below). The Committee was set up to provide whole-of-government coordination of asset management. It is chaired by the Director General of Premier's Department and reports to the Budget Committee of Cabinet.

The Government Office Accommodation Reform Program contains the following accountability measures:

- The GAMC will drive the Reform Program and monitor performance standards by agencies.
- Chief Executive Officers will be held accountable for the success of their agency in meeting objectives.
- DPWS will assume a central, coordinating role to monitor development and implementation.
- Treasury will review funding and management policies, assess economic appraisals for budget sector agencies and seek confirmation of compliance with TAM guidelines for GTEs and SOCs.
- In this regard, DPWS's specific role includes:
- Assisting agencies to prepare Office Accommodation Strategies.
- Monitoring the alignment of asset and accommodation resources with overall government service delivery objectives.
- Advising the Government on the quality of the Total Asset Strategies of agencies.
- Approving changes to leasing arrangements including lease renewals and exercise of options.
- Maintaining the Government Office Accommodation database.

2.3.2.4 The Government Asset Management Committee

A major plank of the Office Accommodation Reform Program (Stage II), was the establishment of the Government Asset Management Committee (GAMC) on 29 June 1998.

It brings together central agencies and asset experts to ensure that reforms in asset management occur in a whole-of-government context. This includes the Corporate Services Reform Initiative to link asset management with service delivery outcomes.

The GAMC has the following Membership:

- Director-General, Premier's Department (Chair).
- CEO, The Treasury.
- CEO, DPWS.
- CEO, Attorney-General's Department.
- CEO, RTA.

It provides advice to the Budget Committee of Cabinet on:

1. The alignment of asset and office accommodation resources with the Government's service delivery priorities.
2. The appropriateness of agency asset management strategies.
3. Strategic asset and accommodation issues involving more than one agency.
4. Regional office accommodation strategies and plans (including Sydney CBD).
5. Major investment strategies – acquisition, major refurbishments, lease pre-commitments, leasehold and asset and property disposals.
6. Benchmarks and performance standards for asset and property portfolios.

The GAMC released its first Annual Report in 1998/99. Outcomes in 1998/99 included:

- Endorsing revisions to the TAM Manual.
- Reviewing the Strategic Office Accommodation Plans of agencies and reporting to the Budget Committee of Cabinet on strategic property and accommodation needs.
- Reviewing the asset management approaches of selected agencies (NSW Police Service, DOCS, DET).
- Resolving a dispute over the acquisition of surplus Pacific Power land (White Bay Power Station) by the Sydney Harbour Foreshore Authority.
- Considering collocation options for watchdog agencies.
- Recommending Telecentre Pilot Programs in Gosford and Wollongong.
- Endorsing Office Accommodation Strategies for the Sydney CBD Core (including Governor Macquarie Tower), Parramatta and the Sydney CBD South.
- Assessing relocations for WorkCover NSW (to Gosford) and the Superannuation Administration Authority (to Wollongong).

The Committee examined members of the GAMC, at public hearings, about its role and performance.

The Chair of the GAMC, Dr Gellatly, Director-General of Premier's Department, outlined its review function for asset management policy:

> **CHAIR:** The Government Asset Management Committee has been established to enforce the Government's accommodation reform. Does the committee look at other areas of asset management as well?
> **Dr GELLATLY:** The accommodation reform program is part of it, but we are also interested in the broad asset management strategies that agencies have. So what we have been doing since we have been going, more recently last year, is getting agencies in to give us presentations on what their asset management strategy is. They are required to prepare one.
> So by doing that we can ask questions, get them to see where the gaps are – is it in maintenance, is it in disposal or buying new ones – and just trying to work out where their asset strategy is going in relation to their business, which is the key thing, so whether it is within the hospitals medical facilities or in camps with Sport and Recreation and so on, just trying to get them to relate where they

> are going with their asset management as part of their delivery of service, because sometimes the asset management gets hidden away and becomes an end in itself.

The Director-General of the DPWS, Mr Persson, argued that the GAMC had imposed new levels of accountability on agencies with regard to asset management:

> **Mr PERSSON:** It was not long ago they [agencies] had to make no case at all. Now they have to make a case through annual plans which come to a newly formed asset management committee… where a plan does not look like it stacks up, there is a mechanism for bringing it forward under the appropriate authority, which would not be my department, it is the head of the Premier's Department. We have that mechanism in place. It has been operating for just over a year and it is looking like it is proving quite effective. (T1, 9)

2.3.2.5 Premier's Memorandum 99-6

Premier's Memorandum 99-6 (8 February 1999) supports the Government Office Accommodation Reform Program and reinforces the reporting requirements of Premier's Memorandum 97-2. (A copy is contained at Appendix 4).

It noted that obligations set down in Premier's Memorandum 97-2 "have not been complied with by all agencies" and formally announced the establishment of the Government Asset Management Committee to "ensure implementation of the Reform Program." In particular, the GAMC would report to the Budget Committee of Cabinet; suggesting that budget approval for funding would be tied to compliance and the quality of compliance.

The role of the DPWS in office accommodation and property disposal is reiterated and strengthened:

> The Department of Public Works and Services is responsible for the centralised coordination and management of leasing office accommodation and property disposal. In this role it will oversee the implementation of the strategies from a whole-of-government perspective while agencies are individually expected to adopt them. It is expected that agencies will address the implementation of these strategies in the preparation of their annual Strategic Office Accommodation Management Plans and DPWS will report on these issues to the GAMC. The strategies are to be adopted by all agencies.

This is an unequivocal statement of the responsibility of agencies to comply with government policy on office accommodation and property disposal.

2.4 Premier's Memorandum 99-19

Premier's Memorandum 99-19 was released in September 1999 (copy at Appendix 5). This memorandum does not deal explicitly with office accommodation but has the potential to impact upon the Government's policy objectives in this area.

It superseded Premier's Department Circular 95-12, which stated that Premier's Memoranda applied to public service departments, statutory bodies outside the public service and State Owned Corporations, unless advised otherwise in specific memoranda.
As a result of the provisions contained in PM 99-19, Premier's Memoranda and Premier's Department Circulars do not apply to SOCs but may be adopted where a SOC considers it appropriate to do so.

Premier's Memorandum 99-19 advises that SOCs are not obliged to follow directions on policy, procedures or guidelines that may be commended to them in Memoranda or Circulars.

It does, however, set out a handful of Memoranda and Circulars with which the Treasurer requests that SOCs comply. None of these relate to accommodation matters.

The Memorandum provides that, in cases where a significant Government policy is to be applied to all agencies, three methods may be invoked by the Treasurer and/or the portfolio Minister, in accordance with the relevant section of the SOC Act, to direct an SOC board to comply with that policy.

2.5 Relocation Policy

Since the early 1980s, Government policy in NSW has advocated the devolution of public sector employment to a number of centres across the metropolitan area which were serviced by good public transport, in most cases rail.

As a result, the Government has had quite a strong presence in Parramatta while other centres were targeted for growth on a smaller scale. The relocation of 7,000-7,500 CBD-based State Government employees to western Sydney during the late 1980s was mostly implemented in 1988, with Parramatta and Liverpool receiving 4,500 and 1,000 jobs respectively.

In 1988, the Coalition Government devolved responsibility for agency location decisions to individual departments and agencies, resulting in a number of city-based departments relocating to lower cost areas of the Sydney CBD fringe and the lower north shore.

In February 1997, the NSW Government released a discussion paper titled *Agency Relocation Policy*, which addressed the key issues involved in the planning and implementation of locating and relocating staff.

Four primary themes run through the this policy proposal, each of which is considered to be part of the policy formulation on decentralisation:

> **Responsible Fiscal Management** - Public spending on accommodation for the public service will be carefully scrutinised to ensure appropriate facilities are available and at a cost which reflects best practice in the private sector.
>
> **State and Economic Development** - Locating public sector agencies where they can be of maximum support to their clients in both metropolitan and regional areas.
>
> **Environmental Sustainability** - Ensuring that the location of public sector accommodation in the greater Sydney area takes into account public transport corridors and systems and limits the use of motor vehicles as a means of transport to and from the workplace.
>
> **Social Justice** - Distributing public sector job locations to areas of high unemployment, increasing opportunities for direct employment, and taking advantage of the multiplier effect produced throughout the public sector.

The discussion paper notes that distribution of the Government's current accommodation is concentrated in the CBD core area, imposing significantly higher costs (about $12,000 per person per annum) than suitable accommodation in the CBD's south or in Parramatta (about $6,000 per person per annum). By 2005, it is expected that average Sydney CBD core rents will reach $1,000/m^2, which is at least twice that of all other locations. The paper urges a critical look at the ongoing need for a significant number of public sector employees to remain in their current CBD locations.

Government policy on the location/relocation of government departments and agencies requires demonstrated value for money outcomes, and due consideration to the impact on the agency's workers and their families. Given the reality of day-to-day family arrangements, the discussion paper calls for particular attention to be given to the potential impact on female employees.

The discussion paper notes that "value for money" is determined by way of a cost-benefit analysis on service delivery, along with consideration of the Government's wider social and economic objectives. This effectively means that the location of government offices should be viewed primarily as assisting the Government in meeting its wider policy goals, and not as a discrete goal in its own right.

The authors argue that the strategic location of appropriate government services in regional locations will reinforce private sector growth by aiding existing private sector activities, promoting industrial clusters, such as business support services and specialised skills training, and by enhancing performance of local enterprises and networks. A significant public sector presence in regional areas can strengthen and deepen the labour pool, stimulate the provision of training and create “critical mass” benefits.

One potential pitfall in decentralisation is the increased reliance on private transport — namely, motor vehicles — for commuting to and from work. The discussion paper notes that, apart from the Sydney and Parramatta CBDs, Department of Transport evidence suggests that the immediate and long term effects of relocation of workplaces to other regional centre locations would increase the propensity for private commuting. For example, private transport use by EPA staff increased from 30 per cent to 70 per cent when that agency moved from the CBD to Bankstown as a result of the decentralisation program of the 1980s.

The authors point out that part relocations may be an option for agencies. This would involve retaining a core element in the CBD comprising those functions required to remain near Ministers and Central Government, with other staff distributed among standard office accommodation away from the CBD, telecentres or, indeed, where appropriate, telecommuting from a remote office.

Subject to the specific operational requirement of agencies, locational analyses would be guided by the integrated urban management plan for any proposed decentralisation within the greater metropolitan area.

The discussion paper identified 13 key issues to be considered in the location and relocation of government offices. These are reproduced at Appendix 6

The discussion paper’s recommendations are at Appendix 7

2.6 The DPWS Office Accommodation Database

The Department of Public Works and Services is responsible for maintaining the Government Accommodation Database, which contains information on the office space owned or leased by government agencies across New South Wales. It was established as part of the accommodation reform program.

The DPWS database is based on a survey of agencies conducted each year and contains information on:

- office accommodation holdings
- gross and nett rental costs
- average staff/space ratios

- relative Sydney CBD, metropolitan and non-metropolitan holdings.

The database provides information for strategic, whole-of-government advice to Government.

It is therefore a critical tool for monitoring the implementation of government policy and ensuring that the best possible terms and conditions are negotiated for individual leases. It enables informed decisions to be made about office accommodation by providing comparative and consolidated data.

This data can be used to compare rental costs and space ratios across agencies or in specific locations.

It enables DPWS to determine whether proposed leases in specific areas represent a good deal for government.

The DPWS Database also enables oversight bodies such as the GAMC to examine the cost effective relative location of government services and to monitor the implementation of government policy on space utilisation. It is an excellent tool with which to develop policy.

Currently, there is no formal requirement for agencies to provide information to the DPWS database, a matter which was discussed on a number of occasions during public hearings. The database, therefore, does not provide a complete picture of all government accommodation:

> **Mr CAMPBELL:** We can fairly reliably say that we know when the leases expire, how many staff and the rent, but in terms of all the other information which we try to collect, there is no statutory requirement for agencies to participate in the office accommodation data base. It is generally through perseverance that we have got most agencies actually providing the data, but it is not always 100 per cent complete.

2.7 Comment

The above outline shows that the government is giving the issue of accommodation close attention. This is justifiable given the potential savings to be made. Clearly the government is serious about improving performance in this area. It goes without saying, and will be shown in case studies later in this report, that it is often difficult for agencies, for a variety of reasons, to accommodate the change required of them. The extent of the new policies can be overwhelming.

It will be shown that in managing office accommodation to the standards required both by the government and the taxpayer, individual agencies have

not all performed as expected and that there is still room for improvement in a number of areas.

In the following chapters, the Committee will look at aspects of public sector office accommodation management – cost and space utilisation. By means of case studies and the analysis of data it will identify where agencies are not complying with policy, where expertise is lacking and where improvements can and should be made.

CHAPTER THREE

Office Accommodation Management

3.1 Introduction

The focus of the Government Office Accommodation reform program has been to reduce the costs associated with these assets by means of :

- a more coordinated whole-of-government approach which utilises property management expertise and the market power of the government sector, and
- a reduction of space utilisation to between 15 m^2 and 18 m^2.

A cost effective whole-of-government approach to managing these assets includes relocating agencies to the most affordable location, while still delivering, if not improving, quality of service.

In order to achieve the objectives of the reform program, one of the critical factors has been the capacity and determination of each agency to comply with the policies in the reform program.

In this chapter the Committee considers the office lease management performance of a number of agencies and the implications this performance has for the Government's cost reduction objective, as well as some related issues.

3.2 Lease Management Performance – Case Studies

The Committee heard of problems which have occurred with a number of agencies in handling lease renewals and rent review negotiations. These problems have the potential to impede the Government's cost reduction objectives. The Committee reports these examples not so much to focus on these agencies in particular, but to highlight what appear to be some systemic problems in managing office accommodation and to make recommendations accordingly.

Currently, agencies are required to liaise with DPWS over new lease negotiations. However, they are not required to consult DPWS over rent reviews. Commercial office accommodation leases normally contain regular rent review clauses (usually every two years) at which point the parties negotiate any rental increase or decrease, in accordance with current market valuations.

This can result in agencies with little or no expertise in property services assuming responsibility for complex negotiations over rent reviews. Mr Smithies explained the mismatch between inexperienced public sector negotiators and professional managers:

> … at some point someone within the agency will have to deal with the rent review… On the other side of the fence is the market that is doing rent reviews and managing leases on a day-to-day basis, they are often on incentive performance-type arrangements and that sort of thing. So you have one side of the fence that is very articulate, very up on what they are doing in terms of lease

> negotiations, particularly rent reviews. On the other side of the fence you will often have agencies that might do that once every two or three years. So there is a disparity in terms of the expertise that is brought to bear quite often. (T1, 17)

DPWS representatives pointed out to the Committee that, while it had the skill, it had no formal role in the process at present:

> **CHAIR:** There is no requirement of government agencies to actually talk to you about the terms of the lease, which means that in 12 months time or two years time they are up for a market review?
> **Mr CAMPBELL:** No, not under the current policy.
> **Mr PERSSON:** I would have to say with current arrangements there is still a risk of a similar situation recurring …….
> **CHAIR:** So this is a very real risk to government about lease accommodation and rental review?
> **Mr PERSSON:** It is. (T1, 18)

The outcome of this mismatch is substantial rent increases to the individual agency as well as a flow-on effect in later negotiations. In fact, the Director-General of the Department of Public Works and Services was concerned enough about this issue to write to all agencies in September 1998 alerting them to the potential problems with the 'drop dead' clause in rent reviews. (see Appendix 8)

Nor does the DPWS database contain sufficient, reliable information about rent reviews to aid DPWS in its central office accommodation role because it relies on agency goodwill to gather this data:

> **Mr CAMPBELL:** In terms of the data base, the information we have on rent reviews is not totally reliable. The clauses in each lease can be different. Some of them you could have 30 days to respond. Some of them could be two or three months, and some of them you have to actually commence the process up to six months prior to the rent review date. So it is a little more difficult there because the reliability of the data depends on what agencies give us. (T2, 15-16)

In the following sections, the Committee describes six case studies of agencies involved in lease management, including rent reviews.

3.2.1 Case Study One - Department Of Aboriginal Affairs (DAA)

The original lease for the Department's property in Clarence St in the Sydney CBD was signed in 1994, with an initial rent of $220 per square metre per annum. Under the terms of the lease this increased to $235 per square metre per annum on 1 January 1997. The lease also provided for two rent reviews, the first of which was on 1 January 1999. The rent review which duly occurred on 1 January 1999 led to a significant increase in rent to $420 per square metre per annum. While this was

eventually negotiated down to $380 per square metre per annum, it is the circumstances of the department's management of this review that is of concern to the Committee.
In outlining these circumstances Mr Moulstone, DAA's Senior Administrative Officer, advised the Committee that the Corporate Services section of the Department was responsible for negotiating rent reviews. Yet at the time of the review there was no experience in Corporate Services of such rent negotiations. Its staff lacked expertise in critical issues such as lease documents and dealing with the exigencies of the market place.

The notification of the rent review increase had been "slipped under the door" by the property manager between 4 January and 15 January 1999, when the corporate services area was operating with a skeleton staff of about eight people. Mr Moulstone himself was new to the job, having only commenced working at DAA in January 1999. The Committee was advised that most of the key managers, including the Director-General, were on leave at the time. The notification was delivered to a temporary receptionist employed through an agency. Mr Moulstone described this as a 'tactic' not uncommon to property managers.

The department did not even hold a copy of the lease document and had to approach the property manager for a copy, an extract of which was delivered on 29 January, The extract, however, did not contain the pertinent rent review clauses and it took another request before the full lease document arriving on 8 February 1999, "which was, as we were then to find out, four days after what is called a 'drop-dead' clause comes into effect and we were stuck with the increase". (T1, p.45)

It was not until 12 March 1999 that DAA contacted DPWS to seek advice as to what could be done about the rent increase. DPWS recommended a solicitor which DAA could appoint to negotiate on its behalf. But when DAA contacted the solicitor it was advised that he also acted for Morgan Grenfell, the property manager, and therefore could not accept instructions from DAA on this matter. DAA then took over the negotiations itself. While DPWS advice was that DAA should try to do a deal at $365-$370 per square metre per annum, the final figure was $380 per square metre per annum.

The Committee asked the DAA what systems it had put in place to ensure that this inadequate planning did not happen again. It was advised that planning would begin well in advance of the next rent review on 1 January 2001 and that it was "very likely that the Department of Aboriginal Affairs, as a small agency without the specialist property expertise within it, will look at contracting out its accommodation requirements to the Department of Public Works and Services."

The estimated minimum loss to the Government in this matter is $43,560 per annum (not including any flow-on effects).

COMMENT

The Department of Aboriginal Affairs showed a lack of understanding of both the lease document and the rent review process. Its systems, in preparing for the review and dealing with important documentation, were clearly unsatisfactory. The Committee does not consider the lack of a full complement of staff as sufficient explanation for the Department's incompetence when initial rent notification was received. Agencies should have systems in place to ensure they can function efficiently in all circumstances.

As well as lacking suitable systems, the DAA lacked staff with appropriate expertise to either negotiate a rent review or recognise the need to seek expert assistance.

The Committee does not wish to apportion blame here to Mr Moulstone, who was barely in the job when the rent review in question took place. Clearly though, the section was out of its depth, a fact for which the management of the Department must be held responsible.

3.2.2 Case Study Two - Department Of State and Regional Development (SRD)

At the public hearings, the Committee questioned officials of the Department of State and Regional Development (SRD) about the Department's (separate) leases on Levels 43 and 44 of Grosvenor Place in Sydney's CBD, for which SRD had been paying $700 per square metre per annum before a rent review in July 1998.

Mr Perce Butterworth, Executive Director, Policy Resources, told the Committee that SRD received a letter from the building owners or their agents regarding the rent review, giving notification of a new rental rate of $850 per square metre annum. Understandably, SRD was not happy with the magnitude of the proposed increase and wrote to the owners to that effect. The owners, however, did not respond for more than a month, by which time the department's right to contest the review had expired.

SRD told the Committee that it was unaware at the time that the terms of the lease required it to specify what it thought was a fair price for its floor space. Having neglected to do this — instead it merely informed the owners that it considered the price too high and sought negotiation — SRD in its own words "sort of passed the upper hand to them [the lessor]". This failure to understand the workings of the lease came to light only after SRD sought expert legal advice when, it transpired, it was already too late.

Unable to extend the terms of the current lease, SRD was forced to negotiate on the basis of the lessor's demand of $850 per square metre annum.

Mr Butterworth told the Committee that a rent review on its lease over space in Governor Macquarie Tower had resulted in a 10 per cent increase, "so the order is much the same", implying that the rent increase was in line with market value.

The Department of Public Works and Services disputed this interpretation.

At hearings on 29 November 1999, Mr Colin Campbell, Manager, Accommodation Policy and Strategy with DPWS, refuted Mr Butterworth's version on two points:

> **Mr CAMPBELL:** Just a couple of key points. I did not want to go through it in detail, but on the State and Regional Development lease, they talked about the 10 per cent increase that they got in their lease being the same as GMT. The GMT rent review was actually after their lease review, and the SRD lease was used as key evidence in that review. So it was not that they achieved the same as GMT, it was that their review had an impact on GMT in the long run. (T2, p.11)

Mr Butterworth also argued that the prestigious nature of Level 44, which houses SRD's Business Trade and Investment Centre, was not available on other floors, and should be taken into consideration when weighing up the value of SRD's accommodation. Again, Mr Campbell had a rather different view:

> **Mr CAMPBELL:** … They [SRD] also talked about level 43 [sic] being unique. It is the same as the other 43 floors in the building. It is only the fit-out that is unique and that would not affect lease or rental negotiations at all. I should like to point out that SRD lease is expiring and is due to be renegotiated and they have appointed the DPWS to help them out in those negotiations. (T2, p.11)

The Committee asked the witnesses why DPWS was not closely involved with the negotiations on the Grosvenor Place leases. Mr Butterworth stated that DPWS was advised of the situation, but was not asked to take over the negotiations. Mr Butterworth thought it would be too onerous a task to ask DPWS to take over negotiations on every rent review faced by a NSW Government agency.

When pressed further, he suggested that if DPWS were to be involved, the trigger should be a dollar threshold to avoid overloading DPWS with minor leases. Mr Butterworth said he saw no reason why the negotiation role could not be entrusted to a contractor rather than DPWS. Such a line of action SRD had already followed on a recommendation from DPWS for an independent valuer to assess SRD's accommodation at Grosvenor Place to avoid any repetition of the problems outlined above when the lease on Level 44 expires in July 2000.

The estimated minimum loss to government is almost $140,000 per annum (not including flow-on effect).

Comment

The events outlined at the public hearing by SRD witnesses provide another example of a government agency without the requisite leaseing expertise being outmanoeuvred by professional lease managers and negotiators. Like their counterparts in other agencies, SRD officials missed a crucial date in the negotiation process, in this case because they assumed the owners would respond to a letter contesting the proposed rise. Relevant professional expertise would have made it clear that this was not so.

The Committee is of the view that if the lease document was lengthy, complex, "and worded in a convoluted way", this should surely be a signal to take extra care to the point of enlisting expert assistance if the expertise is not available in-house.

This is another example of an agency which did not exhibit the appropriate skill or expertise in rent review. Because of this, the SRD not only failed to obtain the best commercial outcome for its own office accommodation but this outcome also had an adverse impact on other negotiations. It therefore had a commercial impact beyond the agency. It thus clearly has whole-of-government implications.

The Committee sees merit in Mr Butterworth's suggestion that the value of the lease could be used as a trigger for agencies to seek professional assistance with lease management. At the same time it would seem sensible that the complexity of the lease be a factor in considering mandatory professional assistance.

3.2.3 Case Study Three - NSW Police Service

The Committee was advised that the Police Service had accepted, as a result of a rent review, a rental of $15/m^2 to $20/m^2 in excess of the current market rental. This, it was argued, represented an annual loss to the government of up to $271,920 per annum. This had purportedly occurred because the Police Service, during the rent negotiations, had not fully pursued negotiation and arbitration. The Service had resisted DPWS's requests to become involved in the negotiations and DPWS's advice that the rent review should be assessed by an independent valuer before settlement.

The Committee took evidence and received tabled material on this matter.

When questioned about the "rent review" Mr Mooney of the Police Service stated that he was a "bit perplexed about this whole issue", advising the Committee that the Police Service had used DPWS in the negotiations, paying $9,000 for its services, and that DPWS had signed off on the arrangement. At no stage did the Service resist the appointment of a valuer.

At later hearings, DPWS asserted that the while "the Committee was asking the right questions in terms of rent review, the police actually gave evidence on another deal ... they were talking about the original lease, not the rent review".

The Committee sought further material from both the Police Service and DPWS. As a result of all the material now before the Committee, the arrangements relating to the leasing and rent review can be summarised as follows.

1. The 10-year lease on Police Headquarters, the Avery Building at 14-24 College St, was to expire on 31 August 1998. Annual rental on this lease was $5,300,000 (gross).

2. In June 1997 a new lease with a term of five years was finalised over the Avery Building, effective from the lease expiry on August 31 1998, on terms and conditions acceptable to State Property and the Valuer-General's Office. These terms and conditions included current market rental and the removal of the ratchet clause. As well, the negotiations had resulted in the landlord agreeing to upgrade the building by the time the new lease commenced. A memo to the Commissioner and the Minister advised that "it is expected that the current leasing commitment of $5.3 million per annum ... will reduce to $4.2 million per annum [gross]".

3. As a consequence of these successful negotiations, an agreement for lease was executed by the parties in June 1997. In a letter to the Police Service dated 2 July 1997, DPWS stated that "the new lease.... represents the most cost effective solution to meet the service delivery objectives of both your Department and Government as a whole".

4. The next step in the process was the completion of a rent review at the commencement of the lease to determine the current market rental (ie at September 1998).

5. In June 1998, following advice from the State Valuation Office, the Police Service commenced negotiations with the landlord for the new lease rental to commence on 1 September 1998. This is the rent review about which DPWS was critical of the Police Service.

6. In August 1998, DPWS wrote to the Police Service offering the specialised skills and knowledge of State Property in the upcoming rent review. DPWS urged the Police to form a negotiating team prior to any negotiations. The letter reminded the Police of State Property's successful negotiations for the new lease in 1997 (see No 2 above), and outlined other recent successes State Property had achieved on behalf of the public sector. The letter appears to be a simple offer of a commercial service, for it concluded with the offer to the Police Service to contact State Property "should our leasing/rent expertise be of interest to the NSW Police Service".

7. These rent review negotiations between the Police Service and the lessor were unsuccessful. An independent valuer was appointed to determine the rent.

8. On 3 December 1998, State Property again wrote to the Police Service in more urgent terms offering to become involved in the final stage of the negotiations. The letter pointed out that the rent review was “extremely important” to the Government. According to State Property, the potential increase in cost savings and the flow-on effect to other government leases warranted a maximum effort at the closing stages of the negotiations. The estimated cost for State Property involvement was $2,100.

9. On 8 December 1998, the Police Service provided State Property with a briefing paper from LPC Australia Pty Ltd, which was being considered by the Police Service to act with the State Valuation Office as the consultants for the Police Service in the rent review. The briefing detailed a “strategy position” in the rent review. It noted the broad financial situation was that the current rental (ie as determined by the 1997 agreement for lease) was \$285/m^{2}pa (net), the estimated rent by the valuer for the lessor was \$230/m^{2}pa (net) and estimated rent by the valuer for the lessee was \$200/m^{2}pa (net).

10. State Property, commenting on the briefing material in a letter dated 9 December 1998, advised the Police Service that it “appears to be quite comprehensive and covers all subjects that need further discussion and elaboration”. It acknowledged that LPC were “expert rental valuers” who were quite capable of “enhancing” the Police Service’s “bottom line”. State Property continued to press for inclusion in the process, expressing the hope of meeting with the Police and its consultants in the near future.

11. The consultants, in conjunction with the State Valuation Office, were to prepare a detailed submission for the determining valuer. However, negotiations between the landlord and the Police Service were resumed and a rental agreement was reached at 220 /m^{2}pa net (\$295/m^{2}pa gross) The Police Service advised State Property on 21 December of the outcome, pointing out that the new rental level was “supported by the State Valuation Office” and would result in an annual saving of $767,078 on the 1997 agreement for lease. (The State Valuation Office in September 1998 had identified the market rental range for the site as being between \$210/m^{2}pa and \$225/m^{2}pa net.)

12. DPWS estimates that rental should have been between \$275 and \$280/m^{2}pa gross.

13. DPWS billed the Police Service $700 for its involvement in the 1998 negotiations. The Police Service rejected the claim on the grounds that, except for some preliminary discussions, State Property was not retained in the matter.

The Committee has listed the rental costs for a range of agencies in the areas of Surry Hills, Darlinghurst, East Sydney, Redfern and Kings Cross as a rough guide to the rentals in this part of the city. It is also worth noting that the 1999 average rent cost for the southern CBD is $280/m^2 pa while the Midtown sector is $333/m^2 pa.

Rental Costs/m^2 pa in eastern Sydney

Agency	**Lease Start**	**Cost ($ per m^{2}pa)**
1	1999	365
2	1996	347
3	1994	324
Police	***1998***	***295***
5	1997	269
6	1992	267
7	1995	260
8	1999	253
9	1997	248
10	1998	246
11	1997	245
12		237
13		233
14	1996	220
15	2000	200
16	1996	175
17		173
18	1994	166

From this table it can be seen that, while the Police Service rental is near the top of the range, it does not appear to be significantly expensive.

The estimated cost to the government of accepting this arrangement is $272,000.

COMMENT

The negotiations leading up to the agreement for the lease signed in 1997, negotiations which involved DPWS, had ensured that the rental for the new five year lease would be at a current market value by removing the ratchet clause from the new lease. The estimated annual rental saving under the new market-based lease was $1,425,000. The saving could only be estimated in 1997 because a final rent review had to take place prior to the commencement of the lease in September 1998 to determine the market rental at that time.

This rent review negotiation commenced in August 1998 without the involvement of DPWS. Eventually a further rent reduction of $767,000 per annum was negotiated.

The Committee is pleased to see savings of over $2 million per annum being made as a result of government accommodation policy which has installed a professional approach to lease management. These savings clearly vindicate the policy, highlighting the benefits of a coordinated, professional approach to the management of agency office accommodation – the largest operating cost to agencies after salaries.

This notwithstanding, DPWS contends that, with its assistance in the 1998 rent review, the Police Service could have saved a further $271,920 per annum, based on its assessment of a negotiable market rent at that time.

State Property has proved itself to be an excellent negotiator in the property market. A number of agency representatives, even those who have been critical of the department, have said so on the record. There is clearly, therefore, an awareness of these negotiating skills in the public sector.

Certainly, the Police Service did decline the involvement of State Property in the negotiations. It must be said, however, that the requests by State Property to be involved were more a commercial pitch than a detailed argument of the whole-of-government benefits of its involvement. Based on the material available to the Committee, State Property did not spell out in writing the quantum of the final rental level it thought it could achieve on behalf of the Police Service in 1998. When it did raise the broader whole-of-government implications of the rent review, it again did not spell out the potential savings it could make for the Police Service or for the Government.

The Police Service was not obliged under government policy to use DPWS in this rent review. It did enlist professional, expert assistance, whose skill and expertise was acknowledged by DPWS. In this regard then, the Police Service can be said to have acted professionally. In the end the rental obtained by the Police Service falls within a range established by the State Valuation Office.

Nevertheless, DPWS contends that it could have brokered a better deal. The Committee has to accept this. While the savings of over $700,000 are to be commended, further savings in the order of $272,000 should not be ignored.

In the view of the Committee, the Police Service was not obliged to use DPWS in the negotiations, but in so doing it probably missed the opportunity for further savings. In criticising the Police Service in this way, the Committee would also note that State Property could have made a better case to the Police Service for its involvement in the negotiations. It should have made a stronger whole-of-government case.

3.2.4 Case Study Four - Ageing And Disability Department (ADD)

ADD's Corporate Services Director, Mr Ken Pope, appeared before the Committee and was questioned on the lease negotiations for the Clarence Street premises.

The Ageing and Disability Department's Sydney CBD office in Clarence Street covers 2,974 square metres spread over three floors. The corporate services area in ADD, which is responsible for negotiating rent reviews, is small, reflected in the fact that the administrative manager is "responsible for a number of things, including receptionist duties and mail and goodness knows what else, as well as maintaining the files on any office accommodation type information. She fills out [the department's] strategic plan in conjunction with other staff in the department" (T1, p.54).

ADD took over the lease on Level 10, Clarence Street (1,088 square metres) from the Rural Assistance Authority when ADD was looking for additional accommodation for regional staff that it had acquired as a result of a transfer of resources from the Department of Community Services.

Subsequent to taking over the lease, the Department allowed the lease to expire. It took no action at the critical option date and allowed the time for dispute of rental notice to pass. According to Mr Pope, that had happened because ADD's records were not "quite up to scratch" and the building owners, Morgan Grenfell, did not notify the department when the renewal date arrived.

When the problem was discovered, Mr Pope, who acknowledged that he did not have the required expertise in accommodation management, contacted DPWS for advice to see where ADD legally stood on this matter. He was informed there was not much he could do other than to terminate the lease and find alternative accommodation. However, the costs attached to that prompted discussion about what other options ADD might have. Mr Pope was quoted prices for equivalent CBD accommodation which he then used to negotiate a new lease with the building owners.

The lessor asked for $415 per square metre per annum, well above the current market rental. However, as ADD did not want to move, the lessors were in a superior bargaining position.

Mr Pope told the Committee that his initial offer of $350 per square metre per annum for Level 10 was based on advice from DPWS as to a fair price for that accommodation. However, his argument was undermined by the fact that ADD was paying more than $350 for its space on Level 4 (bearing in mind the general principle of the higher the floor, the higher the rent). In the event, the rent was struck at $375 per square metre per annum, which, based on DPWS's advice to DAA, was some $25 per square metre above market value.

The estimated minimum loss to government is $81,675 per annum (not including flow-on effect).

Mr Pope advised the Committee that the Ageing and Disability Department would in future be using the expertise of DPWS in all matters relating to its leases and that the filing system in ADD's corporate services section had also been improved to avoid a repeat of the fundamental error it made in missing a key date in the lease negotiation process.

COMMENT

It is again a concern to the Committee that a government agency could fail in so simple a task as being on top of its lease renewal. Based on its evidence to the Committee, ADD seems unable to explain why it missed a critical date in the negotiation process — a careless and expensive omission — beyond saying that it was somehow overlooked among the "waste reduction plans, energy plans, management plans and EEO plans and all the rest of it" which it is required by government to prepare. This is hardly a sufficient explanation.

Furthermore, the evidence suggests that Mr Pope was not clear on the difference between a rent review and the exercise of a lease option.

In reality, the Department displayed a lack of adequate systems, expertise and awareness of the importance of the matter. That it failed to give itself every chance of securing a favourable lease demonstrates ADD's lack of a systematic approach to lease administration and a dearth of expertise in that area. The Committee is of the view that it is essential that small agencies have cost effective and efficient access to timely, expert assistance in these areas (This agency is subject to specific recommendations in Chapter Five.)

3.2.5 Case Study Five - Roads and Traffic Authority (RTA)

The Committee sought details on the leasing arrangements on the RTA's head office in Centennial Plaza in Elizabeth Street, Surry Hills, which it leases, as it had received information that the RTA was late in advising DPWS, in accordance with Premier's Memorandum 97-2, of the lease negotiations, and that the consequent delay had given the lessor the upper hand in the lease negotiations. The poor rental outcome had resulted in minimum loss to the government of almost $1 million per annum (without flow on).

RTA officers advised the Committee that in 1989 a 10-year lease with a 10-year option was negotiated over the site by the State Office Accommodation Bureau. Two years before the lease was due for renewal, the RTA engaged property professionals Knight Frank to negotiate on its behalf with BT, the building owners, to renew the lease on the site.

RTA witnesses told the Committee that the agency was paying \$300/m^2pa net (\$360/m^2pa gross) for the Centennial Plaza offices. The Committee has also received information that the market value of that accommodation is considered to be no more than \$300/m^2pa gross (\$240/m^2pa net), or \$60/m^2 less than the agreed rental rate. Given that the RTA's Centennial Plaza office space covers 14,217.4m^2, that represents an additional cost to the Government of \$853,044 per year.

According to the RTA it had advised DPWS that it was negotiating a new lease on three occasions — 16 January, 5 March and 26 March 1997 — without receiving a response. It was not until a phone call was placed to DPWS that the two agencies discussed the lease negotiations.

The Committee pursued the matter with DPWS.

Copies of correspondence forwarded to the Committee by DPWS show that the RTA's letter of 16 January 1997 advised that it was formulating accommodation strategies prior to the cessation of the lease. The March 5 letter asked DPWS for a list of any properties that might suit the RTA's accommodation needs. That was followed by the March 26 letter saying preliminary negotiations had begun, and again asking for suggestions for suitable alternative accommodation. DPWS replied on April 11, saying it was unaware of any such accommodation.

While DPWS seems to have delayed replying to the RTA's request, of more concern is that, according the DPWS, at least 20 discussions and meetings with RTA staff occurred before the RTA accepted DPWS's offer to assist in the lease negotiations. That was finally agreed on 10 December 1997, and a meeting held between the two agencies and the lessor on 12 December 1997.

DPWS maintains that its involvement, though very late in the negotiations, "saved the RTA around \$350,000". DPWS also commented that "had the RTA accepted a structured model as it had proposed to do, its rental from March 2001 would have risen to \$400/m^2pa net." An increase to \$400/m^2pa net represents a very large rent increase.

Furthermore, the Committee was aware that another agency (the Railway Services Authority) had negotiated a gross rental of \$252/m^2pa for similar — and, indeed, in the opinion of some independent property experts, superior — accommodation (at Sydney Central) at about the same time.

When queried on this point, RTA witnesses pointed out that a direct comparison of different cases was not possible.

Subsequent advice from DPWS was that:

> "RTA's comment that a direct comparison of different leases was not possible is hard to understand as it is a standard commercial valuation practice to use comparables (being other leasing deals of a similar nature by size, quality of premises and location) when determining an appropriate rental level".

RTA witnesses also argued that savings accrued as a result of negotiated changes to the lease conditions should be taken into account when considering whether the net rental fee is commensurate with market value. In support of this argument, they stated that there were incentives of some $600,000 attached to the $300/m^{2}pa net figure. Renegotiated lease conditions had resulted in some 57 clauses being changed, modified or deleted, translating into savings of $3 million to $4 million. In addition, savings of $300,000 to $400,000 accrued to the RTA as a result of the handing back of a number of car parking spaces. The RTA witnesses were confident that the market rental was achieved in those negotiations.

However, DPWS had a different view:

> "The RTA's claim that savings that accrued as a result of negotiated changes to the lease conditions should be taken into account when considering whether the net rental is commensurate with market is incorrect. The rental should reflect what a willing lessee is prepared to pay a willing lessor having regard to the market conditions at the time. The lease document should also reflect the commercially acceptable terms of that market. RTA would seem to imply that paying a higher rental is justified if savings can be achieved by changing the lease terms but this could simply be a means of recompensing the lessor for having granted those savings."

Summing up, DPWS said it was "still firmly of the view that the asking rental for Centennial Plaza should have been no more than $300/m^2 gross ($240/m^{2}pa net)."

As well as its own opinion (and the Rail Services Australia comparison), DPWS provided details of three independent rental valuations and opinions for deals of similar size and geographic location. The average of the three for a 10 year lease commencing in March 1999 was $279/m^2 pa gross.

Furthermore, the Committee has reviewed the range of rentals for public sector agencies in the area (see table on page #). The RTA rental is the highest and (except for one other site) is considerably more expensive than all these agencies.

COMMENT

The Committee agrees with DPWS that the deal obtained by the RTA was not the best commercial outcome. The Committee is of the view that, in this case, the RTA has not exhibited the sorts of skills required to negotiate a major lease. RTA officials may well believe they achieved a good outcome, but the reality is that they have signed off on a lease which has them paying well

above the market value for the agency's head office accommodation.

As noted above, based on information from experts at DPWS, the RTA's failure to negotiate a rental rate commensurate with the office space it occupies represents a possible loss of $850,000 per year.

What is of concern is that this is not a small agency. The RTA is a large organisation, with a "significant asset base and a large accommodation portfolio" and is accordingly a member of the Government Asset Management Committee. If an agency in such a position cannot get this right, how can smaller agencies be expected to perform?

3.2.6 Case Study Six - Department of Urban Affairs and Planning (DUAP)

In the Hunter District, DUAP is located at 251 Wharf Road Newcastle, sharing the accommodation with seven other NSW Government agencies.

As part of its response to the Committee's Survey, DUAP provided its Strategic Accommodation Plan. With regard to this site, DUAP noted that the building owners, Dorans, "successfully employed 'divide and rule' tactics to have a range of government agencies with leases that end on staggered dates. DPWS tried unsuccessfully to bring the building under a head lease. Protracted negotiations with the owner failed to provide a satisfactory outcome to the Crown in terms of a head lease".

The Committee pursued this matter at the public hearings. Ms Dianne Patenall, DUAP's Executive Director, Corporate and Business Management, told the Committee that the staggered lease dates, different rental rates and variety of lease conditions on the Wharf Road building meant "you are never negotiating from a position of strength. You are always negotiating from a position of weakness. It is not very satisfactory at all." (T3, p.41)

Ms Patenall told the Committee that she had experienced very little difficulty in leasing arrangements for accommodation in State Office Blocks or where a head lease was held over a building. But in cases where multiple tenants had individual leases, she had spent much more of her own time in negotiations. She stated that where she was compelled to undertake lease negotiations herself, she did not think she could do so as effectively as experts in the field.

Having failed to negotiate a head lease, DPWS referred the matter back to DUAP. DUAP then went to solicitors for legal advice, which Ms Patenall felt should have been made available by a central agency. Attempts to recalibrate the numerous individual leases so as to bring about a common expiry date and improve the tenants' hand also met without success.

Ms Patenall was not able to say just why DPWS had failed in its bid to negotiate a head lease, but did note that the building owner was a very tough negotiator.

The Committee subsequently wrote to Ms Patenall to seek clarification of her evidence relating to the Newcastle premises. The negotiations relating to the renewal of the Wharf Street lease can be summarised as follows.

10 February 1997	The Hunter and Central Coast Office of DUAP faxes the Central Corporate Services Unit (CCSU) of DPWS requesting the renewal of the lease.
14 February 1997	CCSU writes to Mr Paul Doran, the building owner, requesting terms for a lease from 1997. (Prior to August 1997 DUAP held a sub-lease from BHP on this site.)
29 April 1997	Building owner delivers Terms and Conditions document.
30 April 1997	CCSU advises of concerns with the owner's offer, particularly relating to rent, which is offered at 275/m^{2}pa.
15 June 1997	CCSU writes to building owner concurring with the lease proposal and requesting the lease be drawn up.
14 October 1997	CCSU refers lease to DUAP for review and execution.
23 October 1997	DUAP seeks advice from panel of solicitors on the lease offered by owner.
December 1997	Government agencies represented in the Wharf Road building meet to discuss a collaborative approach to resolve the issue of agencies having staggered end lease dates.
22 December 1997	Premier's Department representative writes to CCSU flagging benefits of a head lease for government agencies occupying suites at Wharf Road.
21 April 1998	General Manager of Honeysuckle Development Corporation meets with building owner to attempt negotiation of head lease on government agency offices. This meets with limited success as the owner produces the CCSU letter of 15 June and argues it is legally binding on DUAP and that DUAP is therefore committed to the site from August 1997 to August 2003.

During 1998 and 1999 the Asset Management Services Division (AMS) of DPWS attempted to negotiate a head lease with the owner of the Wharf Road building. At the Premier's Department instigation, and with the agreement of other public sector tenants, AMS wrote to and phoned the building owner on a number of occasions requesting a three-year lease with a two-year option.

On 30 April 1999, DPWS advised DUAP that:

> "AMS believes that Mr Doran and his Board have no intention of agreeing to the proposed lease term or the consolidation of all the State Government tenancies at 251 Wharf Road into one lease arrangement as it places the lessee in a superior negotiation position….
>
> … On that basis we propose that the pursuit of a consolidated lease for a term of three years with a two-year option be abandoned due to the intractable position of the lessor".

In her written reply to the Committee, Ms Patenall made the following observation:

> "While technically the Newcastle office issue did not involve a move, the inability of DPWS to secure a head lease has resulted in fragmented leasing arrangements at 251 Wharf Road Newcastle can become as complex as a relocation and it would have been useful if DPWS had more vigorously pursued this matter and brought to bear its collective negotiating expertise. I would point out that all agencies were happy to engage DPWS to undertake the negotiations with the owner."

COMMENT

A head lease over 251 Wharf Road would have been the most desirable outcome. This is in line with Government accommodation policy. In fact Ms Patenall's comments about the time wasting problems relating to managing individual leases in multiple tenancies are enlightening and give weight to the merit of this government policy.

This highlights the fact that costs in poor leasing management are not only reflected in poor deals but in agency time wasting.

Such a head lease would have simplified future lease negotiations, saving agencies time and allowing them to concentrate on their core activities.

In addition, the scope for negotiating favourable leases would have been enhanced by giving agencies the collective muscle denied them when forced to negotiate individually.

At the public hearing, some Members expressed their concern that a group of government agencies — surely among the most desirable of tenants — could find themselves in such a powerless position. A cluster of government tenants might be expected to have more leverage than is apparently the case at Wharf Road.

3.3 Conclusions

In concluding this discussion, the Committee has drawn the following conclusions on the issues raised and made recommendations accordingly.

3.3.1 Compliance with Policy

The examples cited above show that some agencies are clearly not aware of, or are ignoring, their responsibilities in regard to office accommodation as set down in Premier's Memoranda 97-2 and 99-6 and the Government Office Accommodation Reform Program. There is a pressing need to remind agencies of these responsibilities.

DPWS has taken the lead in the issue of rent reviews by initiating a process to remind agencies of their responsibilities. However, the Committee feels that a letter from the Director General of DPWS is not sufficient action on this matter.

The Committee supports the centralised coordination and management role for the Department of Public Works and Services in the public sector leasing of office accommodation.

This role should be strengthened.

The Committee believes that central monitoring and oversight of rent reviews for sites over $500m^2$ by DPWS would be the most effective means of ensuring the best outcome for individual agencies and positive flow-on effects across the public sector.

This is not a call for DPWS to have intrusive, direct control. Rather it is to enable the Government to ensure that its cost reduction policies are being implemented as widely and effectively as possible.

3.3.2 Agency Expertise

The case studies detailed above demonstrate the importance of getting the best deal every time in any lease negotiation. Any other outcome simply costs the taxpayer, for the total estimated loss of the decisions in these case studies is in the order of $1.5 million per annum.

But there are other hidden costs in addition to those quantified above. These include:

- flow-on costs in other lease negotiations;
- the costs to agencies in time spent on inefficient negotiating and trying to resolve consequent problems (of the type detailed above);
- and the cost of (belated) expertise to help resolve problems.

These costs would be significant.

There are similar threads running through each of the case studies above. Unfortunately, the case studies point to a lack of agency expertise and systems in office accommodation management. The case studies make it clear that many agencies do not have the skills to either directly deal with accommodation issues (such as lease negotiations or rents reviews) or put in place strategies to ensure that outside expertise is utilised when needed. The range of problems brought before the Committee strongly suggests that there is still room to improve the current management of office accommodation.

Agencies with little or no expertise in property services are undertaking their own negotiations. In some cases, agencies are not aware of their rights and are accepting ambit rent increases without negotiation. These inflated rents have a flow-on effect on property costs throughout the market, particularly in the Sydney CBD. This loophole must be closed.

The Committee must consider the issue of appropriate levels of expertise to deal with these issues and give consideration to the appropriateness of agencies maintaining lease management sections. In this regard the Committee is also concerned with the potential for costly duplication of property services across the public sector.

The problem of inadequate expertise in some agencies was alluded to by the Director-General of DPWS in evidence. He told the Committee, by way of example, that the:

> [Department of] State and Regional Development, is quite a small department and would not have a property section. You would like to think that anyone employed in the property section would understand the need to respond differently to a letter of demand on a rent increase.

The Committee draws attention again to examples which highlight the shortcomings in lease management.

1. Mr Moulstone, from the Department of Aboriginal Affairs (DAA), told the Committee that:

> the rent review that occurred on 1 January, 1999, was the first in the department's lease, so there had been no, if you like, experience in the corporate area of lease negotiations at that point…. There would not have been anybody on the staff at the time who would have had that immediate experience with lease negotiations in all those aspects that you mentioned.(T1, p43)

The suggestion here is that mistakes are going to be made as part of a learning process. The Committee disagrees with this assessment. Expertise is available to the public sector. Agencies do not necessarily require it permanently. It just needs to be available at the right time and agencies must know when, where and how to obtain it. It is a matter of proper systems and expertise, which need not necessarily be provided in-house, particularly by small agencies.

It was heartening for the Committee to see that DAA had seen the merit of such a process. Mr Moulstone told the Committee it was likely that DAA, as a small agency without specialist property expertise within it, “will look at contracting out its accommodation requirements to the DPWS.”

2. The Department of Ageing and Disability’s lack of expertise in lease management was starkly illustrated in evidence. In the light of that evidence, it comes as no surprise to the Committee that the Department has not completed an Office Accommodation Strategic Plan.

3. The Department of State and Regional Development’s Executive Director of Policy resources, Mr Butterworth, conceded that a small agency such as his lacked the expertise to deal with certain issues such as complex leases. However he did caution against a wholesale outsourcing to DPWS, arguing that

> “there are issues about managing your own property and assets … We have 18 leases coming on and off all the time and a lot of them are only small leases in country areas. We would not want to load up Public Works for doing those negotiations for a couple of hundred square metres at Cobar and so on.” (T1, p.71)

This evidence rather misses the point. The Committee believes that the agency should avail itself of expert assistance in formulating strategic office accommodation plans so that it has periodic reviews of its entire portfolio.

The Committee notes that the inadequacies in property services are not limited to general government sector agencies. The Committee wrote to DPWS seeking its opinion on the general level of expertise in property services in PTEs and SOCs. DPWS replied that while it was difficult to assess the expertise within individual agencies, it was:

> reasonable to assume that the general level of property services expertise within SOCs and PTEs is variable, in line with DPWS’ experiences across other agencies in government. DPWS is aware of a number of examples where SOCS have not achieved effective property services outcomes.

The question of agency expertise in property services was put to the Director-General of the Premier’s Department in hearings:

> **Dr GELLATLY:** Like any agency, I guess, and we have a hundred agencies, so there are going to be different views amongst those agencies. Some of it comes down to the people who are in management positions in agencies. They

> think they can do it best. But I think it is the reality for the big agencies and the important ones if they have not got their own property management area - and the big ones you would probably expect to - but most of the small ones that I know of rely on Public Works because they have not got the size to be able to do it themselves.
> I guess my assessment would be across the sector. I do not think there is a huge reluctance. There are some people who have got a thing about Public Works, either because of a previous job or some issue like that that they do not want to use them, but I think it is getting more accepted, and I think GAMC has benefited that. People recognise that Public Works is the expert in that area and it should be used. There are some policies on that too, about the size. (T3, p.3)

The need to reduce and avoid duplication has been recognised by the Government in a broad sense. For example, the Government has established the Sydney Harbour Foreshore Authority for just such a purpose.

These arguments provide the elements of a strategy for further reform to address these problems.

3.3.3 Core Business

In addressing the problem of agency expertise, the Committee came to the view that the critical element is the notion of core business.

Lease management is not the core business of the great majority of government agencies, which means they lack expertise to negotiate the best possible deals. Mr Smithies, of DPWS, used the example of WorkCover (which is discussed in Chapter Four) to illustrate the problems those agencies face, namely, overpriced and ill-suited accommodation:

> **Mr SMITHIES:** WorkCover's core business is not leasing or property or development. Staff who looked after those issues, if you go back and look at what WorkCover has done, probably have not had to negotiate a major leasing or property deal for some 10 years. I do not think WorkCover has the project management experience for that type of project in totality. I think WorkCover has a clearly defined role within that project about facility planning and sorting out what they need in a project, and also in terms of managing their own relocation to Gosford they need project assistance.
> I suppose to support my comment about my not thinking they have the adequate property management skills, you only have to look at the current accommodation that WorkCover is in. WorkCover itself will acknowledge that it is not the most functionally desirable building. It is a small floor plate of odd dimensions and also the lease that they negotiated for that building is something like $100 per square metre above the market rent. So I think their own circumstances in which they are currently residing indicate that they do not

> have the property or accommodation management expertise to actually look after the accommodation acquisition that they need in Gosford. (T2, pp.14-15)

In this respect it is instructive to look at the approach of other agencies:

- State Rail has a substantial property section, including a complete property management system for handling some 4,000 leases. It has "run its own show for years" and does not use DPWS. But, like WorkCover, property management is not State Rail's core business.

- The RTA is not dissimilar to the SRA in this regard. It is a large agency with a large property service. However, it is the view of the RTA that because of the large number of small properties (more than 130 motor registries), it would be inefficient to have to utilise a specialist such as DPWS. RTA witnesses told the Committee that what DPWS could offer was specialist services such as expertise in heritage and energy management. As this report has shown, however, the RTA's negotiations on the renewal of its head office lease illustrates that agency's need for independent input from an expert agency to manage major and expensive lease negotiations.

- The Sydney Harbour Foreshore Authority is one agency which is a core property manager. Its property team looks after some 300 buildings. Rather than using DPWS on an advisory basis, it submits a plan to that Department to ensure that it meets DPWS requirements. It retains expert legal advice to draft leases where necessary. It is moving towards a standard commercial lease to minimise the need for legal services.

- The Police Service, after putting together a long series of poor accommodation outcomes (see Chapter 6), is reassessing how it manages its property services, developing service level agreements and market testing them to see whether the in-house property management group can match the service provided by an external source. While reluctant to second guess the outcome, witnesses did not expect that the property management group would continue in its present form.

- The witnesses told the Committee that they "would have no problem at all" with major rent reviews being undertaken by a specialist group, such as DPWS. The involvement of an independent third party to ensure that government policy was observed was desirable, so long as the Police Service had a significant involvement in the process. That would require close consultation with DPWS, or other expert managers, to make sure the Police Service's business needs were met, and that it was not locked into a deal it was not entirely happy with.

- The Department of Community Services (DOCS) has developed a practical and efficient arrangement with DPWS. DOCS, which has a large but relatively low value portfolio of properties, has reached agreement with DPWS on how to manage the portfolio. DPWS satisfied itself that the portfolio was being properly managed by suitably skilled staff. It then gave the Department an exemption from certain government office accommodation policy obligations, relating to the involvement of DPWS in leasing arrangements. Ongoing liaison is, however, maintained between the two organisations so that DPWS is aware in general terms of developments in the community services portfolio. This arrangement appears to be working.

Comment

The reforms to the management of public sector office accommodation, set out in Premier's Memoranda 97-2 and 99-6, have gone a long way in focusing suitable expertise on aspects of strategic office accommodation. The savings that have accrued from this approach are significant.

However, the problems relating to expertise and the potential for wasteful duplication of lease management sections across agencies which have been identified in this report suggest strongly that further reforms and improvements need to be implemented.

While action needs to be taken, greater direct control is not needed. What is needed is the application of appropriate expertise, from within the public sector or from outside. Agencies should have the flexibility to choose.

Case studies exist where this arrangement works, DOCS being one example. The Committee recommends building on this approach but in a more comprehensive and formal way.

Public sector agencies with suitable and relevant property management expertise, usually as part of core business, could be accredited by GAMC to provide their own property management services. Such accredited agencies could also provide these services for other (non accredited) agencies for a fee.

It would of course be essential that the client's interests still be served in such an arrangement. However, if the client's interests could be ensured and a property management service provided in a cost efficient way, the Committee sees merit in specialised organisations, such as DPWS, providing the services. This would relieve agencies of non-core activities.

The Committee believes that the matter can best be coordinated on a case-by-case basis by the government's experts in office management – GAMC. That body should audit and "franchise" the property services of agencies. It should identify those agencies which must go to outside sources such as DPWS for expert property management and those agencies which, on the basis of their in-house expertise and track records, are worthy of an exemption.

Where agencies outsource their property services it is essential that extensive consultation occur between the service provider and the client agency so as to ensure that the client's needs are understood and met. That will, in turn, help the client agency to concentrate on delivering its core business better. The process must be shown to be cost effective and efficient.

Where agencies gain exemptions, GAMC must be kept informed of their performance on a general level though DPWS.

This would also have as an outcome the reduction of any unnecessary lease management services.

The lack of expertise in lease office accommodation apparent to the Committee through this inquiry also implicitly raises the issue of broader property management skills within agencies.

Lease management services are usually handled by property managers in agencies (where these exist, otherwise administration) The Committee, as a consequence of this inquiry, is concerned about the broader property management functions within the public sector, particularly the expertise of these sections and the spread of them across agencies.

As pointed out above, the Police Service is reviewing its property management section. It advised the Committee that, provided there was close liaison between it and any organisation that carried out its property management services, it saw no need to maintain the service in-house.

The Committee wonders if this might not be a model for consideration on a whole of government basis and feels that this is an area where further detailed investigation is warranted.

3.3.4 DPWS Database

The formulation of good, practical policy is dependent upon extensive and accurate information on which to base decisions. The accommodation database provides such a tool and is invaluable for DPWS in its monitoring and coordinating role.

It currently has its limitations, however, for it relies on agency goodwill for data.
For example, DPWS does not have reliable information about rent reviews in its office accommodation database which limits its ability to monitor rent reviews across agencies. As the case studies detailed above indicate, the failure of agencies to properly manage their rent reviews has cost the Government considerably.

Comment
The effectiveness of the accommodation database is restricted due to the current reporting requirements. To be a more effective tool agencies should be compelled to provide relevant, standardised information on a regular basis.

Given the size and, therefore, importance of the non-budget sector accommodation portfolio, PTEs and SOCs should strongly be encouraged to submit information. At the least these organisations should explain why they do not submit returns.

3.3.5 Cost Reduction Incentives

To its credit, the Government, through GAMC and DPWS, is channelling energy and expertise into the reform program which is starting to show the benefits of the effort. However, there is still considerable room for improvement in the office accommodation arrangements in New South Wales.

One valid approach to reduce costs is to ensure that agencies comply with the policy is in place to achieve the Government's cost reduction aims. This is the "stick" approach.

Another, just as valid, approach is by means of incentives.

The Government needs to encourage agencies by means of attractive and practical incentives.

GAMC has pointed out that, at the moment, "agencies do not gain any direct benefit from reducing their space use or rental costs as their budgets are reduced by Treasury and the benefit accrues to the Government as a whole".

Comment
The Committee supports the Government's endeavours to reduce costs. However, this objective is not an end in itself. Rather it is a tool to deliver better services.

Accordingly, the Committee supports the idea that agencies retain, at least in part, savings made as part of accommodation reform. This would act not only as an incentive but provide more resources for agencies to deliver services.

3.3.6 Head Leases

The Wharf Road issue raises concerns about unsatisfactory head lease arrangements. The current policy on multuple tenancies is to consolidate all the leases into a a single head lease.

Although the problems with Wharf Road are esentially the result of the intractiability of the building owner, DUAP is under the impression that DPWS did not do all it could to sort out the Wharf Road leases.

Comment

With regard to Wharf Road, the Committee is disappointed that the building owner is still apparently able to dictate terms. If property owners are proving to be intractable, to the ultimate cost to the taxpayer, the Government, through DPWS, needs to seriously flex its market power.

The Committee would like to see a long-term, strategic approach taken with this site to resolve the problems with the owner. If need be such an approach should evaluate the feasibility of relocations as leases expire.

The Committee would like to be reassured that this is a one-off problem and that all other multiple tenancies have been consolidated in accordance with government policy.

3.4 Recommendations

RECOMMENDATION 1

1.1 That only agencies with accredited expertise should be responsible for the management of their office accommodation including mid term rent reviews. All other agencies should utilise professional management services.

1.2 That GAMC establish a list of public and private sector lease management professionals that are accredited to provide these lease management services. The list is to be reviewed on a regular (say two yearly) basis.

1.3 That GAMC become the approval authority for government agencies which wish to manage their own office accommodation.

The following checks will ensure that the process is effective:

- **Agencies to present a case to the GAMC demonstrating relevant in-house expertise in property services is part of their core business in order to seek exemption from this policy**
- **Agency exemptions to be reviewed every three years with reference to the quality of their Strategic Office Accommodation Plans.**
- **Agencies granted exemption to continue to notify the DPWS of all lease expiries, reviews and renewals for office accommodation.**

RECOMMENDATION 2
That the Council on the Cost and Quality of Government investigate the duplication of property management services across the public sector, with particular reference to:

- **extent of property services provided by agencies,**
- **level of expertise available in agencies,**
- **cost of providing the services**
- **extent to which the services could be provided by professional public and privates sector property management services**
- **resource savings if the services were provided by external (pubic or privates sector management professionals)**

RECOMMENDATION 3
The Government Office Accommodation Reform Program is delivering substantial benefits and savings to the NSW public sector and looks set to achieve its target of $500 million in savings over ten years.

That the effectiveness of the Government Office Accommodation Reform Program be enhanced by the following measures:

- **DPWS to be notified of impending lease renewals and mid-term market rent reviews for office accommodation sites over 500 m^2 at least six months prior to the cut-off date for negotiations.**
- **The GAMC issue a formal requirement that agencies provide DPWS with advance notice of major lease renewals according to the following criteria:**

  d) under 2,000 m^2, at least twelve months in advance
  e) 2,000 m^2 - 5, 000 m^2, at least two years in advance
  f) over 5,000 m^2, at least three years in advance.
- **That DPWS be advised in advance of any accredited provider which an agency proposes to retain.**

These measures will enable proper strategic planning of office accommodation which ensure a whole of government approach, fully utilises relocation options and maximises the negotiating power of agencies with lessors. It will also enable DPWS to ensure that agencies have certified professional negotiators available as needed.

RECOMMENDATION 4
That GAMC conduct an immediate audit of compliance with the Government Office Accommodation Reform Program (including Premier's Memoranda 97-2 and 99-6) which focuses on:

- **The quality of Strategic Office Accommodation Plans by General Sector Government agencies**
- **The extent to which agencies have been advising DPWS of office leasing proposals (in accordance with 97/2, Attachment 1)**
- **The level of voluntary adotption by PTEs and SOCs of the Reform Program (as urged by 99/6).**

The Committee is to be provided with a copy of this audit upon its completion to consider follow-up action.

RECOMMENDAITON 5
The DPWS database on office accommodation is a valuable tool for monitoring and controlling rental costs.

5.1 That its effectiveness be enhanced by the following actions:

- **GAMC to direct all General Government Sector agencies to complete annual returns on office accommodation to the DPWS database.**
- **The information collected will include the dates of all lease renewals and mid-term rent reviews.**
- **The GAMC to sample the returns to ensure the information is accurate and complete.**

5.2 That GAMC to write to relevant Ministers requesting that SOCs and PTEs complete annual returns on office accommodation holdings to the DPWS database. In the event that PTEs and SOCs do not submit returns, they should be asked to provide reasons for this decision to the GAMC. ("Commercial in confidence" would not constitute such a reason, given the confidentiality protocols attached to the database).

RECOMMENDATION 6
That GAMC develop a policy to financially reward agencies that achieve savings through the reduction of office accommodation costs.

RECOMMENDATION 7

That GAMC:

7.1 Oversee a reappraisal of the Wharf Road Newcastle tenancy to develop a whole-of-government solution, including the cost effective relocation of agencies if necessary.

7.2 Carry out an audit of all multiple lease sites under non-government ownership to identify any similar situations and to develop cost effective solutions, if necessary.

CHAPTER FOUR

Agency Relocation

4.1 Relocation

The relocation of government employment opportunities and government services to non-metropolitan areas and Western Sydney is a feature of the Government Office Accommodation Reform Program. It has been decisively driven by the Government Asset Management Committee since its establishment in 1998.

Strategy 6 and Strategy 7 of the Office Accommodation Reform Program contain a commitment to relocate government agencies out of the Sydney CBD to less expensive areas, particularly where it will enhance economic development.

Strategy 8 contains a commitment to use the relocation of government agencies to regional centres as a means of serving rural economic development. This strategy flowed from the Integrated Service Delivery Management Plan and the NSW Country Summit in 1997.

This policy is significant in terms of economic development as well as generating considerable savings on office accommodation costs, particularly where an agency is relocated from expensive offices in the Sydney CBD.

The Committee supports the relocation of government agencies as a tool for wider government imperatives.

In fact, the Committee is certainly of the view that effective location of office accommodation to achieve cost reduction targets can go hand in hand with broader policy objectives such as economic development. They must be well planned and coordinated to achieve this.

4.1.1 Sydney Metropolitan Area - Relocation to Sydney CBD South and Parramatta

Two key areas are identified for relocation within Sydney: Sydney CBD South and Parramatta. These sites were selected after examination of two key planning documents: *Cities for the 21st Century* and the *Integrated Transport Strategy*. This decision recognised that head offices needed to be located in areas with adequate infrastructure and access to public transport.

The rationale for selecting these two areas was explained to the Committee:

> **Mr SMITHIES:** Stage two of the reform looked at the optimum locations for government office accommodation. One of the strategies is in fact relocating public servants out of high cost CBD core accommodation areas. The two areas that were identified for relocation of agencies, having regard to a wide range of government policy objectives, which include the integrated transport strategy, compact cities and so on, were Parramatta as a core centre and,

> having regard to service delivery requirements of agencies, the southern CBD as a core centre. When you look at southern CBD and Parramatta you find that, over a long period of time, the rents have been at parity in terms of what you actually pay in rental growths over time, so you are looking at two fairly optimum locations in that sense. (T1, 3-4)

The current policy maintains government holdings in other Sydney metropolitan areas such as Blacktown, Liverpool and Penrith. (T1, 3-4)

The Committee questioned the Chair of the GAMC, Dr Gellatly, on progress towards reducing office accommodation in the Sydney CBD. He believed that significant progress had been made in identifying office holdings and initiating meaningful action:

> **Dr GELLATLY:** In regard to the CBD I think we have a pretty good handle on that now. We know the ones that are down the central end, the expensive end, of town, and I think you are aware that there has been a fair bit of work going on in terms of CBD strategy and what goes down south and what other options we have with Governor Macquarie Tower.

The Committee examined the Sydney CBD office accommodation holdings of a range of agencies in the chapters above including the review of GMT by the GAMC. It is particularly concerned with agencies which have large portfolios in the Sydney CBD and surrounds in relation to maximising the utilisation of existing space. It also looks at relocation options for single tenancy agencies in the Sydney CBD.

4.1.2 Regional Relocations

A key plank of the policy requires agencies to look at relocating individual business units to regional NSW in the event that head office relocation is ruled out.

The Committee received evidence that each agency was required to address regional development in the annual Strategic Office Accommodation Plan:

> **Mr SMITHIES:** Within the strategic office accommodation plan, all agencies have to address regional accommodation issues, and there is a set of tests included in those plans like does the agency provide services critical to regional or business development; is there scope to place staff at regional locations; if agencies are considering withdrawing staff or agency staff from regional locations, will that affect the quality of service to clients and/or the regional labour market; the agency initiative activities are similar to prospective private sector activities in regional locations; is there scope to place staff in regional locations to complement private sector development. (T1, 5-6)

Once this analysis has been completed and business cases are presented, the GAMC becomes the vehicle for driving regional relocations.

The GAMC has been pivotal in recent relocations such as WorkCover to Gosford (discussed in detail below), the Department of Local Government to Nowra and the Superannuation Administration Authority to Wollongong.

The Committee also received evidence that the Premier of NSW, the Hon Bob Carr, had clearly instructed the Director General of Premier's Department and Chair of the GAMC, Dr Gellatly, to emphasise his personal commitment to regional relocation to CEOs:

> **Mr PERSSON:**… there would not have been a chief executive meeting that went by for a very long period of time where the Director-General of the Premier's Department did not make it clear that the Premier was determined to relocate jobs from the city to regional New South Wales. (T1, 8)

Mr Persson noted that agencies had been "kept under regular pressure in the last three or four years" to find business units which could be relocated to regional NSW.

4.1.3 Potential Problems with Regional Relocations

The clear commitment of the NSW Government to the relocation of government jobs and services to regional NSW has not come at the cost of realistic analysis of the costs and benefits of such decisions.

Clearly, the benefits of relocation must be measured against the impact on existing staff and services as well as the financial costs of relocation itself.

The Committee was told by Mr Persson that it can "take around seven years to recover the cost of moving and new fit-out, so it is not a quick trade-off."

Potential problems include:

- Finding acceptable office accommodation at the right price in regional centres with a very limited market
- Containing construction/procurement costs for purpose-built facilities
- Avoiding becoming a captive tenant by negotiating a longer term, flexible lease
- Quantifying relocation, fit-out and 'make good' costs
- Maintaining agency expertise in the event of large potential staff turnovers
- Dealing with the full range of social impacts
- Maintaining utilisation rates of long term leases.

Some of the problems are discussed in case studies below, particularly with regard to the WorkCover relocation.

The Committee supports the relocation of office accommodation to Sydney CBD

South and Parramatta.

However, it is important that the GAMC stays one step ahead of the rental market to ensure that the NSW Government continues to extract maximum benefit from the cost effective placement of office accommodation.

Already there are signs that the relocation of government agencies to Parramatta and the southern Sydney CBD is putting pressure on rental rates.

It may be time for the GAMC to begin developing a second phase in the Office Accommodation Reform Program in which new centres in the Sydney CBD are identified as likely options for the relocation of government services.

Blacktown, Liverpool and Penrith are three areas with substantial holdings of government office accommodation which could be developed as relocation and collocation centres.

4.2 Relocation Case Studies

As pointed out above, the Government has already commenced a relocation program with a number of agencies. Any new policy can have implementation problems and it is instructive to review the process to see what lessons can be learned and how improvements can be made.

4.2.1 Case Study One: Relocation of the WorkCover Authority of NSW to Gosford

One of the major examples of this policy in action is the proposed relocation of the WorkCover Authority of NSW to Gosford. It will involve the relocation of 440 staff from two premises in Kent Street, Sydney that currently cost around $5 million per annum (some staff will be relocated to smaller Sydney CBD sites).

All parties believe that the relocation is an excellent concept that will deliver cost savings and more functional space in a purpose-built facility for WorkCover.

The issues raised with the Committee were the management of the project in relation to WorkCover including definition of powers and roles, the size and scope of the project, the allocation of risk and the need to consider the relocation of office accommodation to regional areas in a broader policy framework.

The Committee examines the management process for developing a multi-agency government facility in Gosford, which will house WorkCover, in the following sections. This important issue is dealt with in some detail below.

The Status of WorkCover

Administrative problems with the relocation of WorkCover to Gosford can be sourced to the unclear status of the authority.

The WorkCover Authority of New South Wales is constituted as a corporation under the Workplace Injury Management and Workers Compensation Act 1998. It is, for the purposes of the Act, a statutory authority governed by a Board of Directors who have responsibility for its policies, management and actions. WorkCover is fully self-funded and receives no contribution from Consolidated Revenue. Its funds and internal costs are drawn from a levy on workers' compensation insurance which is set each year by the board of WorkCover and approved by the Minister.

WorkCover is also a Schedule 1 department under the Public Sector Management Act 1988.

Prior to amendments to the PSM Act in 1995, WorkCover was a Schedule 2 administrative authority. The amendments to the Act eliminated Schedule 2, dividing agencies between Schedules One and Three.

In evidence, WorkCover described the impact of this legislative amendment:

> **Ms GARLAND:** Until amendments made to the Public Sector Management Act in about 1996, Schedule 2 departments had a good deal of freedom in the way they operated. The change to Schedule 1 has brought them very close to government departments and we now comply with all of the requirements of government departments. (T1, 22)

According to WorkCover, the amendments to the PSM Act in 1995 were not clearly communicated and staff continued to believe that WorkCover was relatively autonomous. It was not until 1997 that the State Contracts Control Board advised WorkCover of its legislative obligations. WorkCover reviewed its activities and decided to actively ensure compliance.

This determination to comply with government policy should be commended.

In addition, WorkCover is administered by a Board which reports to the relevant Minister (in this case, the Minister for Industrial Relations). The Board maintains direct responsibility under legislation for the good and effective management of WorkCover. Therefore, no management action can be undertaken in relation to major projects without a review of management processes - and approval - by the Board. This responsibility covers major changes to office accommodation such as the relocation of WorkCover to Gosford.

Responsibilities to both the Board and to Government have created difficulties for WorkCover since the GAMC initiated the Gosford relocation project.

WorkCover maintains the financial and human risk for its relocation. Its Board is obliged to judge the relocation proposal on its merits. It does not have a mandate to consider whole-of-government outcomes. Further, WorkCover does not have control of the project. However, the GAMC is directing WorkCover to relocate to assist in driving whole-of-government outcomes.

Confusion within WorkCover over its status and level of autonomy in regard to the project exacerbated some of the difficulties that arose as the project parameters were developed and defined. These issues are the subject of the following sub-sections.

Timeline of the Gosford Relocation

WorkCover stated that it had been developing office accommodation options from early 1999:

- WorkCover began looking at alternative office accommodation options for head office with approximately three years to run on the existing lease, which expired on 31 January 2002. Its aim was to test the market at the earliest stage for a 10-year lease on premises.
- WorkCover received advice from a consultant that it should seek to relocate outside the central CBD in line with government accommodation policy.
- WorkCover retained DPWS to identify and rank accommodation options.
- A DPWS report in December 1998 stated that no properties were available and that the market should be re-tested in six months.

As the Committee understands the evidence, the administrative process for the WorkCover relocation to Gosford proceeded in the following terms:

- In late January 1999, WorkCover was asked by the GAMC to respond (to DPWS) immediately to a GAMC proposal that its head office be relocated to Gosford.
- On 28 January 1999 DPWS, on behalf of GAMC, produced the document *WORKCOVER: Assessment of Head Office Location Options*
- In three to four days, WorkCover provided DPWS with a provisional figure of 330 staff for relocation.
- In late February 1999, WorkCover increased this number to 420-440 staff.
- On 8 March 1999, DPWS called for Expressions of Interest for 5,000 m^2 for WorkCover plus 1,000 m^2 for a telecommuting centre to be available by November 2001. By contrast, WorkCover had estimated 6,800 m^2 for 420-440 staff (based on government policy of 15 m^2 per person). WorkCover was concerned that DPWS had not considered the increased staff numbers.
- On 27 April 1999, lodgement of the E-o-I closed with 11 submissions.
- On 2 June 1999, the GAMC considered the relocation (Meeting No.99/02)

- On 27 July 1999, DPWS wrote to WorkCover advising that the E-o-I had been completed and offered complete procurement and fit-out services in a 16 page proposal (including fees).
- On 6 August 1999,WorkCover and DPWS officials met. There was apparent disagreement over WorkCover's preference for a 10-year lease with DPWS arguing for government ownership.
- On 9 September 1999, WorkCover advised DPWS that it intended to manage the development of a detailed specification for the project.
- On 18 October 1999, DPWS provided WorkCover with three "process maps" with options for managing the project and a list of companies offering facility planning services. One map involved DPWS management. In a separate letter, three companies were shortlisted from the E-o-I process.
- In October 1999, other agencies with units on the Central Coast began contacting WorkCover to say that they had been approached by DPWS about collocation.
- On 27 October 1999, the GAMC advised WorkCover that the GAMC secretariat would coordinate the whole-of-government outcomes for the project with DPWS to manage the head contract.
- In early November 1999, DPWS advised WorkCover that an extra 2,000 m^2 was being considered so that other agencies could relocate to the facility. One alternative suggested was Treasury funding for the project.

The progression of events summarised in this timeline raises a number of important issues about relocation management processes and policy which the Committee will examine in the following sub-sections.

It should also be noted at the outset that WorkCover is:

- Supportive of the relocation to the Central Coast, which is one of the fastest growing areas in New South Wales.
- Enthusiastic about building a community identity and relationship with the Central Coast community.

It should also be acknowledged that the Gosford project now seems to be proceeding to the satisfaction of all parties:

> **Mr CAMPBELL:** At the last briefing the Government Asset Management Committee said it was going quite well. So far as WorkCover is concerned, from the feedback we have had from them, they are actually quite happy with the progress of the report. I actually met with them last week with our team and they were very pleased with how the project was proceeding, and I think they would probably tell us if they had any problems really quickly. They seem to be reasonably happy. We do recognise that there was some confusion earlier on but that seems to be all resolved and everything seems to be proceeding quite well. (T2, 24-25)

The following discussion should, therefore, be viewed as a systemic analysis of the "confusion earlier on" in this process to develop better communication systems within relocation management.

Management of the Gosford Project

The intended structure and scale of the Gosford project and its whole-of-government focus was not clearly articulated to WorkCover at the outset. WorkCover also seemed unaware of the decision to expand the number of agencies involved in the project during its development phase.

This lack of communication affected perceptions of powers and roles in the project, particularly for the issue of which body would control the relocation of WorkCover itself. The unclear structure of DPWS to WorkCover staff exacerbated this problem.

WorkCover eventually contended that it could manage the relocation itself and choose its own project manager with DPWS invited to contest for the provision of services with the private sector. This perception reflected its sense of autonomy as a statutory authority. Staff in some sections of DPWS who were assisting WorkCover seemed to support this position.

Ultimately, the GAMC initiated the project and it was therefore the GAMC's decision as to how it would be managed. The Chair of the GAMC, Dr Gellatly, explained the genesis of the project:

> **Dr GELLATLY:** … I became aware of the issue of WorkCover's lease expiring in a couple of years, knew a bit about WorkCover when I was in industrial relations and when you think about it as an agency, while it has some policy issues, a lot of it is about processing, dealing with the claims and premiums and so on. So I think it was probably January 1999 as chair of GAMC I asked Public Works to do a study of the benefits and the options involved in moving it. (T3, 9)

The options paper in assesssing four accommodation options, considered a range of factors including:

- Financial Analysis (Accommodation Costs)
- Operational Impacts
- Regional Economic Impact
- Gosford Commercial Property, and
- Implementation

GAMC also emphasised that the Gosford project was not confined to WorkCover. It involved whole-of-government outcomes including:

- Collocation of multiple (up to 10) agencies to a multi-purpose building.
- Piloting a telecommuting centre.

- Maximising economic development opportunities for the construction industry on the Central Coast.
- Relocating jobs to the Central Coast to reduce commuting to Sydney.
- Swapping of work forces between agencies.

The level of expertise among WorkCover staff in managing a major relocation was another major issue considered by the GAMC when selecting project managers. In evidence, it was noted that:

- WorkCover's core business is not property development.
- WorkCover has not negotiated a major lease or property deal since 1992.
- WorkCover does not possess project management experience for such a large project in its totality.
- WorkCover should have a clearly defined role in relation to facility planning.

The flaws in the current premises leased by WorkCover in Kent Street were cited as an example of its limitation in managing office accommodation:

> **Mr SMITHIES:** … you only have to look at the current accommodation that WorkCover is in. WorkCover itself will acknowledge that it is not the most functionally desirable building. It is a small floor plate of odd dimensions and also the lease that they negotiated for that building is something like $100 per square metre above the market rent. So I think their own circumstances in which they are currently residing indicate that they do not have the property or accommodation management expertise to actually look after the accommodation acquisition that they need in Gosford. (T2, 14)

These factors explain the GAMC decision to appoint the DPWS to head manage the project.

However, GAMC representatives have noted that WorkCover would maintain control of facility planning for its own accommodation including staffing, space functionality and Information Technology.

The Chair of the GAMC, Dr Gellatly acknowledged that there had been difficulties but stressed the positive resolution to the process:

> **Dr GELLATLY:** … I think it is fair to say there was some tension between Public Works and WorkCover about that issue (of management) but I think we have ended up with a reasonable solution where Public Works are doing the overall part of it and WorkCover is doing the facility planning and all those issues. (T3, 9)

The source of the ‘tensions’ in the Gosford project are examined in greater detail below.

Expression of Interest Process

WorkCover has expressed concern to the Committee about the validity of the Expressions of Interest process for the relocation. It contends that the specification for the facility is too small to accommodate WorkCover staff, the telecommuting centre and other agencies.

In particular, WorkCover is wary that these changes may leave it open to compensation claims from larger companies which did not lodge an E-o-I or did meet the original E-o-I criteria.

As indicated above, DPWS called for Expressions of Interest for 5,000 m^2 for WorkCover plus 1,000 m^2 for a telecommuting centre. By contrast, WorkCover had estimated 6,800 m^2 for 420-440 staff, based on government policy of 15 m^2 per person. In fact, government policy would require about 6,300 - 6,600 m^2 for 420-440 staff.

WorkCover was concerned that DPWS had perhaps overlooked the increased staff numbers and based its Expression of Interest advertisement on the preliminary forecast of 330 staff.

DPWS argues that capacity of around 7,000 m^2 was always available for WorkCover in the facility and that there was no need to amend the EoI specification. This calculation was based on the telecommuting centre being reduced from 1,000 m^2 to 250 m^2 after further consultation about likely use by agencies. In addition, a leeway of 10 per cent was factored into the EoI documentation. This would leave approximately 6,350 m^2 for WorkCover.

DPWS also argued that the EOI process had been extraordinarily successful:

- Eleven proposals were submitted.
- Some proponents were capable of providing extra space if required.
- The EoI process had not ‘locked in’ the Government to any particular course of action.
- Further options were available.

In essence, DPWS believed that “it was not worthwhile revising the call to the market because essentially we picked up everything that was in the (Gosford) market.”

DPWS contended that, in fact, the re-opening of the EoI process was more likely to create compensation claims by companies for work done to date.

The danger of any compensation claims arising from the EoI advertisement due to the increased size of the Gosford project is probably slight.

This incident should be viewed in the context of WorkCover's increasing perplexity about the management of the relocation, for which it apparently bore the risk.

The Current Construction, Fit-out and 'Make Good' Timetable

There is concern within WorkCover that the Gosford project will not be completed on time, leaving it with the prospect of paying rent on two premises.

The Committee received evidence that DPWS had originally outlined a 68-week program for the new facility to WorkCover including construction and fit-out. WorkCover would also be required to 'make good' its current premises. This is estimated to take three to four months, which means that the Gosford facility must be ready for occupation by November 2001. There is also the proposed increase of the facility by 2,000 m^2 to consider.

The timeframe for the project has now been reduced by DPWS to 52 weeks.

This time reduction has perhaps aroused the suspicion within WorkCover that the timeframe was developed to meet existing deadlines rather than reflect commercial reality.

This matter was examined in evidence:

> **CHAIR:** Do you believe that you will be able to get into the Central Coast on time?
> **Ms GARLAND:** I do not know. It is an area where certainly Public Works and Services has the necessary expertise within government. It is confident that… construction and fit-out could be completed within 52 weeks…
> **CHAIR:** Originally that figure was not 52 weeks, it was between 60 and 68 weeks.
> **Ms GARLAND:** The original advice that I had from Public Works and Services suggested a program that included about 68 weeks for construction and fit-out. I queried that with the Department of Public Works and Services, but it felt that that was a very generous timeframe.
> **CHAIR:** So it now feels that it is not generous, but 52 weeks is adequate?
> **Ms GARLAND:** It has informed me that it believes that 52 weeks is adequate and that we may pick up some time in other parts of the project, on the front end of the project with approvals and such like, that will allow for some extra time. (T1, 33)

In evidence, DPWS maintained that the construction of the facility in 52 weeks was a normal timeframe for this scale of project:

> **Mr SMITHIES:** I think there has been some confusion in WorkCover between total project time and the actual construction period. The 52 weeks that we

> talk about excludes things like pre-construction activity, design and those sorts of things which are the formal figures that we talked about with WorkCover do include. The 52 weeks is the norm for the industry for that sort of construction and in fact the EOI process has reflected the 52 weeks. The responses we have got back in terms of actual construction time have talked about a 52-week period so we are fairly confident that that is a reasonable position. (T2, 22)

This incident is evidence of unclear communication between DPWS and WorkCover, particularly in relation to the impact of increasing the size of the facility.

The Allocation of Risk

Concerns about the timeframe for the project and its scale have heightened apprehensions within WorkCover about the allocation of risk for the project.

The allocation of risk for relocation projects is apparently not subject to a clear policy at the moment. It becomes a vexed issue when the interests of an individual agency do not easily mesh with whole-of-government objectives.

In the case of WorkCover, the expansion of the project - and removal from its control by the GAMC - has apparently not been accompanied by a reduction in risk. WorkCover’s principal concern with this situation is that it apparently bears the financial and human risk for any delays in the project:

> **Ms GARLAND:** … WorkCover is not a consolidated revenue department, so it cannot apply for more money in its budget if something were to go wrong, nor is it a State-owned corporation so we cannot go through our Minister and say that this is a whole-of-government decision that would not be made purely based on business management decisions, therefore we would be looking for some additional revenue from government to put it in place. As far as I can establish at this point in time we seem not to be in control of the project but we do appear to be carrying the risk of the project if the risk is to be taken to a large part whether we have office accommodation at the time we need it. (T1, 29)

The biggest financial risk to WorkCover is that it would have to extend its lease in Sydney:

> **Ms GARLAND:** The Department of Public Works and Services, at the last meeting I had with it in November, indicated that, if it were necessary, for example, for WorkCover to extend its lease in Kent Street, that would be a cost that WorkCover would bear… at this moment my understanding is that the risk is with WorkCover. (T1, 32)

Any delay in occupation may also result in staff who have relocated their homes to, or have been recruited from, the Central Coast being forced to commute back to Sydney.

It should be noted, however, that WorkCover acknowledges that a range of benefits are likely to flow from the relocation, particularly when a long term perspective is applied:

> **Mr GIBSON:** Should you be compensated for what has happened?
> **Ms GARLAND:** I would be reluctant to go down a pathway too readily of compensation. We are starting to keep good records on the cost of the move, but I would hope to see… very substantial benefits from this move, but not necessarily in the first year that we make the move, it would be over a period of time. I think short-term thinking might encourage a negative view of the project… you have to have a medium to long-term perspective on these matters. (T1, 35)

Comment

The Committee commends the relocation of the WorkCover Authority to Gosford as part of the development of a multi-purpose government facility.

The benefits from the relocation to Gosford are considerable for WorkCover. However, the Committee believes that the management process for delivering these outcomes needs to be examined.

The Committee wants to stress the good performance of - and positive outcomes for - each party involved in the relocation:

- **WorkCover will reap cost savings, more functional office space and a community identity for the first time in Gosford. Its pro-active office accommodation planning made the relocation to Gosford possible by putting in place all the necessary building blocks well in advance of lease expiry, could well be a model for all government agencies.**
- **DPWS has demonstrated its property services skills with the relocation of WorkCover's units in the Sydney CBD and is now in effective control of the construction phase of the Gosford project.**
- **The GAMC has successfully implemented the NSW Government policy of relocating government employment and services to areas where it will advance economic development.**

All bodies involved in the relocation of WorkCover are now working together to bring the Gosford project to a successful conclusion.

However, the Committee must address the problems identified in this process.

Gosford is considered an excellent choice for relocation because of its sound infrastructure and expanding population base. The introduction of 440 staff into a new facility will have a major impact on Gosford. The placement of the facility and supporting infrastructure is crucial to maximise its benefits.

The Committee received evidence that Gosford CBD is in decline because of the impact of Erina Fair and the development of Tuggerah. A Council Report recently advocated the relocation of a government department into the central CBD to revive it as a business area (rather than a commercial and retail precinct). This report should be considered when selecting a site for the new facility.

The laudable aims of the relocation have been impeded, however, by unclear project development and management processes, which have created misunderstanding between the parties.

These difficulties will probably not have a material impact on the success of the relocation. However, there are some lessons to be learned for future relocations.

Lack of clarity in defining and transmitting the scope of the Gosford facility to WorkCover was central to subsequent difficulties. The unclear status of WorkCover and its level of autonomy within the project only exacerbated tensions.

WorkCover's concerns about the size of the facility, the Expressions of Interest process, the timeframe for the project and the allocation of risk reflect a poor level of communication with DPWS.

WorkCover raised a number of issues relating to the relocation process:

- **The relocation is being considered as a metropolitan relocation by the GAMC, not a regional relocation.**
- **WorkCover has dealt exclusively with the GAMC, which seems to be processing the relocation mainly in terms of office accommodation.**
- **There seems to be no overarching policy (or guiding document) to manage all aspects of the relocation process.**
- **No social impact study is being undertaken.**
- **WorkCover is unaware of any integrated government planning for such issues as training and education or transport links.**

In evidence, WorkCover suggested that the management of the relocation had been confined to asset management:

> **CHAIR: Whilst you are taking a whole-of-government approach to relocation, you are not getting any assistance in terms of other impacts that you see for your own organisation…**
> **Ms GARLAND: WorkCover always saw this as a regionalisation project, but our reporting relationship at the moment appears to be confined to asset management or office accommodation.**
> **CHAIR: And none of the social aspects have been taken into account?**
> **Ms GARLAND: We do not have a reporting relationship with anybody who seems to be looking at those issues beyond the fact that we have had some meetings with the Central Coast Development Group… (T1, 32)**

One of the major issues to resolve in future relocations is the conflicting agenda when an individual agency (such as WorkCover) pursues its interests while the GAMC seeks to deliver whole-of-government outcomes.

The allocation of risk for the project is a good example of the problems that can arise in this circumstance.
WorkCover is concerned that it must bear the financial and human risk for any delays in the project yet does not control its management.

In such a case, risk must balance the responsibilities and powers of the respective parties.

4.2.2 Case Study 2: Relocation of WorkCover Business Units within the Sydney CBD

WorkCover engaged DPWS to provide property services for the relocation of some office functions which will remain in the Sydney CBD when WorkCover's head office relocates to Gosford.

The Committee heard evidence from WorkCover that it had received excellent service from DPWS for this project. Ms Garland referred to its work as "an excellent, thoughtful and sensitive identification of a site that was particularly well suited to WorkCover's needs."

DPWS advised WorkCover that one floor of 60 Elizabeth Street was available for the relocation of staff. This accommodation was considered ideal for the Board of WorkCover, its Committees and advisory groups as well as legal services staff who operate out of courts in Sydney CBD and could not be relocated to Gosford.

Ms Garland told the Committee that DPWS had ensured that WorkCover's needs were paramount in site selection. There was extensive consultation with WorkCover management, who were thoroughly briefed on options and the rationale for the recommendations made by DPWS.

The project was progressing “to the utmost satisfaction of WorkCover” and Ms Garland recommended the property services of DPWS to other agencies.

The imminent relocation of staff to the southern CBD coincides with a thorough reorganisation of WorkCover’s Occupational Health and Safety Division, which comprises the agency’s inspectorate staff and support team. It will remain in the Sydney CBD.

The Occupational Health and Safety Division is currently housed in premises at 447 Kent Street. The lease expires on February 2001, one year before head office relocates to Gosford.

There is insufficient floor space at the current head office at 400 Kent Street to accommodate workers from 477 Kent Street. As a result, WorkCover advised DPWS in September 1999 that it would need another southern CBD location. This prompt notice will maximise the opportunity for collocation with other government agencies moving into the area.

Clearly, the DPWS has provided WorkCover with excellent property services.

4.2.3 Case Study 3: Relocation of State Rail Authority (SRA) to Western Gateway

At the public hearings, the Committee questioned State Rail Authority (SRA) officials about the Central 2000 project, which involves the consolidation of the SRA’s Sydney CBD office accommodation from five buildings into two. The SRA plans to move from the approximately 28,000 square metres of office accommodation it currently occupies to 19,000 square metres. Under the plan, the SRA was to dispose of a number of properties it owns — namely, Transport House (York Street), 509 Pitt Street and 72 Mary Street — and move into leased properties, while maintaining ownership of Central Station.

The project, which is part of a plan to rejuvenate the dilapidated western side of Central Station, includes the construction of a new building for the SRA, to be known as Western Gateway. The building, which will accommodate some 800 staff, was to be constructed by the private sector, with the proceeds of the sale of the aforementioned SRA buildings going back into SRA capital funding. The SRA sought and received assurances from the Government that it would provide adequate funding for the fit-out costs for its Western Gateway premises.

The SRA’s Strategic Facility Master Plan 1998 Upgrade outlines the timetable for the accommodation consolidation:

1999-2000

- Finalise Sydney Central transition projects.

- Develop blocking and stacking diagrams for Western Gateway to ensure organisation synergies are achieved.
- Commence Western Gateway fit-out.
- No relocations/refurbishments to occur during the Olympic and Paralympic Games (including pre-planning phase).

2000-01
- Relocation planning.
- Western Gateway fit-out completion.

2001-02
- Relocation to Western Gateway.
- Prepare Transport House for sale, sale of surplus furniture etc.
- Consolidate Sydney Central.

2002-03
- Monitor and measure performances of Western Gateway accommodation.

SRA officials advised the Committee that Transport House had been sold for $38.11 million on a lease back basis. The SRA will continue to occupy Transport House until the Western Gateway development is ready for occupation.

The Committee was told that the sale of Transport House, originally scheduled for 2001-02, was accelerated after a Government request that land sales programs be brought forward. While the original plan was to move to Western Gateway as soon as Transport House was sold to avoid the necessity for a lease back arrangement, the early sale left the SRA with little option but to continue to occupy Transport House until the completion of its new premises.

The Committee explored with SRA officials whether the agency had considered relocating some of its business units to regional areas as part of its accommodation strategy. Officials told the Committee that the relocation to Central was driven by various factors, including the desire to regenerate the area, and the fact that it was the terminus of most of the SRA's operations. SRA is endeavouring to persuade other agencies to take up accommodation in the other buildings to be constructed on the Western Gateway site.

4.2.4 Case Study 4: Department of Local Government (DLG) to Nowra

When the Department of Local Government (DLG)was advised that it was to be relocated to Nowra, about three hours south of Sydney, the Department engaged DPWS to act as its agent in negotiations.

Mr Tim Rogers, Deputy Director-General of DLG, told the Committee that the timetable for the Department's relocation to Nowra would depend on which of the various options being considered was eventually adopted.

Mr Rogers said the principal issue was that Nowra currently lacked suitable office space large enough to accommodate the relocation. However, the old TAFE site in Berry Street had been identified as a possible site for the relocation. The existing building would have to be refurbished or replaced, a matter the Department was investigating. Mr Rogers anticipated that it would probably turn out to be a government owned building rather than one leased from the private sector.

Given the uncertain nature of the Department's relocation at the time of the hearings, Mr Rogers was unable to say what sorts of savings might flow from the relocation.

COMMENT

The Committee notes the efforts made by agencies to relocate offices where there are potential financial and service delivery benefits. The Committee was particularly impressed with the EPA's consolidation program, which has led to the location of previously separated business units at a single site and to very considerable savings of $850,000 per annum.

The Committee is also pleased to note that, where appropriate, agencies such as the DLG are relocating to NSW regional areas. Such relocations can only benefit those regions, and are to be encouraged.

4.2.5 Case Study 5: Potential conflict between agencies for office accommodation: 59 Goulburn Street Sydney.

This case study looks at the circumstances of the Environment Protection Authority (EPA) and the Office of the Director of Public Prosecutions (DPP) leasing office accommodation at 59 Goulburn Street and the role of DPWS in the arrangement. There had been suggestions that the two agencies had been bidding for the property, thus driving up the rent.

The EPA

As part of a strategic office accommodation plan, DPWS recommended in 1998 that the EPA consolidate its Chatswood and Bankstown office accommodation into a single lease in the southern Sydney central business district.

Dr Shepherd advised the Committee that the consolidation of the EPA offices was a basic criterion in its office accommodation strategy. While he had no preference for the location of the consolidated premises, there were advantages in being located in the CBD due to the cross-sectorial nature of the organisation's activities. The southern CBD was certainly acceptable as the site, particularly as the proposed arrangement was "far better financially than staying in either Bankstown or Chatswood".

Accordingly, the EPA accepted the recommendation to consolidate in the southern CBD. After obtaining the necessary approvals, the EPA engaged DPWS to carry out the lease negotiations and the subsequent fit-out negotiations for the lease of 59 Goulburn Street.

In due course, the EPA was advised by DPWS that the DPP was looking for suitable accommodation in the area and was also interested in 59 Goulburn Street.

Dr Shepherd was very satisfied with the assistance provided by DPWS, advising the Committee that EPA got “very good service”.

Office of the Director of Public Prosecutions
The DPP’s strategic office accommodation plan identified deficiencies in existing accommodation at a number of the DPP’s locations. Facility plans were prepared by State Property for these locations so that suitable options could be identified. One of the locations was the DPP’s head office premises in Castlereagh and Pitt Streets. The head office facility plan confirmed that the DPP had outgrown these premises and needed to relocate. Accordingly, alternative premises were to be identified and a budget bid prepared in order to relocate.

Mr McMahon told the Committee that the location of the DPP’s office accommodation was critical because it needed to be accessible to the courts. One of the alternative premises the DPP had under consideration was 59 Goulburn St, the site which the EPA was planning to lease. The need to be near the courts made this Goulburn St site "very important” to the DPP “at the time if we had been able to afford it”.

As the matter progressed, the DPP was also advised by DPWS of the EPA’s interest in the building.

Unlike the EPA, the DPP was critical of the service provided by DPWS. In its view, DPWS had not kept it fully informed and its advice was tardy. The Office told the Committee that advice on EPA’s interest in the site was “not early, not when we first started to negotiate for it”. Having committed itself to the relocation, the DPP had to keep going, subject always to final funding approval. The DPP argued that the role of DPWS was a cause for “concern” as it was “acting as a commercial agent on [its] behalf” as well as “acting on behalf of another agency competing for the same building”. There was a conflict of interest. In its endeavours to generate business it tried to place both agencies in the one building.

Mr McMahon did concede, however, that DPWS “certainly appear to be very good negotiators”.

DPWS
The policy section of DPWS (ie its whole-of-government area) was aware, generally, that both agencies were in the market for accommodation. However, the specific details of the negotiations were being handled by the commercial section of DPWS.

When the commercial arm realised that both parties were looking at the same premises, it advised the policy group. The clients were, in turn, advised of the potential for conflict and a conference called. A solution, according to the department, “that was best for the agencies and government as a whole”, was worked out.

> Mr Smithies of DPWS advised the Committee that, in managing its differing whole-of-government and commercial roles, it has “Chinese walls” in place. If problems are encountered in the commercial area they are resolved by the Policy Services Section. If this is unsuccessful they are sent on to GAMC for resolution.

DPWS advised the Committee, however, that such problems were rare. This was only one of two such instances among all the leases it has negotiated where the department has “been involved with both parties”. In both cases outcomes for both agencies were negotiated with DPWS trying to achieve “what is best for the agencies and what is best for [whole of] government”.

Mr Smithies also informed the Committee that agencies were advised not to enter the market without approved funding. According to him, “the codes of tendering for procurement and construction make it clear that agencies should not approach the market until they are committed to proceed and part of that commitment in my view is that you have funding arranged for the project”.

Solution

When the EPA was told by DPWS that the DPP was looking for space “possibly in the same building”, there was concern about possible holdups this could cause. Dr Shepherd, mindful of a tight time frame to resolve the accommodation issue, sought to have the matter “go to the Government Asset Management Committee for resolution”.

The DPP acknowledged that the conflict was in fact over the *mechanics* of accommodating both agencies on the premises, conceding that both could have relocated to the Goulburn Street building.

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There was no deliberate or accidental bidding war for the site: “It was competition in relation to location [within the building]”. The conflict really related, therefore, to where each agency was going to be located as both would want the more prestigious upper floors.

Negotiations were commenced to sort out the details of the arrangements for accommodating the two agencies in the Goulburn Street premises. A meeting was held between DPWS (representing GAMC), EPA and the DPP. While there was room for both agencies in the building, it was being refurbished on a staged basis, which had implications for access for the lessees. As refurbishment is usually done from the top down, EPA’s time line meant it would have been ready to move in first and so would have had to get the top floors. “The EPA had a clear cut case” because of its on-going negotiations, a defined time line and available funding. It was agreed that EPA would proceed to occupy the building.

In the end it became clear, however, that the DPP would not receive approval for its budget bid for the relocation. It was unable to move to 59 Goulburn St. According to the DPP, it was left “in the awful situation of being in accommodation that did not meet the needs of the office but an alternative was not going to be funded”. The DPP has, through DPWS, renegotiated a 10-year lease at its existing (unsatisfactory) premises. These premises are being refurbished with a contribution from the owner.

COMMENT

This case study in effect raises three issues:

1. *Nature of the conflict between EPA and DPP*

It was put to the Committee that this event was potentially a “major” problem of conflict between two agencies bidding up their lease rentals in order to secure office accommodation.

The evidence presented makes it clear that there was no bidding war between the agencies for the premises, the unacceptable consequences of which would have been short and long term unsatisfactory financial results for the public sector. The committee would be concerned if uncoordinated and unilateral action were taking place, for it agrees with Dr Shepherd that “the idea of small agencies going around town looking for accommodation is a recipe for paying high rents”.

Both agencies were in fact correctly using the services of the DPWS to identify and secure office accommodation in accordance with sensible government policy, a policy which is aimed at avoiding waste, duplication and a lack of coordination in office accommodation to secure the best outcome for the taxpayer. The benefits of using DPWS are clear. The coordination it delivers can identify any potential problems and provides the mechanisms for finding solutions if needed.

The conflict was not even one about limited space which only one agency could utilise, but about how the accommodation cake could have been divided. The reality is that both agencies could have ultimately been accommodated in the premises. While the DPP was critical of the commercial motives of DPWS in placing both agencies in the same office premises, the Committee has no problem in principle with such an outcome. The Committee sees no conflict of interest in DPWS acting to accommodate two clients in the

one building where there is room for both clients provided the process is transparent.

What the Committee does have a problem with, however, was the potential to falter on the trivial matter of who gained the prestigious upper floors. The Committee is unhappy that public sector time and effort, not only of two agencies but potentially DPWS and GAMC, could have been wasted on such a squabble.

The satisfactory completion of the relocations of the two agencies into these premises had the potential to bog down and waste money over a disagreement on which floors were to be occupied. The matter should not have come to this.

In the end the solution developed by negotiation between the parties was not necessary because the DPP was never really in a position to relocate.

DPP's premature action

The Committee agrees with DPWS that, without funding approval for its relocation, the DPP should not have been in the market. Clearly, the DPP had gone some way down the relocation road if discussions had reached the point where, according to its own evidence, the two agencies were negotiating their location in the building. While there may have been some major imperatives on the part of the DPP (such as the inadequacy of its existing accommodation), to take this course of action, to do so on the presumption that funding would be approved contravenes the existing codes of practice.

If the DPP had applied the codes identified by DPWS, it would not have been in this situation. On the other hand, DPWS had been liaising with DPP at this time and should have been counselling against any action on the project until the DPP had funding approval, in line with government policy.

4.3 Conclusions and Recommendations

Relocation policy is of primary importance to the Committee, particularly where it offers economic development opportunities to non-metropolitan areas.

In general, the relocation process has been successful. However, there have been some problems from which valuable lessons are being learnt, particularly regarding the WorkCover move to Gosford.

In fact, the relocation of WorkCover to Gosford, in particular, provides some insight into current management practices on the subject.

The Committee's main concern is that the relocation was attempted with too narrow a focus and without clear guidelines on risks and responsibilities.

The Committee has noted elsewhere in this report that Government policy on the location/relocation of departments and agencies requires that due consideration be given to the impact on workers and their families.

The location of government offices should be viewed as much a means of reducing costs (on office accommodation) as it is in meeting some of the Government's wider policy goals,

WorkCover has initiated some basic steps to streamline the relocation process:

- Establishing informal links with other agencies tentatively involved in the Gosford relocation because it felt there was no central coordinating body.
- Liaising with other agencies to identify the impacts of its relocation on the Central Coast
- Liaising with other agencies that have undertaken – or are about to undertake - similar relocations to identify common issues including the Department of Local Government, the Superannuation Administration Authority and Police.
- Seeking to relocate as many staff as possible to maintain business continuity.
- Conducting studies on the availability of suitably trained people on the Central Coast.
- Inquiring about inter-agency staff transfers for Central Coast dwellers currently commuting to public sector bodies in Sydney or Newcastle.
- Initiating studies on the impact of its staffing profile on Gosford.

In addition, WorkCover believes that a good case study of its relocation may encourage private sector agencies with the same corporate profile (ie. not requiring direct client contact) to consider Gosford as a relocation site.

In part, the teething problems with the Gosford relocation are the product of the newness of the GAMC combined with the lack of a comprehensive regional relocation strategy.

According to WorkCover, the project is being progressed wholly from an office accommodation perspective rather than considering the full range of social impacts.

Whether this opinion is correct is to some extent irrelevant. The fact is that WorkCover is relocating its head office to Gosford and does not feel that it is being given enough support in managing the relocation.

It is the Committee's view that GAMC is the appropriate body to oversee agency relocation policy. However, it needs to take a broader perspective in assessing and implementing the policy.

The Committee is also concerned that there does not seem to be more support for agencies undertaking relocations. There needs to be dedicated funding to resource the policy. There also seems to be insufficient structure to the relocation process.

Clearly, there needs to be a coherent strategy for the relocation of government business units, particularly for regional relocation. Individual agencies also need a clear set of relocation guidelines including case studies and contacts with experience in relocation issues.

Accordingly, the Committee has framed a number of recommendations to address these points.

RECOMMENDATION 8

8.1 That Premier's Department in consultation with GAMC, the Department of Public Works and Services (and other relevant agencies) develop comprehensive relocation guidelines for agencies, to ensure the full range of whole-of-government issues are considered in any agency relocation proposals.

8.2 That a dedicated fund within Treasury for whole-of-government relocation projects be established.

8.3 That GAMC initiate an independent review (for example, by way of a performance audit) of its risk profile for whole-of-government projects for which it assumes responsibility from individual agencies.

4.4 The Role and Structure of DPWS

The relationship between WorkCover and the Department of Public Works and Services was critical in the relocation to Gosford. Certainly, WorkCover expressed some concerns with the role and structure of DPWS in this context.

This issue has been raised with the Committee by a number of agencies.

The Committee deals with the issue here.

The Committee has received evidence that the complex organisational structure of DPWS was responsible for some of the misunderstandings of WorkCover staff in relation to the relocation to Gosford.

Ms Garland highlighted the difficulties arising from dealing with different, discrete divisions of DPWS in relation to the relocation to Gosford.

DPWS was considered to be a complex organisation by Ms Garland. She had difficulty understanding which section of the organisation she was dealing with at any particular time. The limits of their roles and their knowledge of wider issues involving the relocation to Gosford was also unclear.

Ms Garland stated that she had been given advice from DPWS staff which, although correct in terms of where they were placed in the organisation and their individual responsibilities, had not reflected the wider responsibilities of DPWS for whole-of-government issues involving the GAMC. This meant that progress in some specific areas was halted when other units of DPWS became involved at a later stage. She now asked DPWS staff whether their advice mirrored departmental thinking, or was merely given from the perspective of a particular section of DPWS.

Ms Garland also stated that senior officers of the DPWS had “admitted it is not a very straightforward process.”

Questioned on why this was the case, Ms Garland said that when advice was offered by a certain DPWS unit, they perhaps were not aware of, or did not feel the need to draw her attention to, the need to consult the views of other DPWS units. That lead to progress being made in a certain direction only to be held up at a later stage.

Clearly, there has been much confusion between WorkCover and DPWS on this project. The Committee was advised that DPWS was appointing a project director to oversee future negotiations. This action is perhaps overdue given the problems in the relationship with WorkCover.

It should be noted that WorkCover had a very different story where straightforward property services were required, as noted in Case Study 2. On both the southern CBD and the Elizabeth Street projects, it was clear to WorkCover which DPWS staff were responsible for the various functions and they received excellent service and outcomes.

However, WorkCover was not the only agency to advise the Committee of problems it encountered with the structure of DPWS.

The Office of the Director of Public Prosecutions (see Case Study 5) described its confusion in dealing with the Department and argued that DPWS had a conflict of interest in acting commercially for two separate agencies.

Other agencies commented informally to the Committee on the sometimes confusing nature of DPWS.

In general, the problem appears to relate to the two separate functions for the department – its commercial role and its whole-of-government role. Some agencies have found themselves dealing with different sections of the department.

The Committee understands that DPWS is aware of and has been addressing this issue. The structure of DPWS has been the subject of independend review on a number of occasions since 1991. The current structure is the result of a review by Premier's Department in 1995. The department is currently implementing a realigned structure which clarifies its roles and the Chinese Wall arrangements between them.

Comment

The relocation of WorkCover's Head Office to Gosford was an initiative of the GAMC and has proceeded with the full support of WorkCover. The complex structure of DPWS is partly responsible for the level of difficulties in the WorkCover relocation.

DPWS was perceived by WorkCover as an organisation in which individual units did not communicate effectively.

In addition, there is a perception of conflict of interest when one section of DPWS provides secretariat services to the GAMC then another section of DPWS gains commercial services through this body.

DPWS argued that 'chinese walls' prevent conflicts of interest by demarcating individual DPWS units. However, this mechanism does not seem satisfactory especially when there is confusion and tension within organisations dealing with multiple units within DPWS. The department also told the Committee that it had nominated client service managers who regularly made contact with client agencies. It also carries out client satisfaction surveys.

The Committee is concerned with these criticisms. Even if DPWS is satisfied with its liaison with other agencies, there is obviously a perception for some that DPWS is a difficult organisation to understand and can be cumbersome and confusing to deal with on complex issues.

The merits of having a centralised, coordinating agency to overview office accommodation policies is clear and is supported by the Committee. However, any perception of a confused structure or potential conflict of interest must be eliminated

While a number of agencies expressed satisfaction in their dealings with DPWS (eg EPA and Local Government), the Committee is of the view that DPWS needs to address this matter. This is particularly relevant given that the Committee is recommending that DPWS's coordinating role be strengthened.

4.4.1 Recommendation

RECOMMENDATION 9

That the Department of Public Works and Services ensures that:

9.1 its commercial and whole-of-government roles remain clearly separate and that its staff and clients are fully appraised of the separate roles, and

9.2 clients be regularly updated on contact points and procedures in DPWS.

CHAPTER FIVE

Ownership versus Leasing

5.1 Introduction

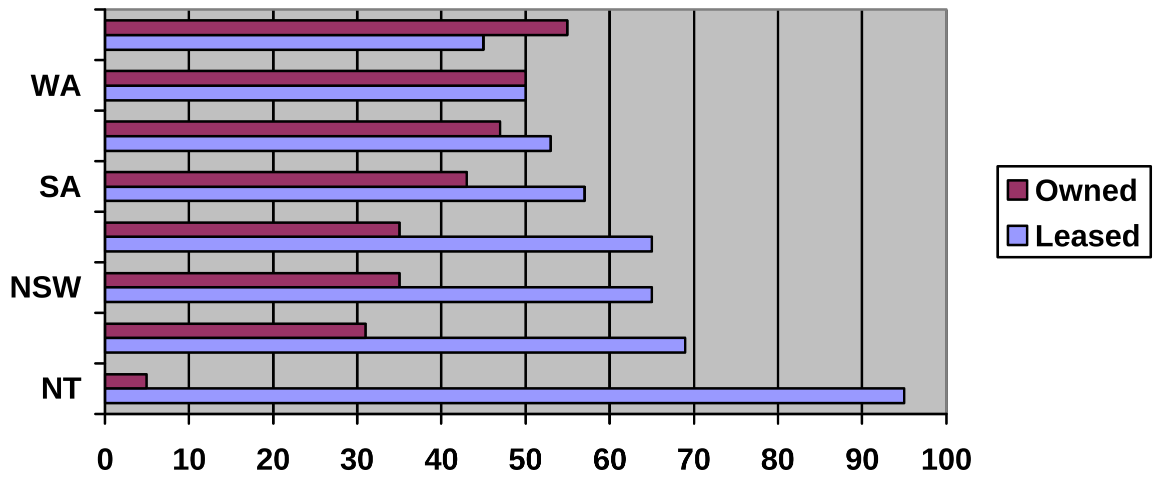
A major issue in developing office accommodation, particularly in non-metropolitan regions, is whether the Government should invest in the construction or purchase of buildings as an alternative to leasing accommodation for agencies.

Government owned facilities appear to deliver cheaper rents to agencies, especially in Sydney locations (eg. Attorney General, Corrective Services).

The Committee sought to establish whether buildings in Government ownership represent better value for money than rented premises.

The NSW Government manages $300 billion worth of public assets. Government-owned buildings account for 35% of office accommodation, down significantly from 50.1% in 1997 (*Performance Audit Report on Government Office Accommodation [December 1997]).* This represents a significant disposal of assets by the Government. Of the States and Territories, only Victoria and the Northern Territory have a lower rate of office accommodation ownership, as the following graph illustrates:

Owned v Leased Office Accommodation



5.2 Government Office Accommodation Reform Program

Recent reports suggest that a portfolio of government-owned buildings is best equipped to meet the long-term accommodation needs of government agencies. The *Government Office Accommodation Reform Program (1998)* document suggests, however, that a balanced portfolio of owned and leased premises will deliver the best long-term results.

The document recognises that it is essential to develop a government investment policy on whether office accommodation should be owned or leased, recognising competing demands for investment.

The policy should:
- be based on long-term strategies.
- be consistent with other Government objectives and initiatives
- fit into the Total Asset Management process.

The document states that rigorous financial appraisal, in accordance with NSW Treasury guidelines will, in future, underpin decisions to own or lease accommodation. The criteria will cover:
- service needs and objectives
- projected costs fir 10-15 years
- whole-of-life costs and benefits, including capital improvements and refurbishment
- cost of capital
- property market fluctuations
- return on investment.

The following table lists those NSW Government agencies which currently have office accommodation in government owned buildings.

State Owned Buildings — Tenancies Over 500 m^2

Agency	Location	Area (m^2)	Staff/ Space (m^2 per person)	CPP Bldg ?
Attorney General's	Heritage Building (60-70 Elizabeth)	3357	18.65	No
Attorney General's	Goodsell (8-12 Chifley Sq)	11498.6	19.68	Yes
AG's Compensatn Court	Newcastle (NPC Bldg)	770	16.43	No
DOCS	Orange	938	21.63	Yes
Corrective Services	Cutler House (Campbell St)	7261.6	19.47	No
DET	Bathurst	1644.9	17.03	Yes
DET	Blacktown	3359.1	13.02	Yes
DET	Dubbo	512.4	14.53	Yes
DET	Newcastle	2363.4	25.13	Yes
DET	Bridge Street	11082.7	20.47	Yes
DET	Wagga	514.4	13.99	Yes
DET	Wollongong (Crown St)	2376	20.44	Yes
Juvenile Justice	Roden Cutler	2373.42	21.00	No
DLWC	Albury	661.7	18.02	Yes

DLWC	Goulburn	908	22.52	Yes
DLWC	Grafton	2209.2	22.09	Yes
DLWC	Wagga	790	15.43	Yes
DLWC	Wollongong (Crown St)	1196.3	15.31	Yes
Mineral Resources	Singleton	625	18.38	No
DPWS	Bathurst	595.7	17.96	Yes
DPWS	Newcastle	2062.67	21.21	Yes
DPWS	Sydney (Bligh House)	920.94	13.16	Yes
DUAP	Grafton	516.9	29.10	Yes
EPA	Newcastle	745.1	23.10	Yes
EPA	Wollongong (Crown St)	560.5	27.32	Yes
Harness Racing NSW	Bankstown	904	?	No
Ministry for Ed & Training	Sydney (Bridge St)	627.1	29.95	Yes
NPWS	Armidale	642.43	29.16	Yes
NPWS	Grafton	722.8	25.77	Yes
NSW Agriculture	Dubbo	950.4	29.33	Yes
NSW Agriculture	Goulburn	609	24.40	Yes
NSW Agriculture	Gunnedah	603.2	35.11	Yes
NSW Fisheries	Pyrmont (Fish Market)	1700	37.78	No
Police Service	Sydney (132 George)	1156	9.32	No
Police Service	Wagga	1137	11.44	Yes
NSW Waterways Authority	Sydney (Maritime Trade)	1096	274.0	No
Parliamentary Counsel's Office	Sydney (Goodsell)	983.4	19.21	Yes
Premier's Department	Sydney (Chief Secretary)	634	35.80	Yes
RSA	Homebush Bay	1550	34.44	No
State Electoral Office	Sydney (Maritime Trade)	1031	23.98	No
SES	Wollongong (Regent St)	989	17.27	No
State Records Authority	Sydney (Harrington St)	1710	10.19	Yes
Sydney Port Corporation	Sydney (Maritime Trade)	2591	25.40	No
Sydney Water	Blacktown	1234.9	?	Yes

No fewer than six Sydney CBD leases come in at under $300/m^2 pa — some at under $250/m^2 pa — representing a very competitive rental rate.

In the Hunter, too, rents on government-owned accommodation are significantly lower than on leased premises. The average rent on office accommodation (for tenancies above 500m^2) paid by agencies in the Newcastle region is $241/m^2 pa. The average for rents on government-owned offices is $188/m^2 pa, a saving of more than $50/m^2 pa.

The Committee notes that the State Government does not own any office buildings (leased to agencies) in Parramatta. Considering Parramatta's status as the second largest economic centre in the Sydney metropolitan area — one where large numbers of agencies and their staff are very likely to remain established for as long there is a NSW Government — this is somewhat surprising, though presumably the Government has given consideration to building or purchasing accommodation there.

5.3 Findings of Performance Audit Report on Government Office Accommodation

In a *Performance Audit Report on Government Office Accommodation (December 1997)*, the Auditor-General examined the cost effectiveness of long-term leasing versus ownership and the housing of agencies involved with the delivery of core government activities.

The report provides a succinct list of the merits or otherwise of leasing commercial property:

Advantages of leasing include:
- Maintenance of capital and credit lines and enhanced control or cashflows.
- Taxation advantages.
- Removal of the risks associated with ownership including poor asset performance, obsolescence, space limitation of current building, loss on disposal etc.
- Flexibility of office space provision where supply is adequate.
- Considerable purchasing power for lessees of large areas subject to timing and market conditions.

The disadvantages of leasing include:
- Exposure to market and rent fluctuations.
- Lost opportunity for capital gain through ownership.
- Loss of control over accommodation requirements.
- Inability to tailor accommodation to the specific needs of each agency.
- Higher accommodation costs flowing from high-cost, private sector financing arrangements, subject to timing factors and market fluctuations. (pp. 21-22)

The Auditor-General noted that most research on the issue indicates that it is generally more cost effective to own than to lease office accommodation. As the Committee has noted elsewhere in this report, it is not simply a matter of dollars; it is important to factor into the equation other factors such as government policy on decentralisation and social and economic development.

The Auditor-Genaral's report in part examined three long-term leases entered into by various administrations over the last 20 years. The case studies showed that the Government will have effectively paid for the cost of land and construction of each of the buildings over the life of the lease. In two of those case studies, the Government, despite being a tenant, nevertheless bears the risk and costs associated with ownership.

The report noted that in all three cases, the decision to lease rather than own represents relatively poor economy for the Government.

The Auditor-General said there was a sound argument that the functions of the Premier's Department, Treasury and Cabinet Office were core or essential to an efficient and effective Government. That being the case,

> "It is not clear why core functions of the Premier's Department, Treasury and Cabinet Office are housed on a short-term basis.
>
> The Audit Office is of the view that there are strong and persuasive economic arguments for housing these activities in Government-owned offices." (p.3)

The Committee notes that the Government is currently giving consideration to constructing a purpose-built building on the site of the disused law courts building in Hospital Road, opposite the Domain, to accommodate Premier's Department, Treasury and Cabinet Office staff. The site, which is a few hundred metres from Parliament House, meets the need, noted in the Auditor General's report, to be in close proximity to key clients, namely the Parliament, Ministers, and Executive are of Government.

The Committee supports the construction of that building.

More generally, the Auditor General recommended that the Government consider owning office accommodation for its long-term lease needs, subject to a case-by-case analysis of the relevant financial and non-financial factors.

In answer to a Question on Notice from the Committee, DPWS said that this recommendation was consistent with management principles adopted as part of the Government's accommodation reforms. DPWS is currently developing a policy in conjunction with Treasury on *Procurement Options and Financing Vehicles* which will enable a consistent whole-of-government approach to own versus lease decisions.

5.4 Relocation and ownership

Collocating agencies to form 'clusters' makes the construction or purchase of State-owned buildings a viable alternative to leasing premises. In any case, few agencies are large enough to warrant their own building, particularly in areas outside Sydney.

As well as being less cost effective than clusters — whether operating under a head lease or occupying a government-owned building — leaving agencies to operate more or less in isolation can have detrimental effects on productivity, as was explained to the Committee at the public hearings.

Mr Dick Persson, Director-General of the DPWS, told the Committee in evidence that, when plans were made for the Department of Housing to relocate to Liverpool, the Department had intended to construct its own building there and to persuade other agencies to collocate with it.

Because that plan was in a well-advanced stage when the Government changed its policy to concentrate on Parramatta, the Department of Housing's head office was left isolated in Liverpool.

Mr Persson's personal view was that the original State-owned building with multiple tenants would have been a better solution. The considerable travel to and from Liverpool to service the Minister in the city and central agencies meant the effectivenesss of senior management of the Department of Housing has been "dramatically reduced".

It should also be noted that the Government has started to move in this direction. Both WorkCover in Gosford and Local Government in Nowra are to be housed in purpose built, government owned accommodation. This is in addition to consideration being given to accommodating the three central agencies (Premier's, Treasury and Cabinet Office) in government owned accommodation in the vicinity of Parliament House, as mentioned above.

Comment

In principle, the merits of owning rather than leasing accommodation apply to office buildings in the same way they apply to domestic buildings: the large up-front costs associated with ownership can be offset by savings made in high recurrent rental fees.

Of course, those savings will only be made over the long term. Given that government agencies will always remain 'in business', the Committee sees no reason why, where ownership can be shown to lead to savings, the Government should not construct or buy suitable buildings for the use of its agencies.

While the Committee is in favour of a growth in ownership, it is well aware that ownership will not always be the best alternative. Decisions on whether to lease or own should be made on a case-by-case basis.

The Committee stresses the importance of collocating agencies to form clusters so as to make the construction or purchase of suitable office buildings a viable alternative to leasing accommodation.

5.5 Recommendation

RECOMMENDATION 10
That GAMC evaluate the merits of ownership of accommodation, as opposed to leasing, particularly where the Government has a significant or long-term presence.

CHAPTER SIX

Database Analysis

6.1 Introduction

The Committee concludes this report on office accommodation management with a look at the current performance of agencies by means of the DPWS office accommodation database.

6.2 Lease Management Performance - Tenancies Above 500 m^2

The Committee has analysed the material in the database for leases above 500 m^2, drawing conclusions and making recommendations. The results of this analysis and consequent recommendations are detailed below.

As a benchmark for information which is set out in the subsequent sections, the following base data on accommodation is provided (1998 figures)

	Overall	Sydney CBD	Sydney Metropolitan (excludes CBD)	Non Metropolitan
space gross rent ($ per m^2)	**282**	**333**	**268**	**199**
staff area (m^2 per person)	**20.65**	**20.70**	**19.41**	**23.15**
staff gross rent ($ per employee)	**5,813**	**6,885**	**5,205**	**4,599**

[Source: DPWS :Office Accommodation Survey – A Snapshot 1998]

The Committee is very mindful of the commercial-in-confidence nature of the information on the database and has presented the material below in such a way as to ensure, where possible, confidential aspects of the material. However, there are examples which the Committee felt justified disclosure.

6.3 Reductions in Average Office Space

As described in Chapter Two, one of the major planks of the Office Accommodation Reform Program has been the reduction in the size of office space. The reduction in utilised space leads directly to a reduction in accommodation costs. In some ways it is a better benchmark of the effectiveness of the implementation of the policy. While rents can actually increase due to market pressures, the reduction in utilised space can be measured without ambiguity.

As mentioned in Chapter Two, the removal of central control and on-going centralised review of office accommodation holdings in the 1980s, as part of “letting the managers manage” policy, resulted in a significant blow-out in space to 24.5 m^2 per employee.

The Director-General of the DPWS, Mr Persson, explained the reasons for this blow-out:

> … not that long ago, there was a totally decentralised decision-making model. It was part of "let the managers manage" philosophy… In that time we saw the accommodation per square metreage go from around 20 to 24.5 (m^2 per employee). (T1, 7)

A key component in the Office Accommodation Reform Program has been the objective of a reduction in average office space firstly to 18 m^2 per employee and now to 15 m^2 per employee.

Obviously, there are significant costs attached to the long term leasing of unnecessary office space.

For example, a hypothetical office space in the Southern Sydney CBD for 100 employees at
\$300 m^2 per annum will cost \$600,000 each year at 20 m^2 per person. If the space utilisation rate is reduced to15 m^2 per person, it will cost \$450,000 each year, a saving of one quarter of a million dollars per year.

Given current staff-space ratios of around 20 m^2 per person across the public sector, savings of up to 25 per cent in floor space utilisation are feasible. Based on 1998 across-the-state averages this would represent savings in the order of \$60 million per annum. (This figure can only be very approximate as the ultimate saving would depend on location of the space reduction.)

The NSW Government has tapped this potential area of savings in the Office Accommodation Reform Program by developing a policy framework based on phased reduction in space utilisation rates with central oversight of performance by the GAMC.

Strategy 9 of the Office Accommodation Reform Program states:

> The Government wants to maximise savings from applying its space utilisation target of an average of 18 m^2 per person… To achieve this target, new accommodation will need to be designed at 15 m^2 per person, subject to business functional requirements.

The Committee heard that average office space had been reduced significantly in recent years as a result of the new policy:

> **Mr SMITHIES:** Our latest review of the performance of the portfolio has indicated that we are down at about 19.5 square metres per person. … At the moment we have reduced accommodation costs by about \$960 per person

> per annum and I might say that that is in the face of a rising accommodation market… (T1, 3)

The Committee requested information on the office accommodation holdings above 500 m^2 of all government agencies through its submission and survey process. This data indicates that significant progress has been made on reducing space utilisation rates.

There exist still, however, instances where staff-space ratios remain well above $20m^2$ per person, particularly in non-metropolitan regions and Western Sydney. A significant proportion of these facilities are government-owned or subject to long term leases.

The Committee believes that higher than average staff-space ratios are justifiable in such areas because of the importance of maintaining government services and assisting economic development.

However, the full utilisation of large office accommodation space should be maximised. Where sites are subject to long leases or government ownership, they should become priority sites for relocation. This concept underpins the analysis in the following sub-sections.

6.3.1 Staff/space ratios in current leases

The Committee examined office accommodation holdings to determine staff-space ratios for current leases and developed a list of under-performing leases and agencies. The following criteria were used to construct the table:

- Individual leases substantially above government policy of 15-18 m^2
- Space over $1000m^2$ (in smaller spaces, staff fluctuations have a large impact on ratios)
- Mainly Sydney CBD
- Agency where all/most leases are above $20m^2$
- Regions: larger space ratios in general (same for West Sydney).

The Committee was particularly interested in high staff-space ratios for:

- Long term leases, where relocations could become a priority
- Leases near or at expiry, where relocation or consolidation becomes an option.

Obviously, some of the office accommodation holdings in this list may not lend themselves to the type of reconfiguration necessary to improve staff-space ratios or some agencies may be in the process of occupation or departure.

Agency	Location	Area (m^2)	M^2 per person	Lease expiry
Attorney General	Sydney (Goodsell)	11,498	19.68	Owned
	Sydney (Eliz St)	1,602	20.03	4/02
Cabinet Office	GMT	2,736	21.97	12/06
Conservatorium	Sydney (Pitt St)	4,425	79.02	8/00
DET	Ashfield	1,071	66.94	CPP
	Bankstown	1,432.7	19.10	CPP
	Blacktown	3,359.1	13..02	2/07
	Gosford	521	17.37	6/00
	Newcastle	2,363	25.13	Owned
(signed 2000)	Parramatta	543	108.60	1/02
	Tamworth	2,656	80.51	6/2017
Fair Trading	Bankstown	773	25.79	8/00
	Bathurst	839	27.97	8/04
	Newcastle	995	34.38	6/03
	Newcastle	630	23.75	1/01
	Parramatta	6,874	22.25	5/03 –CPP
	Penrith	850	25.29	2/03
	Sydney (Castlereagh)	6,140	22.38	12/02
	Sydney (Aetna)	3,085	36.30	12/04
	Sydney (Sussex st.)	3,567	14.33	6/02
Housing	Parramatta	2,720	23.86	6/01
	Sydney (Parkview)	2,106	20.65	12/02
Industrial Relations	Darlinghurst	6,108	25.24	6/06 ?
	Sydney (Market St)	1,013	22.73	12/02
DLWC	Parramatta	13,489 (608 stf)	22.19	6/06 -CPP
	Parramatta	1,849 (90 stf)	20.54	5/02 –CPP
Mineral Resources	St Leonards	8,800	29.83	1/00
DPWS	GMT	2,534	26.28	12/06
	McKell	25,592	20.56	6/06
SRD	Newcastle	816	31.38	8/97
	Parramatta	630.5	48.50	8/01
DUAP	Grafton	516.9	29.10	Owned
	Newcastle	510	26.84	8/97
	Parramatta	1189	26.42	5/04
	Sydney (GMT)	6,277	25.93	12/06
DITM (Val-Gen)	Sydney (AmEx)	1,235	30.13	5/00
EOPM	Sydney (Margaret St)	1,190	31.32	12/00
HCCC	Surry Hills	1,516	23.69	10/00
Judicial Commission	Sydney (George St)	1,028	36.71	10/00
Waterways Authority	Sydney (Kent St)	1,096 (4 staff)	274.00	12/00
	Carrington	606 (9 staff)	67.43	4/09
Office Protect. Cms	Sydney (Castlereagh)	6,230	20.23	9/04
PIC	Sydney (St James)	2,625	29.17	7/02
RTA	Darlinghurst	1,304	32.62	11/99
	Tamworth	1,962	63.30	6/17
State Electoral Office	Sydney (Kent St)	1,031	23.98	3/06 owned
SEDA	Sydney (KPMG)	698	22.53	6/01
Treasury	GMT	4,884	24.64	12/06

Comment

There is obviously still some way to go to achieve the government's space utilisation targets.

From the data, the Committee has identified the following underutilised office accommodation sites.

In identifying these sites the Committee acknowledges that there may be particular circumstances and reasons which justify the current utilisation levels in some situations. Such circumstances are not apparent from the database material.

In fact, DPWS has advised that in a number of circumstances (see below) operational areas such as servcie centres and recital rooms, which are not subject to the Office Accommodation Reform Program, are located within office accommodation. This would explain some anamolies. However, it also indicates areas where the DPWS database can be refined. Other factors which may have impact on the data agencies in temporary accommodation and the shortage of adequate accommodation, particularly in regional centres.

Obviously, underutilisation is not a matter of employing more staff. Achieving the accommodation reform targets is a complex process which requires strategic planning to ensure that optimal staff numbers to deliver services are accommodated in appropriate offices in appropriate locations. Availability of office accommodation is a factor here.

This list is provided as a priority for the attention of the Government through the Government Asset Management Committee for action.

The Committee has made an indicative estimate of the potential savings per annum in these case studies.

The Committee also appreciates that the problems have been identified and strategies are being developed to address them. However, it still feels that it is appropriate to comment on the issues as it found them. It did seek a response from DPWS on the particular cases and the department's response is noted in italics.

DET and RTA accommodation in long term lease at Tamworth to 2017
This space currently accommodates 64 staff of both agencies at 72.25 m^2 per person. It could hold up to 256 staff under the NSW Government target of 18 m^2 per person. As the NSW Government is committed to paying rent on this premises to 2017, better utilisation of this space is essential. The GAMC should consider relocation of government business units to the Tamworth premises as a priority.

<u>Estimated savings $430,000 (see page 87)</u>

The Committee is advised that substantial portions of the site are being sublet to DLWC and DoCS.

Department of Mineral Resources

This large site is under-utilised and the lease has expired. The Committee believes that the GAMC should review the Strategic Office Accommodation Plan of this agency to determine its future intentions.

<u>Estimate savings $1.4 million</u> (relocate to cheaper area and reduce office space)

The Department is subletting almost 2000m^2 and is working to surrender this and other surplus areas.

Department of State and Regional Development

DSRD has utilisation rates above 20m^2 per member of staff. That situation should be rectified. The agency has a small holding in Parramatta, which is currently used by approximately 13 staff. It has capacity for up to 35 staff. Prior to lease expiry in August 2001, the DSRD should put a business case to the GAMC to justify retaining an office in Parramatta.

<u>Estimated savings $250,000</u> (optimising space in Newcastle and Parramatta)

The agency requires larger than normal promotional display areas and space for small development groups (which do not show up in the space utilisation ratio).

The Department of Urban Affairs and Planning

DUAP has utilisation rates above 20m^2 per member of staff across the agency. That situation should be rectified. The agency has five separate leases above 500 m^2 with staff-space ratios well above the government target of 18 m^2 per person. One of these premises is GMT, which is currently being reviewed by the GAMC with DUAP committed to relocation. As part of that review, the GAMC should examine the Strategic Office Accommodation Plan of DUAP to determine whether consolidation is feasible.

<u>Estimated savings $307,000</u> (consolidate sites)

DUAP is consolidating and rationalising space in its planned relocation to the CBD South.

Waterways Authority

This agency has two sites which represent the worst staff-space ratios in the State, with four staff in the Maritime Trade Tower occupying no less than 1096

m^2— 15 times more than the 18 m^2 desired by the Government. Since that lease expires in December 2000, the GAMC should review the office accommodation strategy of this agency as a matter of urgency.

<u>Estimated savings $365,000</u> (relocate)

The information supplied for the database was incomplete, distorting the picture. The agency is, however, implementing a strategy that will see all staff vacate this building and consolidate in other Waterway's property.

State Rail Authority

The SRA site Harbourpark House in Newcastle has a utilisation rate of 257 m^2 per employee, making it the second highest in the database. The lease expires in February 2001.

<u>Esimated savings $260,000</u> (relocate/optimise)

The high utilisation rate is the result of a restructure. The SRA has been trying to sublet since the accommodation became vacant.

Other Agencies

The Committee has identified five examples of serious under-utilisation of space by smaller agencies. Significantly, all five agencies are located in the Sydney CBD, where rents are highest in NSW. It is noted that three agencies are Commissions (Health Care Complaints Commission, Judicial Commission, and Police Integrity Commission). In its section on single tenancy agencies (see next chapter), the Committee has noted the overall high cost of accommodation for such agencies.

The poor utilisation rate for the Commissions reflects that hearing rooms (ie operational accommodation) has been included in the database survey.

The other two agencies are:

Department of Public Works and Services

DPWS has 97 staff in the GMT. The department's head office, the McKell Building in the southern CBD, has 1245 staff but can accommodate 1706 staff. Staff in GMT should therefore relocate to the McKell Building.

These staff belong to the Central Corporate Services Unit and the Government Printing Services, delivering services to Ministers and agencies in GMT. Some will relocate to Bligh House as part of the overall CBD accommodation strategy.

Department of Education and Training:
In Parramatta, DET has two sites in the same street. Twenty-nine staff occupy space at 16-18 Wentworth Street which can accommodate 42 staff. Yet just this year the department saw fit to sign a lease on space at 23 Wentworth Street to accommodate five staff at a ratio of 108.6 m^2 per person. While the Committee notes that this result is at odds with good achievements in other centres, the GAMC should review the office accommodation strategy of this agency at Parramatta as a matter of urgency.

Both sites contain operational accommodation used for industry training.

There are substantial government facilities in non-metropolitan NSW and Western Sydney which are being under-utilised. Where these sites are subject to long leases or government ownership, they should become priority sites for relocations. Smaller agencies in the Sydney CBD should be targeted for collocation in existing leases.

6.3.2 Staff/space ratios in recent leases

The Committee has examined 53 leases signed in 1999 to determine their general compliance with NSW Government policy on staff-space ratios for office accommodation. Many of these leases pertain to existing premises including some short term leases undertaken as part of a relocation process. Other leases relate to major relocations (eg. EPA).

A breakdown of the data on 53 leases signed in 1999 indicates that agencies are generally meeting the government target of 15-18 m^2 per person. However, there are some exceptions.

The Committee has developed a list of 22 leases which are well in excess of the government target of 15-18 m^2 per person.

Agency	**Location**	**Area (m^2)**	**Staff Nos.**	**Staff/ Space (m^2 per person)**	**Lease Length (mths)**
Attorney General (Reporting Services Branch)	Sydney (Xerox Hse)	813	26	31.31	27
Community Services Commission	Surry Hills	770.66	36	21.41	36
DOCS	Blacktown Shellharbour	1,742 679	75 29	24.19 23.41	96 5
Corrective Services (Probation & Parole Service)	Penrith	600	18	33.33	59
DET	Albury Parramatta	610 543	26 5	23.46 108.6	36 24

Fair Trading	Bathurst Wollongong	839 866	30 30	27.97 28.25	60 72
Housing	Fairfield Sydney (Castlereagh)	950 6,108.2	35 242	27.14 25.24	60 60
DLWC	Buronga Parramatta	904.77 1,849	10 90	21.04 20.54	120 36
Mineral Resources	Cardiff	625	13	48.08	6
DUAP	Parramatta	1,189	45	26.42	60
NSW Agriculture	Sydney (Parkview)	702	27	26.08	24
NSW Film and TV Office	Sydney (Parkview)	702	30	23.40	60
NSW Fire Brigades	Sydney (Aetna)	3,104.4	153	20.29	36
NSW Waterways Authority	Carrington	606.9	9	67.43	120
Office of Community Housing	Parramatta	843	30	28.10	25
ORTA	Glebe	529.3	13	40.72	30
State Forests of NSW	Taree	666	20	33.3	48

The Committee has drawn the following conclusions from this data:

The premises in the above table are not fully staffed in accordance with the NSW Government Office Accommodation Reform Program. The GAMC should examine these leases to ensure that the proper office accommodation planning procedures were completed and that, where applicable, these premises will be fully occupied by agencies in due course.

Some examples of under-utilisation of office accommodation by government agencies have occurred in areas where agencies have multiple lease holdings.

This raises the option of consolidating leases to meet the government target of 18 m^2 per person.

The Committee has completed preliminary analysis which identifies a number of potential duplications which should be further examined by the GAMC. These examples are contained in the following table.

Agency	**Location**	**Area**	**M^2 per person**	**Approx Staff Nos**	**Potential Staff Nos (at 18 m^2)**	**Lease Expiry**
Fair Trading	Newcastle	995	34.38	29	55	6/03
	Newcastle	630	23.75	18	35	1/01
	Sydney (Castlereagh)	6,140	22.38	274	341	12/02
	Sydney (Aetna)	3,085	36.30	85	171	12/04
	Sydney (Sussex St.)	3,567	14.33	249	-	6/02
DLWC	Parramatta	13,489	22.19	608	749	6/06 -CPP
	Parramatta	1,849	20.54	90	102	5/02 –CPP
Industrial Relations	Darlinghurst	6,108	25.24	242	339	6/06 ?
	Sydney (Market St)	1,013	22.73	44	56	12/02
DET	Sydney	946	21.02	45	52	9/03

	Sydney	11,082	20.47	541	615	owned
	Sydney	1,407.9	23.47	60	78	12/02 - CPP
	Sydney	2,000	20.00	100	111	1/01
	Darlinghurst	11,226	13.89	808	-	12/06 - CPP

The Committee has drawn the following conclusions from this data:

1 Department of Fair Trading – multiple leases in same area.

This agency is required to maintain office accommodation at major centres across NSW, which explains high staff-space ratios in certain locations. The Committee is concerned about:

- **Leases at three different Sydney CBD leases totalling 13,000m^2. These leases were negotiated in 1996, 1998 and 1999 to end in 2002, 2002 and 2004 respectively. This appears to represent a lack of alignment in office accommodation planning. The GAMC should review the Strategic Office Accommodation Plan of the Department of Fair Trading to determine if options exist for lease consolidation.**
- **Leases at two sites in Newcastle. The GAMC should review this situation to determine whether consolidation into one site is possible upon expiry of the smaller lease in January 2001.**

Estimated savings Newcastle $200,000 (collocation)
Estimated savings Sydney CBD $1 million (collocation)

Fair Trading is a relatively new agency formed from the amalgamation of a number of other agencies. Its current accommodation portfolio reflects this. Rationalisation will occur but it will take time.

2 The Department of Land and Water Conservation – Second lease in Parramatta.

This agency took out a new lease on 2,000 m^2 office space in Parramatta in May 1999 (currently used by 90 staff). The agency already held 13,489 m^2 office space in Parramatta for 608 staff. This space could hold up to 750 staff at 18 m^2 per person. The GAMC should review whether there was sufficient utilisable space in the original premises and examine the process for determining that additional space was necessary.

Estimated savings $580,000 (collocation)

The new lease at Parramatta was a short term solution to an expensive fit out option. The agency has a longer term strategy to collocate in Parramatta.

3 Department of Industrial Relations – Consolidation of Premises.

This agency has two Sydney premises. The Darlinghurst site (currently 241 staff) could hold another 166 staff if the government target of 18 m^2 per person was applied. The Market Street premises has 45 staff with the lease to expire in 2002. The GAMC should consider whether these staff could be consolidated into the Darlinghurst premises.

<u>Estimated savings $487,000</u> (collocation)

There is some operational accommodation in both city locations. DPWS is assisting with plans to consolidate the Oxford St site.

4 Department of Education and Training – Consolidation of Premises.
This agency has thirteen premises in metropolitan Sydney including four separate sites in the Sydney CBD and one in nearby Darlinghurst. These sites are well utilised. However, the GAMC should review the Strategic Office Accommodation Plan of the DET to ensure that it is seeking to align leases and consolidate sites where possible.

<u>Esimated savings $500,000</u> (close one site and collocate)

The duplication in accommodation which occurred with the amalgamation of the two agencies is being rationalised and eliminated as lease restraints and funding permit.

6.4 Rental Costs

Having considered space utilisation issues, the Committee turned its attention to rental costs.

6.4.1 Comparative Costs of Major Centres – non-CBD Sydney

The Committee looked at costs of accommodation in regional metropolitan centres, excluding the Sydney CBD. The results are summarised in the table below. The table shows, for each region:

- the average rental (per square metre per annum),
- the range of the average rentals,
- the average cost per employee (per annum),
- and the range of the average employee cost.

	Space Gross Rent ($/m²)		Staff Gross Rent ($/employee)	
	Average	**Range**	**Average**	**Range**
Parramatta	308	c 220 to > 500	8,337	c 3,600 to > 35,000 (4 in excess of 10,000)
Penrith	264	c 120 to > 320	5,861	c 2,550 to < 10,000
Blacktown	239	$220-270	3784	2,300 –6,000

Liverpool	211	$180-300	3,785 (3,030 excluding Police)	2,200 to 7,000 (only one above 3,500)
Campbelltown	206	$135-290	3,827	2,213 to 5,649
Bankstown	277	$234-277	6,715 (5,722 excluding Local Govt)	3,943-11,681

The tables which follow rank the agencies in each region in descending order of performance. That is the smaller the ranking, the higher the cost.

Parramatta

	Cost per square metre		**Cost per employee**
1	SRA	1	DET (23 Wentworth St)
2	DOCS (adoptions)	2	SRD
3	Police	3	SRA
4	A-G – Compo Court	4	NPWS
5	DET (23 Wentworth St)	5	DOCS (adoptions)
6	NPWS	6	WorkCover
7	Corrective Services	7	Corrective Services
8	DUAP Landcom	8	Community Hsg
9	Aboriginal Hsg	9	Aboriginal Hsg
10	Fair Trading	10	DUAP
11	DLWC (Wentworth ST)	11	Fair Trading
12	DUAP	12	DLWC (Vanentine Ave)
13	Heritage Office	13	DET (16-18 Wentworth ST)
14	Community Hsg	14	DLWC (Wentworth ST)
15	EPA	15	Heritage Office
16	SRD	16	DUAP Landcom
17	DLWC (Vanentine Ave)	17	DOCS
18	DET (16-18 Wentworth ST)	18	FreightCorp
19	WorkCover	19	Housing
20	Treasury	20	DPP
21	DOCS	21	Police
22	DPP	22	Legal Aid
23	Legal Aid	23	Treasury
24	FreightCorp	24	EPA
25	Transport	25	Transport
26	Home Care	26	Home Care
27	Housing	27	

(It should be noted that police utilisation rate is calculated on the total number of police staff assigned to the office accommodation. This would, by definition, include a number of shifts. This obviously makes the Police Service utilisation rate compare very favourably with other

agencies.)

Penrith

Rank	Cost per square Metre	Rank	Cost per employee
1	Syd.Catchment Auth (311 High St)	1	Corrective Services
2	Fair Trading (518 High St)	2	DOCS (333 High St)
3	DOCS (333 High St)	3	Fair Trading (308 High St)
4	Syd.Catchment Auth (308 High St)	4	DPP
5	Corrective Services	5	Syd.Catchment Auth (311 High St)
6	Fair Trading (308 High St)	6	Syd.Catchment Auth (308 High St)
7	DPP	7	DOCS (329 – 331 High St)
8	Housing	8	Housing
9	DOCS (329 – 331 High St)	9	Fair Trading (518 High St)
10	A-G		

Liverpool

Rank	Cost per square Metre	Rank	Cost per employee
1	Police	1	Police
2	DOCS (Fairfield)	2	DOCS (Fairfield)
3	DET	3	Housing (Fairfield)
4	Fair Trading (Encumbrd Vehicles)	4	Housing (Liverpool)
5	Housing (Liverpool)	5	Fair Trading (Encumbrd Vehicles)
6	Housing (Fairfield)		

Blacktown

Rank	Cost per square Metre	Rank	Cost per employee
1	DET	1	DOCS
2	DOCS	2	DET
3	Police	3	RTA
4	RTA	4	Police
5	Sydney Water		

Campbelltown

Rank	Cost per square Metre	Rank	Cost per employee
1	Police	1	DPP
2	DOCS (Allman St)	2	DOCS (Allman St)
3	DPP	3	Police
4	DOCS (Queen St)	4	DOCS (Queen St)

Bankstown

Cost	Rent per square Metre	Rank	Cost per employee
1	DET	1	Local Government
1	Fair Trading	2	Fair Trading
1	Local Government	3	DOCS
1	DPWS	4	DET
2	DOCS	5	DPWS
3	Housing	6	Housing

Comment

Much of the focus of the metropolitan accommodation strategy has been on transfers to the Parramatta CBD. It may be that this is now forcing up rents in this areas. Certainly, recent deals are comparable with Sydney CBD South costs with annual gross rentals in the order of $314 to $343 per square metre.

It appears that long term deals in other centres in Western Sydney have delivered good outcomes. However, as with Parramatta, there are high staff/space ratios. Based on this information, the Committee recommends that these centres should become the focus for the next phase of relocations with priority on filling under-utilised spaces.

In this context it is worth noting that a recent report on population trends prepared by KPM reported that "Sydney will need another wave of these [Chatswood and Parramatta] sub-centres as its sheer scale increases. These places will provide office space and cultural focus…..". The report identified Blacktown, Liverpool and Bankstown as among these "'intervening centres' that will provide significant new employment, retail, entertainment and cultural opportunities". [SMH 6/5/2000 p41]

Other points to note are:

- **The Police Service arrangements in Campbelltown, Liverpool and Parramatta are not as good as those gained by other agencies.**

- **Sydney Water in Blacktown does not appear to be paying a market rental in a government owned facility. The Committee does not see why State Owned Corporations do not pay a market rent to the government.**

- **The Sydney Catchment Authority operates two small, expensive sites in Penrith. This is inefficient and they should be consolidated into a cheaper site.**

The Committee has carried out a similar analysis for non –metropolitan NSW. The results are summarised below

6.4.2 Comparative Costs of Major Centres –non-metropolitan NSW

Summary

	Space Gross Rent ($/m^2)		Staff Gross Rent ($/employee)	
	Average	Range	Average	Range
Hunter	**227**	110 to 380	**8,000 - 5,223 (excluding SRA)**	**2,500 to >66,000**
Illawarra	**245**	**125 to 315**	**5154**	**1,500 to 7,350**
Tamworth	**278**		**20,046**	**17,680 – 22,412**
Orange	**299**	**169-428**	**4,600**	**2,407 – 6796**

Hunter

Rank	Agency	Rank	Agency
1	A-G Indust Comm	1	SRA
2	SRD – Wharf Rd	2	SRD – Wharf Rd
3	Fair Trading (Wharf Rd Newc)	3	NPWS Mus'brook
4	A-G Compo Court	4	Min. Res - C'diff
5	DLWC Hunter St Newcastle	5	Fair Trading (Wharf Rd Newc)
6	DUAP - Wharf Rd	6	RSA
7	DPP	7	DUAP - Wharf Rd
8	RSA	8	DLWC Hunter St Newcastle
9	RTA	9	DPP
10	SRA	10	Fair Trading (Scott St Newc)
11	DOCS (Charlestwn)	11	A-G Compo Court
	DOCS (Maitland)		DOCS (Maitland)
13	NPWS Mus'brook	13	DLWC Muswellbrk
14	DLWC N/castle West	14	WorkCover
15	WorkCover	15	EPA
16	DPWS	16	DPWS
17	DLWC Muswellbrk	17	DOCS (Charlestwn)
18	EPA	18	DET
19	Min. Res - C'diff	19	RTA
20	DET	20	DLWC N/castle West
21	Fair Trading (Scott St Newc)	21	Juv.Just (B/meadow)
22	Min Res - Singleton	22	DOCS (Newcastle)
23	DOCS (Newcastle)	23	Min Res - Singleton

TOTAL AREA	22,187.4

Illawarra

Rank	Agency	Rank	Agency
1	DOCS (Shellharbour)	1	DOCS (Shellharbour)
2	Fair Trading (Market St)	2	EPA
3	DET	3	Fair Trading (Burelli St)
4	SES	4	Fair Trading (Market St)
5	EPA	5	DET
6	A-G Compo Court	6	SES
7	DLWC	7	DLWC
8	Fair Trading (Burelli St)	8	DPWS
9	DPWS	9	DOCS (W'gong)
10	DOCS (W'gong)		

TOTAL AREA	10,223

Tamworth

Agency	Size	Cost ($ per m^2)	Cost per employee	Other
DET	2,656.8	278 (33 staff)	17,680	80.51 m^2 per staff – 25 yrs - 2017
RTA	1,962	279 (31 staff)	22,412	63.30 m^2 per staff - 25 yrs -2017

Orange

Agency	Size	Cost ($ per m^2)	Cost per employee	Other
Agriculture	6,740	428	6,796	15.86 m^2 per staff – 19 yrs to 2020
DLWC	659	169	2,407	

Comment

A comparison of the Hunter and Illawarra regions shows that Hunter gets twice the amount of government office accommodation. This suggests that the Hunter might be receiving twice the economic stimulus as the Illawarra. Therefore, in assessing relocation options, the Illawarra should receive a higher priority than the Hunter.

Initially, the accommodation arrangements in Tamworth for the Department of Education and Training and the Roads Traffic Authority quite simply are bad deals. These spaces should become a priority sites for further agency relocations. For example, DET could fit 177 staff in its existing Tamworth accommodation space. Similarly the RTA could fit another 130 staff into its

accommodation. As was pointed out above, the issue is being addressed by subletting parts of the accommodation to other agencies.

On first inspection the Department of Agriculture arrangement in Orange deal is a bad, long term deal. While staff/space ratios are good (at 15.86 m^2 per person), the rental is in excess of $400 per square metre per annum. This is more expensive than most of the Sydney CBD.

However, there are other factors to consider. The location of the Department in Orange was part of a policy of regional relocation by the previous government. The circumstances necessitated a purpose built office accommodation. So the rental costs need to be balanced against other policy objectives. This process (that is economic/social cost-benefit) should be transparent and should be a central role for GAMC as part of a comprehensive relocation strategy and policy.

These comments are valid also for the Rural Assistance Authority.

6.4.3 Recent Leases

Given that the Office Accommodation reforms have aimed to drive costs down, the Committee has reviewed relatively recent leases to see just what type of deals agencies have been achieving. It, therefore, examined leases signed in **1999** to determine their performance in relation to reducing office accommodation costs.

Agency	**Location**	**Rank**	**Staff/Space (m^2 per person)**	**Length of Lease (mths)**
State & Regional Dev	Sydney (Grosvenor)	1	17.55	64
RAC	Syd (Piccadilly)	2	19.00	69
State Transit Authority	North Sydney (Northpoint)	3	17.27	24
Health	North Sydney	4	16.06	120
DAD, Guardianship Tribunal	Balmain	5	17.01	48
RTA	Surry Hills	6	14.30	120
Office of the Minister for the Environment	Sydney (Sydney Plaza)	7		120
NSW Film and TV Off.	Sydney (Parkview)	8	23.40	60
NSW Police Service	Parramatta	9	14.04	61
Fair Trading	Sydney	10	14.33	40
NSW Agriculture	Sydney (Parkview)	11	26.08	24
NSW Fire Brigades	Sydney (Aetna)	12	20.29	36
DET	Parramatta	13	108.6	24
Sydney Catchment Authority	Penrith (Dan Allam)	14	19.62	60
DOCS	Epping	15	14.42	48
Motor Accidents Authority	Sydney (Macquarie St)	16	17.29	60

Aboriginal Housing	Parramatta	17	27.85	25
DLWC	Parramatta	18	20.54	36
DUAP	Parramatta	19	26.42	60
Heritage Office	Parramatta	20	18.95	36
Office of Community Housing	Parramatta	21	28.10	25
DOCS	Shellharbour	22	23.41	5
EPA	Parramatta	23	12.52	72
Electricity Transmission Authority	Sydney (Pacific Power)	24	12.39	72
Sydney Catchment Authority	Penrith (Dalma House)	25	15.75	60
Attorney General (Compensation Court)	Sydney (115 Pitt)	26	12.30	12
Corrective Services Probation & Parole Svc	Penrith	27	33.33	59
Office of the DPP	Newcastle	28	18.65	12
Housing	Sydney (Castlereagh)	29	25.24	60
Attorney General (Reporting Services Branch)	Sydney (Xerox House)	30	31.31	27
NSW Police Service	Kings Cross	31	9.00	120
RSA	Sydney Central	32	18.87	72
DOCS	Blacktown	33	24.19	96
Fair Trading	Wollongong	34	28.25	72
DOCS	Manly	35	18.41	18
DOT	Parramatta	36	15.70	60
ICAC	Redfern	37	17.48	72
RTA	Blacktown	38	14.96	60
EPA	Sydney (Sydney Plaza)	39	16.00	120
ORTA	Glebe	40	40.72	30
Home Care Service	Kotara	41	14.54	72
Community Svcs Com	Surry Hills	42	21.41	36
SRA	Sydney (Transport Hse)	43	29.17	12
Mineral Resources	Cardiff	44	48.08	6
Fair Trading	Bathurst	45	27.97	60
Mineral Resources	Singleton	46	18.38	36
NSW Lotteries	Lidcombe	47	10.34	36
Housing	Fairfield	48	27.14	60
DET	Albury	49	23.46	36
State Forests of NSW	Taree	50	33.3	48
DLWC	Buronga	51	21.04	120
NSW Waterways Auth	Carrington	52	67.43	120

Comment
While the average rental cost for agencies in this category is $272 (just above the overall state average). The range of rentals is from $44 per square metre to $637 per square metre and the median value is $290 per square metre.

Twenty four of the leases are in excess of $300 per square metre and some of these are in locations such as Parramatta, Penrith, Balmain and North Sydney. There is still room for improvement in these arrangements.
A number of examples in this table, such as general high rents in Parramatta, Governor Macquarie Tower and some leases in Penrith, are dealt with separately elsewhere in this report.

In addition, the Committee would like to point out that the State Transit Authority and the Department of Health in North Sydney and DOCS at Epping might well have achieved a better outcome.

On the positive side, the benefits of the policy are clearly seen in the new arrangements for agencies such as the Environmental Protection Agency.

6.4.4 Leases Expiring in 2000/01

It is important that upcoming leases are monitored closely to ensure that positive effects of accommodation cost recovery policy are achieved.

With this in mind, the Committee has listed the leases to be renewed in 2000 and 2001 in order to put the agencies on notice that they are under the microscope with regard to office accommodation policy.

The list is shown in Appendix 9.

6.4.5 Other Areas with Potential for Cost Reductions

The Committee has further identified a number of areas where cost savings can be made.

Police

The Committee compared rental costs for accommodation over 500 m^2 for the Police Service in three separate zones with those of other agencies:

- Sydney CBD and Surrounds
- Sydney Metropolitan
- NSW Regions.

The Committee has bundled the leases of other agencies into a form where the range of costs can be compared with the performance of the NSW Police Service.

Sydney CBD and Surrounds

Agency	Location	Cost (m^2)	Cost ($ per m^2)	M^2 per person
NSW Police Service	Darlinghurst	13,422	268	20.03
	Kings Cross	1,584.5	253	9.00

	Redfern	978	220.5	19.18
	Strawberry Hills	8,205		10.91
	Surry Hills	1,165.5		15.34
	Sydney (George St)	1156		9.32
	Sydney (Day St)	2,221.6		12.84
	Sydney (KPMG)	2,069		22.01
	Ultimo	1,359		13.19
	North Sydney	847	307	
	North Sydney	1,226	288	

Sydney Metropolitan Area

Agency	**Location**	**Area (m^2)**	**Cost (\$ per m^2)**
NSW Police Service	Parramatta	15,813.33	343
Agencies with Comparable Leases	Parramatta	6,000-8,500	240-314

Agency	**Location**	**Area (m^2)**	**Cost (\$ per m^2)**
NSW Police Service	Liverpool	574	296
Agencies with Comparable Leases	Liverpool	750-900	184-227

Agency	**Location**	**Area (m^2)**	**Cost (\$ per m^2)**
NSW Police Service	Blacktown	1,749	234
Agencies with Comparable Leases	Blacktown	1,250-1750	222-244

Agency	**Location**	**Area (m^2)**	**Cost (\$ per m^2)**
NSW Police Service	Campbelltown	3,004	288
Agencies with Comparable Leases	Campbelltown	900	135-225

Agency	**Location**	**Area (m^2)**	**Cost (\$ per m^2)**
NSW Police Service	Chatswood	568	252

Regional NSW

Agency	Location	Area (m^2)	Cost (\$ per m^2)
NSW Police Service	Wagga Wagga	1,137	225
Agencies with Comparable Leases	Wagga Wagga	500-800	212-224

Agency	Location	Area (m^2)	Cost (\$ per m^2)
NSW Police Service	Gosford	3,004	288
Agencies with Comparable Leases	Gosford	900	135-225

Market Street Accommodation
Three agencies, the Department of Eduction and Training, the Department of Industrial Relations, and the Rail Access Corporation, occupy offices in 55 Market St in the Sydney CBD. This is in the Midtown Sector. All three agencies are paying rentals above the average for this sector. Furthermore, in all three cases the accommodation is underutilised and each has at least one other site in the CBD. As all the leases are due to expire in 2002 consideration should be given to relocating to more cost effective locations. This might be better arranged by consolidating with other sites. As noted above, some action is underway to address the problems identified.

<u>Estimated savings $800,000</u> (relocating to more appropriate location and accommodation)

The example highlights that a number of agencies have more than one office location in the CBD. These small dispersed sites should be the focus of rationalisation and, where appropriate, relocation.

Governor Macquarie Tower Leases
The worst example which has come to the Committee's attention is the Governor Macquarie Tower site. The Committee acknowledges that GAMC is currently taking action on the problem but has decided to detail the matter as a salutary example.

Governor Macquarie Tower is situated on the corner of Phillip and Bent Streets in the CBD. It is a very prestigious location near the financial heart of the city. It follows that it is also very expensive, as the information below will testify.

The Committee has resolved to publish this information fully because it feels that it is important to show just what a bad commercial deal this has been compared with the many good deals which have produced considerable savings to the public purse.

GMT is not included in the list of Multiple Government Tenancies database because it operates under a Head Lease. The main agencies in GMT are:

Agency	Area (m^2)	M^2 per person	Cost per m^2	Cost per employee ($)
Premier's Dept	8,181.8	20.98	$608	12,756
DPWS	2,534.1	26.28	$576	15,161
DUAP	6,277.2	25.93	$514	13,348
Cabinet Office	2,736	21.97	$619	13,617
SRD	959.4	18.88	$605	11,422
Ministry for Arts	566.95	19.62	$753	14,678
OCA	1,188	23.85	$610	14,549
Treasury	4,884.2	24.64	$572	14,098

The average cost for office accommodation in this part of the CBD is $515 per square metre. In other parts of the city average rentals range from $280 per square metre to $440 per square metre.

Comment
The Committee has included these rental details here because of the nature of the costs to the Government. It is important to highlight what a bad deal GMT is for the Government. The Committee feels strongly that the GAMC program to relocate agencies out of the GMT should be ruthless.

Given that average prices in the southern CBD are in the vicinity of $280 per square metre, there seems little reason to maintain most of these agencies in this expensive location.

This case study is a glaring example of why the relocation policy was introduced. Costs in this part of Sydney are astronomical and it is hard to justify the location of many of these agencies in the GMT.

The Committee appreciates that the GAMC and DPWS is taking action on this matter. The Committee is at a loss as to why so many agencies are in this site. It certainly questions the need for most of these agencies to be located on such an expensive site, or for that matter even in the CBD. At the very least, the following agencies do not need to be located in the central CBD: DPWS, DUAP, SRD, Ministry for Arts, OCA. This is about 12,000 square metres of office space.

Those agencies which can justify remaining in the CBD should be

accommodated in more reasonably priced premises. This leaves Premier's, Treasury and Cabinet Office with almost 15,000 square metres.

6.5 Agency Relocations

In the light of this general discussion on relocation policy, the Committee has reviewed the DPWS database to identify agencies which might be usefully relocated, generally because of the nature of their business does not require them to be located in current inappropriate accommodation. (These are in addition to the agencies identified in chapters three and four above.)

6.5.1 Sydney CBD

The following agencies are located in the Sydney CBD. The Committee sees no obvious grounds for maintaining them in this area.

Equal Opportunity in Public Employment.
Located in a Sydney CBD site with 31.32 m^2 per person, well above the Government's desired staff/space ratio. Its lease expires in December 2000, making it a prime candidate for relocation to more suitable, and less costly, premises.

<u>Estimated savings $150,000</u> (relocation)

Police Integrity Commission.
St James Centre accommodation with 29.17 m^2 per person, and for which the rent is in excess of the market value. The lease, which expires in July 2002, should not be renewed.

<u>Estimated savings $320,000</u> (relocation)

State Electoral Office.
This is a small agency in a government owned facility in the Sydney CBD. With just 42 staff, this agency could be collocated with virtually any agency in the Sydney CBD which has an excessive staff/space ratio. The lease does not expire until 2006, which may be an impediment to its being relocated. However, consideration should be given to negotiating a way out of the lease (e.g. sub-letting) to facilitate a relocation.

<u>Estimated savings $174,000</u> (relocation)

State Records Authority.
The State Records Authority has an extremely good utilisation rate of 10 m^2 per person. However, the Committee questions why it needs to be located in the expensive Rocks area. The agency should be relocated to cheaper accommodation.

<u>Estimated savings $286,000</u> (relocation)

SEDA.
The lease on SEDA's accommodation KPMG building expires in June 2001. Given SEDA's functions, there is no reason for it to remain in expensive CBD accommodation. Rather, this agency should be relocated to Western Sydney.

Estimated savings $126,000 (relocation)

Department of Aboriginal Affairs.
This agency has a good timeframe to plan relocation. DAA's current lease expires in December 2002. The core business constituency of DAA is not located in the Sydney CBD. Options should be developed for DAA to relocate to non-metropolitan NSW when its current lease expires, particularly an existing long term government lease such as Tamworth, which the Committee estimates will save $120,000 in rental costs alone. Reduced staff/space ratios (currently 23.72 m^2) would increase total savings to almost $200,000 per year.

Further, the relocation of DAA to Tamworth would lower rental costs for both the DET and RTA at this site because the government is already paying for the site until 2017. For example, a sub-lease by the DET to DAA would reduce its accommodation holdings from 2,656.8 metres to around 1,800 metres. This would save DET approximately $230,000 per year.

The total saving to Government would therefore be around $430,000.

Department of Ageing and Disability.
This agency has a good timeframe to plan relocation. The current lease on almost 3,000 m^2 expires in May 2003.

The core business constituency of DAD is not located in the Sydney CBD. Options should be developed for DAD to relocate to Parramatta - in line with the Government Office Accommodation Reform Program – or to another Sydney metropolitan site.

Relocation to Parramatta would save approximately $60/$m^2$, or around $180,000 per year.

NSW Police Service
Concerns raised about the property services capacity of the NSW Police Service as a result of negotiations over the Avery Building lead the Committee to examine the quality of its leases across NSW.

The NSW Police Service is required to maintain services at major centres throughout the State.

However, the NSW Police Service is one of the most centralised agencies in NSW with over 90% of its office accommodation holdings (above 500 m^2) located in Sydney and over half in and around the Sydney CBD, which is the most expensive part of NSW. Its Sydney CBD and Surrounds holdings are spread across 11 different sites, ranging in size from 847 m^2 to over 13,000 m^2.

NSW Police Service – Office Accommodation Portfolio by Region

Location (sites above 500 m^2)	Area (m^2)	% of Total Area
Sydney CBD (11 sites)	34,233.6	54
Sydney Metropolitan (6 sites)	24,164.43	38
Regional NSW (3 sites)	5,278	8
Total (21 sites)	63,676.03	

Note: Sydney CBD includes North Sydney and East/South Sydney.

By comparison, other large agencies with responsibilities across NSW have a much more diversified office accommodation portfolio with a lot less Sydney CBD sites.

For example, The DET has over 25% of office accommodation in regional NSW. While its Sydney CBD holdings are over 50% of total accommodation, they are consolidated into 5 sites.

DET – Office Accommodation Portfolio by Region

Location	Area (m^2)	% of Total Area
Sydney CBD (5 sites)	26,662.6	52
Sydney Metropolitan (8 sites)	12,020.4	23
Regional NSW (10 sites)	13,309.4	25
Total (23 sites)	51,992.4	

Note: Sydney CBD includes North Sydney and East/South Sydney.

Likewise, DOCS has a much more diversified portfolio than the NSW Police Service.

DOCS – Office Accommodation Portfolio by Region

Location	Area (m^2)	% of Total Area
Sydney CBD (1 site)	684.4	2
Sydney Metropolitan (20 sites)	23,421.57	67
Regional NSW (15 sites)	11,055.81	31
Total (36 sites)	35,161.78	

Note: Sydney CBD includes North Sydney and East/South Sydney.

Fair Trading

Location	Area (m^2)	% of Total Area
Sydney CBD (3 sites)	12,793.4	48

Sydney Metropolitan (5 sites)	10,112.54	37
Regional NSW (5 sites)	3,830.3	15
Total (13 sites)	26,736.24	

Note: Sydney CBD includes North Sydney and East/South Sydney.

Comment
Obviously a significant proportion of the Police Service accommodation (representing operational accommodation) would be less than 500 square metres and, therefore, does not show up in the data supplied to the Committee. The analysis would not be so heavily skewed against the Police if this accommodation were included.

It is still fair to say, however, that the Police Service administration accommodation is focused extensively in Sydney and Parramatta.

The Committee appreciates that the a section is currently relocating to Maitland, a move applauded by the Committee. There is a strong case, in the view of the Committee, for the serious consideration of further administrative relocations.

6.5.2 Single Tenancy Agencies

There is a group of agencies with single tenancies whose accommodation requirements are managed through Premier's Memorandum 97-2 without preparing a Strategic Office Accommodation Plan.

The Committee examined the leases of the following agencies with single tenancies:

- Cancer Council of NSW
- Casino Control Authority
- Coal Compensation Board
- Community Service Commission
- Conservatorium of Music
- Crime Commission of NSW
- Film and Television Office, NSW
- Health Care Complaints Commission
- Independent Pricing and Regulatory Tribunal
- Office of Community Housing
- Police Integrity Commission
- State Records Authority

Without revealing details of individual holdings, the Committee found that:

- Six agencies have single tenancies below 1,000 m^2

- Three agencies have single tenancies in the range of 1,500 – 2,500 m^2
- Three agencies have single tenancies in the range of 4,000 m^2.

In total, the single tenancies of these agencies represent almost 23,000 m^2 of office space with total costs likely to be around $6.5 million each year.

Comment
The Committee's examination of the performance of these single tenancy agencies indicates that:

- **staff-space ratios are much higher than the government standard of 15-18 m^2 per person**
- **rental costs tend to be higher compared with other agencies in similar locations.**

This general mediocre performance in terms of office accommodation outcomes combined with their continuity as self-contained units makes them prime candidates for relocation, particularly to long term government leases in regional centres.

There is, therefore, considerable scope for single tenancy agencies to be relocated as their current leases expire.

The variety of sizes of these agencies means that individual solutions can be tailored to their needs and the availability of space on a case-by-case basis.

The Committee believes the these single tenancy agencies should be considered by the GAMC as priorities for relocation, particularly to long term government leases in regional centres.

<u>Estimated savings $3 million </u>(based on relocation)

6.5 Conclusion

The analysis above shows that, while there is a steady reduction in accommodation costs as the government's Office Accommodation Reform Program takes effect, there is still room for improvement in number of areas. In fact, a number of cases stand out as poor deals. These have been identified above.

Information from DPWS, however, indicates that the reform process has also identified a number of these cases and strategies are in place or being implemented to address them. The Committee acknowledges this as proof of the effectiveness of the reform program.

Nonetheless, the Committee stresses that these should stay as priority areas on which GAMC can focus.

The Committee also notes that some of the particular cases identified were not as bad as the raw data suggested, essentially because of inadequacies in the inofmation supplied to DPWS., On the one hand, it is reasssuring that things were not as bad as they seemed. On the other, however, this highlights the need to have the database as accurate and comprehensive as possilbe, a matter on which the Committee has already made a recommendation (see Recommendation 4).

In developing solutions for some of these case studies, the Committee is mindful that the savings need to be balanced against costs such as fitouts and makegoods. These, however, are only one-off costs which would normally be outweighed by the annual rental savings identified in the report. With regard to the savings to be made in relocations, the Committee expects that, as it has recommneded above, all apsects associated with the relocation, including social impacts, need to be assessed.

Bearing these constraints in mind, the Committee has estimated the savings that could accrue if all the cost saving suggestions in this chapter were able to be implemented.

The total estimate savings are $11 million per annum.

6.7 Recommendations

RECOMMENDATION 11

That GAMC review as a priority the office accommodation needs of agencies identified by the Committee in chapter 6, particularly those agencies which have leases expiring in 2000/2001, to ensure that

- **office space utilisation targets are achieved,**
- **agencies in high cost locations make a case as to why they should not move from those locations, and**
- **relocation or collocation is considered as possible solutions to reduce excessive costs as leases expire.**