



PROPERTY ASSET UTILISATION TASKFORCE REPORT

SEPTEMBER 2012



Finance
& Services

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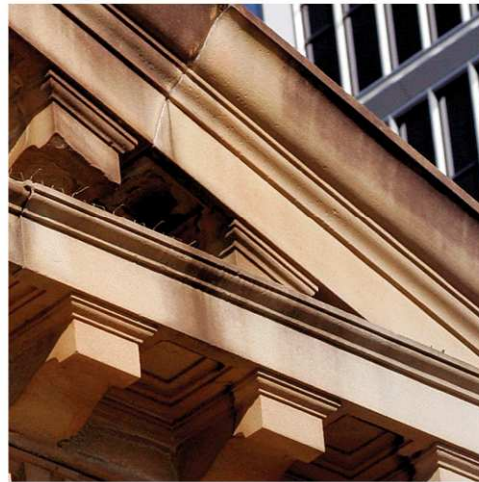
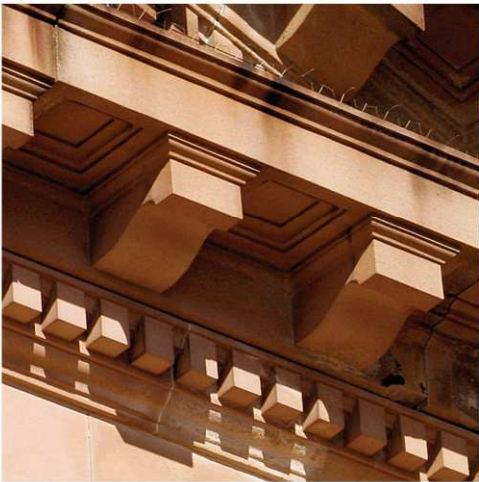
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CHAIRMAN'S LETTER

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PAUT

5 September 2012

The Hon. Greg Pearce MP
Minister for Finance and Services
Parliament of New South Wales
SYDNEY

I am pleased to present the Final Report of the Property Asset Utilisation Taskforce (PAUT or Taskforce). The aim of the PAUT was to make recommendations for the optimisation of the utilisation, ownership and management of the State's real property assets.

I have strived and pushed the Taskforce to ensure this Report is more than a theoretical exercise but rather that we put forward practical and implementable recommendations. These detailed recommendations and findings arising out of the last seven months of investigation are attached.

In essence, we have discovered that the Government has accumulated over time, a real property asset portfolio it cannot afford to maintain or protect. This includes a number of real property assets which are under-utilised or which are not required to deliver or enhance the provision of services now or into the future. This will put medium term fiscal policy at risk.

The opportunity and financial cost of keeping under-utilised or unneeded real property assets, comes at the expense of an asset or service that **is** needed.

The task of identifying and categorising the various properties owned or leased by Government was not possible during this review as the Government does not have a usable, transparent or complete Property Asset Register. This lack of centralised information seriously inhibits any whole of government strategic asset planning.

The current framework within which Government operates has created an insular, siloed and reactive mentality which negates the ability for a whole of government approach to strategic asset management. A change in the framework is required via incentives (and, when relevant, disincentives) to drive appropriate sensible strategic decisions and behaviour.

PAUT

Capital allocation policy should be made by the Government and implemented by Treasury. The current framework driven by the fiscal necessity of annual budgets and four yearly capital planning envelopes has however de facto led to the perception, if not reality, that Treasury dictates capital policy through its view on capital allocation.

We have come to the firm view that a centralised entity empowered and headed by a CEO with relevant private sector experience and seniority is essential to tackle these issues along the lines of our recommendations.

We strongly believe that the suite of recommendations should be taken as an integrated package, each one supporting the other to achieve optimal outcomes.

My work with the Taskforce has made it very clear to me that for the benefit of our great State we cannot continue to manage our assets under the current system. That will surely lead to continued deterioration of our assets, impact the quality of government service delivery and leave a legacy we cannot fund for the next generation. The system requires a revitalised framework whereby we adopt concepts such as capital efficiency and recycling, value creation and embracing the private sector.

During the course of the Taskforce's investigations, numerous Ministers as well as Directors-General of various Departments and their staff were interviewed and our investigations would not have been possible without the cooperation and assistance of all concerned. I would also like to thank each of the Taskforce Members who are listed in the attached Report for the giving of their valuable time, their insightful views and collaboration in preparing this Report.

Thanks also must go to Antony Green and his team at Macquarie Capital for their focussed hard work in gathering and distilling information for the Taskforce.

Finally, we all owe a special debt of gratitude to Simone Constant and her team at the Department of Finance and Services for their passion, energy and tireless commitment since the beginning of this journey.

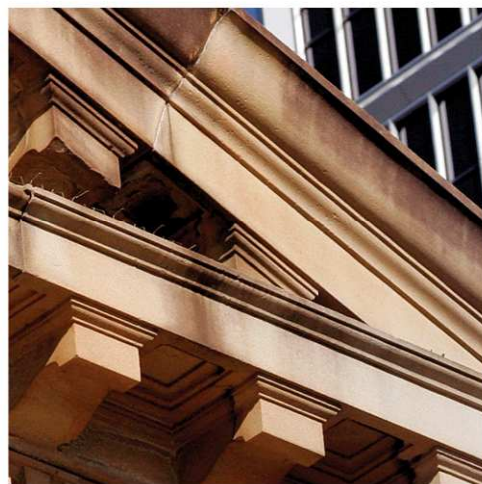
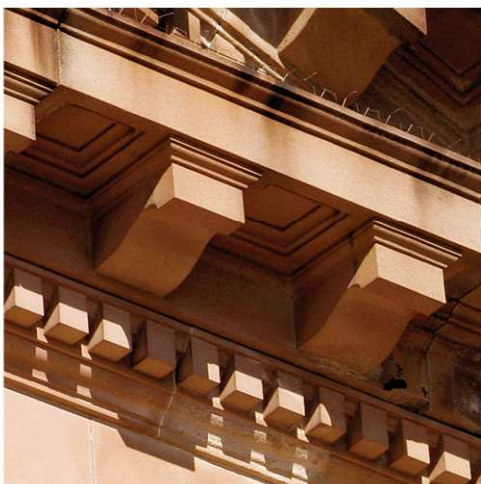
Yours sincerely



Geoffrey H Levy, AO

Chairman

Property Asset Utilisation Taskforce



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SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS

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SUMMARY OF FINDINGS AND RECOMMENDATIONS PAUT

‘Sometimes the hardest thing and the right thing are the same’¹

			Further detail
Finding: The NSW Government (Government) should own property only as a means to deliver or enhance services, now or in the future in the most efficient and effective manner. The framework for managing real property assets should support the Government’s priorities and objectives as set out in NSW 2021.			Section 5
Recommendation 1	Property Ownership Rationale	<p>The goal of real property asset management policy should be to ensure that Government only holds real property assets when, and in the form necessary, to support core service delivery (including those assets of long term strategic importance).</p> <p>Leased or owned real property assets which do not meet this test should be relinquished or realised and the rental savings or unlocked capital put to better use, with a priority given to maintaining, improving and extending real property assets that are core to current or future service delivery.</p>	Section 5
Finding: (a) Consistent with the findings of the Commission of Audit Report, Government real property asset management policy is not delivering outcomes to best support the objectives of NSW 2021. Government real property assets are often under-utilised and generally under-maintained and thus losing value. This has resulted in the State amassing a capital base it cannot afford. At this point in time the Government must choose to either recycle capital committed to under-utilised real property assets or forego properly maintaining, protecting against devaluation and improving the capital base with which it needs to provide its services. Without corrective action the Government is at risk of holding real property assets which exceed its requirements and of holding real property assets it cannot afford to adequately maintain. (b) The structure by which the Government currently manages and controls real property assets does not enable it to adequately execute the reforms required to improve real property asset management.			Sections 4 and Section 5
Recommendation 2	The Creation of Property NSW	<p>Replace the State Property Authority with the new body, Property NSW, run by the highest quality property professionals. The new entity should be headed by a CEO with a proven track record in private sector property and, where appropriate, use private sector services and leverage the structural and policy changes detailed below to establish a method and time horizons for capital planning, utilisation incentives, real property asset information and whole-of-government information sharing. With the abolition of the Government Asset Management Committee (GAMC), Property NSW should assume GAMC’s powers and should work with agencies on longer term strategic real property asset planning, both to provide services to agencies as customers and to bring a whole-of-government perspective to real property asset planning. Property NSW must have a mandate to properly make decisions, action them, and deal with the private sector in relation to managing real property assets within an agreed scope.</p>	Section 7

1. Source: The Fray, ‘All At Once’, *How to Save a Life*, 2005

SUMMARY OF FINDINGS AND RECOMMENDATIONS PAUT

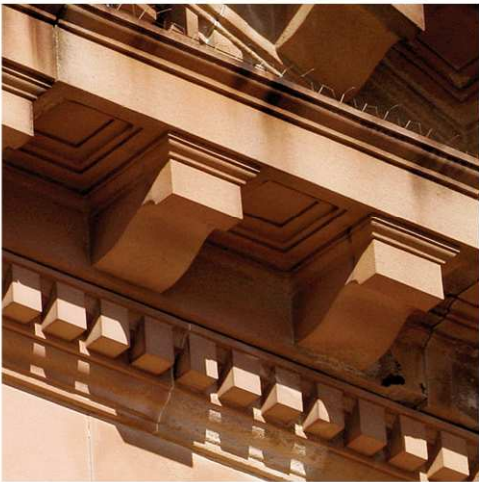
	Further detail
<p>Finding: At a time when the Government cannot afford it, the NSW public sector chronically under-uses its real property assets. Debt is growing at a rate of 25% per annum and general government sector non-financial asset accumulation growing at a rate of 7% per annum. The Government must reduce and convert its existing real property asset base, which in many cases is under-utilised, badly maintained and inappropriate to support its service delivery commitments. The State lacks the right mix and quality of real property assets to deliver services chiefly because of:</p>	
— Lack of positive incentives for agencies to improve utilisation (recommendation 3);	Pages 60, 62-63, 65-66
— Lack of accountability for real property asset ownership costs and responsibilities through the centralised “notional” treatment of depreciation and the insufficient reserving for maintenance (no “sinking fund”) which puts the State at risk of a large capital injection in the medium term to support an under maintained real property asset base (recommendation 4);	Pages 60 and 69
— Poor information about real property asset holdings. The Government Property Register (GPR) is a functionally sound system which has been populated with inadequate and inaccurate data. Property assets of agencies range from being not recorded at all, to being recorded without useful or accurate data (including valuation estimates) through to being accurately represented (recommendation 5);	Section 4.2
— Lack of capacity and capability within some agencies to develop and implement strategic real property asset planning (recommendation 6);	Pages 60 and 63
— Limited strategic real property asset planning across all of Government (recommendations 2(b), 4 and 6);	Page 65
— Financial planning framework and horizons are not calibrated to support long term strategic real property asset planning (recommendation 7);	Pages 59 and 66
— Limited capability to handle larger, more complex property opportunities (including divestments and enhancing the value of properties, e.g. through site enhancement, consolidation or rezoning) or economically deal with smaller properties (recommendations 2(b) and 8);	Pages 63 and 66
— Lack of consistency and transparency about the use of property and, in the case of divestments, the use of the proceeds (recs. 9 and 10);	Pages 52-54, 60, 62
— Poor communication around existing incentives within policy and other real property asset management policies such as valuations (recs. 9, 10 and 11);	Pages 60 and 94
— No strategic, whole-of-government approach to real property asset planning, utilisation and ownership taken (recs. 2 and 12);	Pages 61, 63 and 65
— Duplication of real property asset management functions and bureaucracies (including place managers and intra agency functions) leading to inefficiencies and decisions that may not support whole-of-government priorities (recommendation 13); and	Pages 51 and 61
— Insufficient collaboration between real property asset owners and central agencies due to a lack of agreed and transparent measures of performance and opposing priorities rooted in structural issues such as Treasury focus on annual budgets and four year forward estimates periods in respect of the vast majority of agencies versus the longer term nature of real property asset planning requirements and the service delivery focus of agencies (recommendations 7 and 14).	Pages 59-60, 63 and 65-66

SUMMARY OF FINDINGS AND RECOMMENDATIONS PAUT

			Further detail
Recommendation 3	Agency Incentives	Introduce improved utilisation incentives including agencies retaining 100% of net proceeds of divestment for reinvestment in maintaining, improving and extending the necessary capital base to support service delivery. This will be subject, always, to the right of the Government (through Cabinet) to determine its own budget priorities by reallocation of resources. In addition, for more complex divestments, a development and profit sharing mechanism should encourage agencies to work with Property NSW's expertise to bring unlocked sites to market.	Section 8
Recommendation 4	Improved Capital Planning	Introduce the range of recommendations around capital planning set out in this Report, to be delivered by the new entity, Property NSW, with a view to improving capital assessment and reserving over time by mandated involvement in the real property aspects of the Total Asset Management (TAM) planning process as it relates to real property assets, including maintenance and depreciation outcomes. By necessity this will have a progressive impact on capital available to agencies for property requests which should be addressed by improved capital recycling outcomes. By necessity this will have a progressive impact on capital recycling outcomes. Within 12 months of the establishment of Property NSW, Treasury should lead a review of depreciation funding as well as other related issues such as capital charging. The review should be by means of committee including Property NSW.	Section 8
Recommendation 5	Enhanced Information	Move the management of the GPR to Property NSW. Across an 18 month period all agencies to be required to co-operate with Property NSW in mapping all real property asset ownership to the GPR with accurate, relevant and useful information. After the 18 month period, the net proceeds of any real property asset sale where necessary to be retained by an agency and to be capped at the GPR registered asset valuation. Failure to co-operate beyond that 18 month period to also give rise to a right of step-in by Property NSW with the approval of the Expenditure Review Committee of Cabinet to take, translate and apply the real property information of the agency themselves.	Pages 87, 90-91 and 97
Recommendation 6	Involvement in the Property Sections of TAM Plans	All agencies should be required to work with Property NSW in preparing and submitting TAM plans with regard to real property assets. Property NSW should have a right of review of TAM plans as regards real property assets. The involvement of Property NSW on strategic and specialist real property assets to be limited to updating information and testing whether all owned real property assets are required to deliver planned services. Property NSW should be closely involved in TAM plans around office accommodation and some generic real property assets, including through phased vesting of real property assets. Information gleaned through TAM planning should facilitate updating of the register, and Property NSW to bring the capability and skill needed to improve integrated strategic real property asset planning.	Pages 87, 90 and 94-96
Recommendation 7	10 year Capital Planning	Introduce a 10 year capital planning envelope for all agencies across Government to better match the real property asset cycle, improve TAM planning and capture any changes to Treasury rollover policy.	Pages 92 and 96
Recommendation 8	Small Property Rationalisation	Develop within Property NSW a portal based platform for divestment of small real property assets by agencies. Property NSW to have capability to engage with related Government entities (including UrbanGrowth NSW (UGNSW)) and the private sector for successful large scale divestment, including working through site consolidation, re-zoning and simple development facilitation when required to enhance values and/or saleability.	Section 9

SUMMARY OF FINDINGS AND RECOMMENDATIONS PAUT

			Further detail
Recommendation 9	Proceeds From Recycling Property	While the Government must always have ultimate discretion over its budget, general allocation decisions should be transparent and distinct from proceeds realisation outcomes. Unless there is a specific Government decision to the contrary, divestment net proceeds should provide a net addition to the capital programs (including maintenance of real property assets) of the agency undertaking the sale; this is essential to dissolve some of the tensions inherent in the current framework.	Page 96
Recommendation 10	Transparent and Consistent Policy	Policy outcomes including any reinforcement of existing policy need to be clearly articulated, restated and communicated. To the fullest extent possible, the policy must be applied transparently and consistently between agencies as opposed to the past where policy differed between agencies and was not always consistently applied.	Pages 59, 60, 65, 70, 91 and 96-97
Recommendation 11	Valuation and Depreciation Policy	A review by the PAUT working group of the content, application and agency understanding of valuation policy and the depreciation rates schedule should be concluded before end of 2012 for use by agencies and Property NSW.	Pages 64, 69-70 and 121
Recommendation 12	Enhanced Communication	There should be regular structured communication between Property NSW and other property related entities including a notification of major plans, real property asset decisions or developments and scheduled information sharing sessions to prevent duplication, waste, poor planning and to ensure Property NSW maintains a whole-of-government understanding.	Pages 97-105
Recommendation 13	Simplifying Ownership Rationalisation	Other Government real property holding entities (including place management authorities) must be assessed for integration into Property NSW, dissolution, or maintenance in current form on a case-by-case basis by Government against the principles set out in this report before the end of 2012 (with a separate Minute in this respect to be provided by the Minister for Finance and Services in consultation with other affected Ministers). The relevant factors in this assessment include how much Government land they own; whether they have outlived their original mandate; whether they have moved more into an operational role; understanding the expertise developed and how this can continued to be utilised; and whether they fall within the UGNSW framework.	Page 106
Recommendation 14	Property NSW Accountability	Property NSW needs to work co-operatively and collaboratively with agencies and management should be accountable against portfolio and service quality performance measures. Property NSW will only be effective in reviewing real property aspects of TAM plans if it adds value by maintaining capable staff and delivering high quality service to agencies.	Pages 87-92
	Finding: The Government houses far more real property assets than necessary to support service delivery at an increasing and avoidable cost to the State. This is a cultural problem. The reasons are complex and addressing the problem will require changes to policy, processes, people and incentives.		Sections 4.4, 5 and 6
Recommendation 15	Comprehensive Revitalisation	The suite of recommended reforms should be taken as an integrated package, each one supporting the other. Cherry picking individual measures will lead to sub-optimal outcomes and, potentially, little improvement on or differentiation from, the current arrangements.	



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BACKGROUND TO PAUT

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BACKGROUND TO PAUT

PAUT

- The Property Asset Utilisation Taskforce (**PAUT** or the **Taskforce**) was established by Government to identify and implement efficiencies in the NSW Government's (**Government**) ownership, utilisation and management of its owned and leased property portfolio.
 - The Taskforce commenced on Tuesday, 7 February 2012.
 - The Taskforce addressed some of the recommendations around asset management of the Commission of Audit.
 - Appendix G sets out the key asset management recommendations in the Schott Report and the manner in which these have been addressed by the Taskforce.

- Scope of the Taskforce's review includes all Government agencies and Private Trading Enterprises, unless specifically excluded.
 - A number of property-related Government entities were specifically excluded from the scope of PAUT's review including:
 - Land and Housing Corporation;
 - Commercial State-owned Corporations (**SOCs**);
 - Crown Land;
 - Office of Strategic Lands; and
 - UGNSW.

- As part of its scope the Taskforce was asked to respond to, and in some cases implement, recommendations or findings of the NSW Commission of Audit Report (**Schott Report**).
 - Appendix G sets out the manner in which the Taskforce has met this requirement.
 - The Taskforce, in this Report, has also independently come to a number of similar, and in some cases identical, findings to those of the Schott Report in its chapter on the Government's asset management (refer to Appendix G).

- Government departments and agencies were invited to provide feedback to the review process and may have been represented on the Taskforce itself.

TERMS OF REFERENCE

PAUT

Key deliverables of the Taskforce are addressed in this Report

Objective	Outcome
Review of property asset disposal information collected by Treasury in TAM data tables as part of the existing annual budget process	✓
Analysis of existing agencies' property asset disposal plans	✓
Sectoral strategy review and liaison with Treasury in relation to the property assets identified for disposal in four-year forward estimates of the budget	✓
Review of agency clusters' property disposal plans to achieve integrated asset support to services	✓
Identification of other property disposal opportunities that have not been identified in agencies' asset disposal plans	✓
Consider the recommendations of the Commission of Audit relating to asset management	✓
Review the assets and integrity of the GPR	✓
Review the TAM planning process to improve property asset utilisation, savings realisation and alignment of Government property asset management functions. This will include direct reporting by agencies of asset acquisition, management and disposal plans, and go to market strategies with accountability to the ERC for performance and reporting	✓
Identify how departments currently align community demands for their services over the medium to long-term and how they manage their property assets to meet ongoing service needs	✓
Review and assess the effectiveness of the current suite of Government property asset management functions including skills and capabilities to manage those functions	✓
Investigate opportunities to develop consolidated property asset management functions across Government agencies, to improve asset management skills and capability and refocus agencies on service delivery	✓
Where consolidation is not appropriate, identify strategies for agencies to develop and demonstrate capacity to manage property assets on an ongoing basis	✓

- Refer to Appendix G for further detail

TERMS OF REFERENCE

PAUT

Key deliverables of the Taskforce are addressed in this Report (cont.)

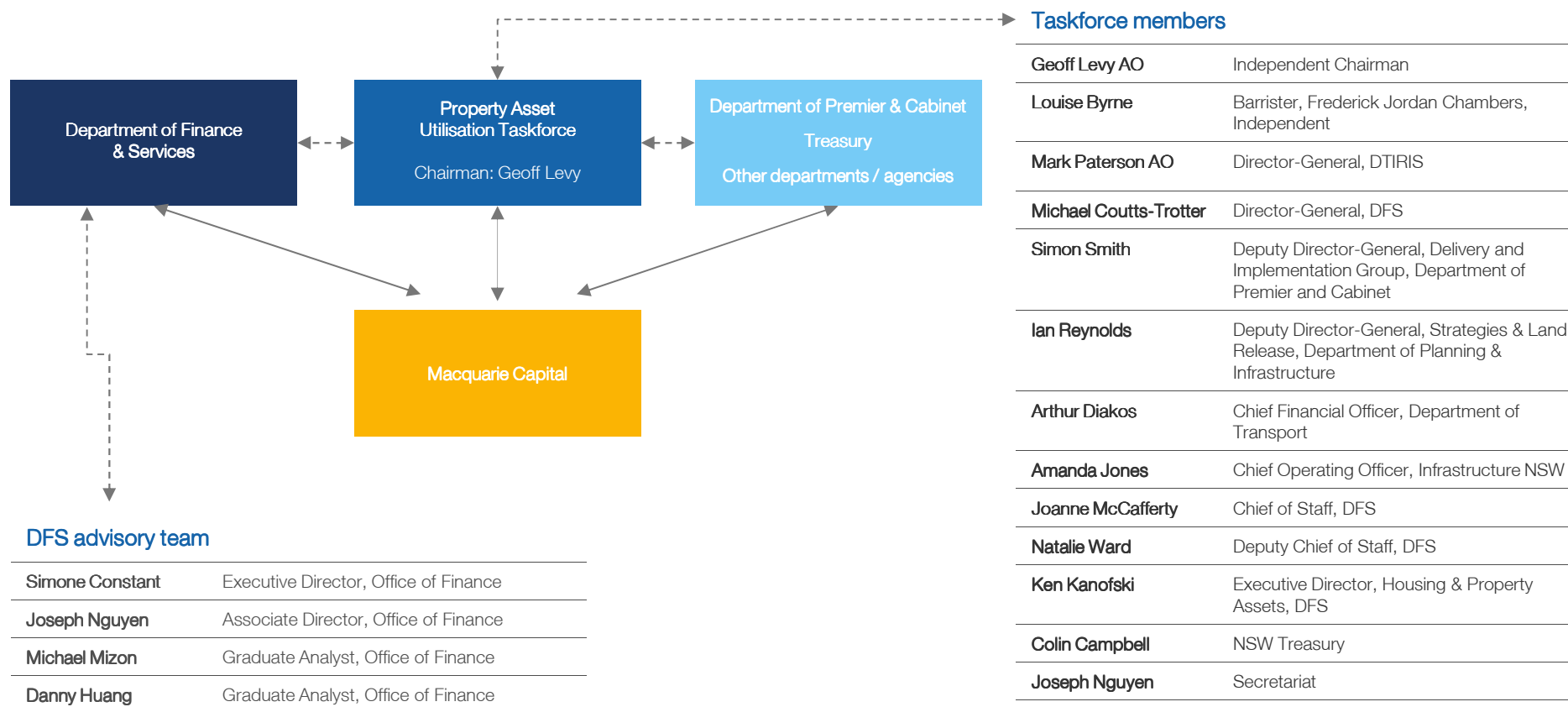
Objective	Outcome
Review the role and function of GAMC, with the support of DPC and NSW Treasury, to strengthen executive decision making on property disposals and oversight of TAM planning	✓
Review mechanisms to drive property asset disposals, including a forward asset disposal plan aligned with the budget process for ERC approval based on current annual agency disposal plans, supported by quarterly reporting on agency performance	✓
Assess the need for a review of the current asset management policy including assessment of roles within this of INSW, Treasury and DFS in property asset acquisition, management and disposal to avoid duplications	✓
Review of interstate and contemporary public and private sector models for asset acquisition, management and disposals	✓
Propose an integrated property asset management framework and implementation model for all property asset management functions across Government	✓
Consideration of strategies to maximize public value, and to identify opportunities to develop policies and strategies to use Government property assets to stimulate the economy and to deliver broad economic benefits to the State	✓
Identify long-term disposal plans by undertaking an audit and capability assessment of existing property assets and the level of their support to services	✓
Conduct analysis of property disposal plans including demand management solutions which better utilise existing property assets	✓
Property disposal plans will be developed on a cluster basis to promote integrated asset support to services	✓
The four year property disposal plan approved by the Premier and the ERC will be incorporated into the State Budget through the existing annual budget process	✓

- Refer to Appendix G for further detail

MEMBERS OF PAUT

PAUT

- The Taskforce comprises representatives from a number of Government agencies.
 - Geoff Levy AO appointed Independent Chairman of the Taskforce.
- In addition, the Taskforce appointed Macquarie Capital as a consultant to assist with preparation and formulation of the Taskforce's recommendations.

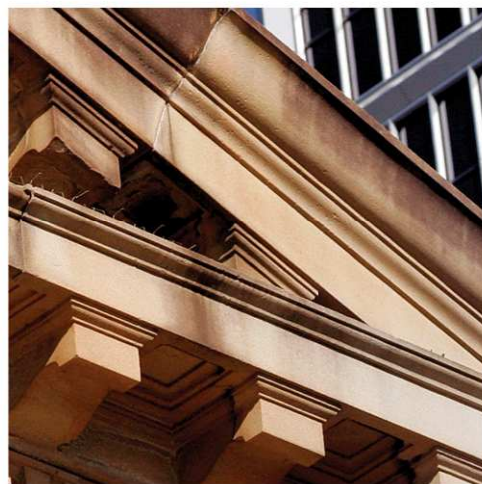
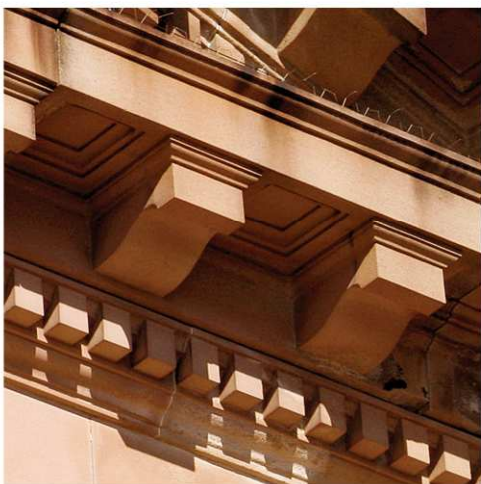


GUIDING PRINCIPLES

PAUT

- The Taskforce has approached the exercise of reviewing the Government's real property asset ownership, utilisation and management framework with regard to a number of guiding principles as outlined at the initial Taskforce Meeting on Tuesday, 7 February 2012.
 1. The outcome of this review is not to be treated as a compliance exercise.
 2. Incentives to drive outcomes – 'carrot and stick' methodology to improve agencies' approach to real property asset management, capital efficiency, allocation of proceeds, time and cost of transactions.
 3. Future requirements to drive strategy – important to keep clear sight on future demand and service delivery requirements.
 4. Decentralisation as a Government objective – remain cognisant of Government's desire to decentralise some functions away from CBD locations.
 5. Analysis to inform decisions – understand real property asset specific issues (e.g. Crown Land, heritage, zoning, remediation, balance sheet and credit rating impacts etc.).
 6. Engage with private sector – let private sector help to drive optimal results.
 7. Communicate with the community – clearly outline benefits of strategic direction to address public concerns.
 8. Learn from the past – build from the existing framework (which at its core has many established elements of the desired framework) but understand why past initiatives have not been completely successful and use this information to guide new initiatives.
 9. Focus from core competency – will achieve greater focus on property when key responsibility is managing property.
- The Taskforce has also had regard to the following guiding principles specifically in relation to the Government's ownership of real property assets.
 1. Government should focus on providing and supporting core services.
 2. Government should only own real property assets where necessary to support service delivery to the requisite standard.
 3. Service delivery can include the development of new real property assets and infrastructure which then themselves support and enable further and better service delivery.
 4. When owning an real property asset is no longer necessary to support service delivery and there is a better service delivery use of the proceeds tied up in that asset, then that asset should be divested and those proceeds should be so utilised.
 5. The real property asset management framework should support and perpetuate this approach through incentives and controls and encourage this assessment to be made on a whole-of-government basis.

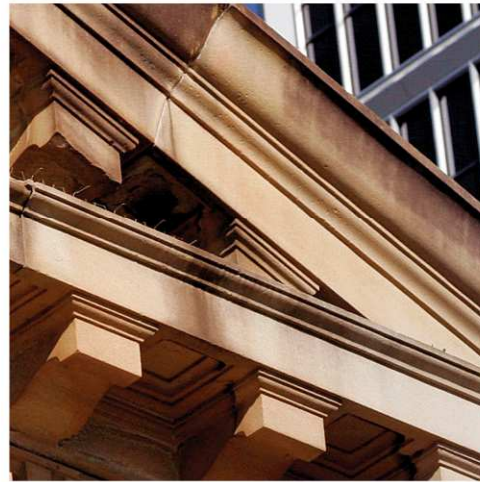
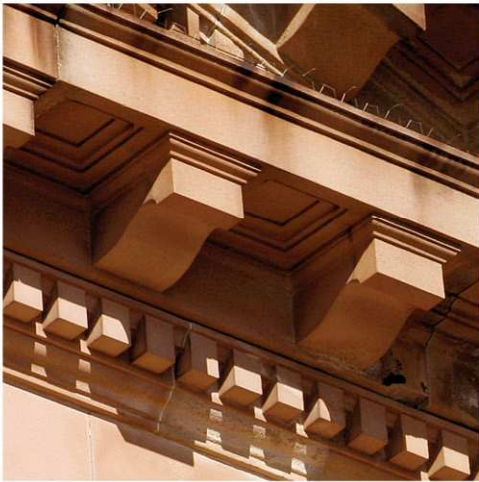
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RESULTS OF INITIAL FACT FINDING

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4.1

GOVERNMENT PROPERTY PORTFOLIO

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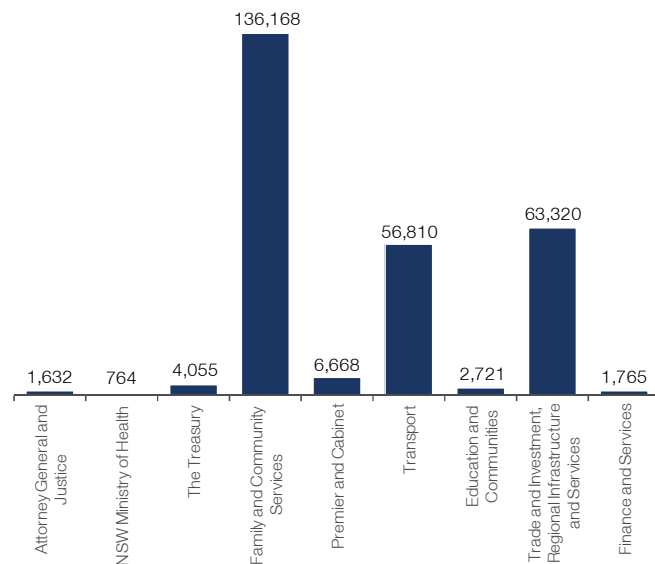
GOVERNMENT PROPERTY ASSET SUMMARY

PAUT

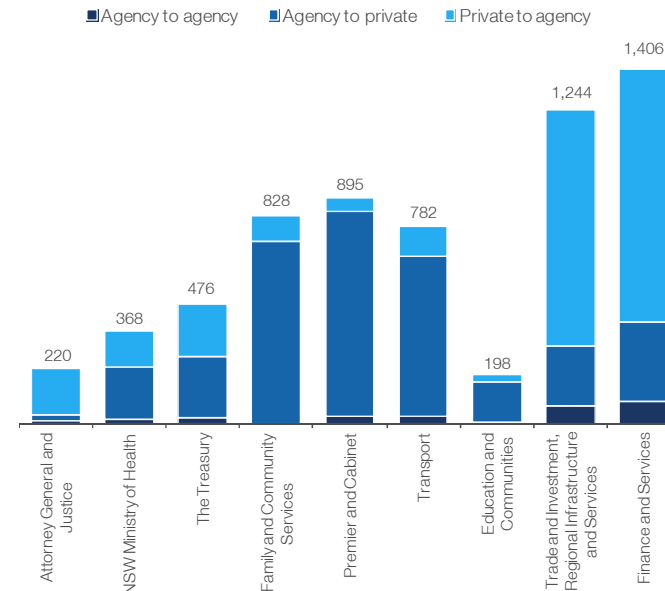
The Government controls a significant portfolio of real property assets

- Based on information contained in GPR, the Government:
 - owns more than **270,000 real property assets** through its various departments and agencies
 - has more than **6,400 different leases** across the state

Properties by department



Properties leased by department



- According to 2011-2012 Budget Paper #2, the combined value of non-financial assets owned by the Government is approximately \$131.1 billion¹
 - Approximately \$70 billion of this relates to Land, Buildings, and Plant and Equipment, therefore the implied value per property across the portfolio is less than \$0.5 million

Source: GPR

1. Value covers general government sector only

PROPERTY ASSETS BY AGENCY

PAUT

Agency	Assets
Aboriginal Affairs NSW	2
Aboriginal Housing Office	5,203
Ageing, Disability and Home Care	649
Art Gallery of NSW Trust	1
Arts NSW	2
Ausgrid	1,604
Australian Museum Trust	1
Barangaroo Delivery Authority	1
Casino, Liquor and Gaming Control Authority	2
Centennial Park and Moore Park Trust	11
Central Coast Regional Development Corporation	1
Central North Livestock Health and Pest Authority	17
Charles Sturt University	38
Chipping Norton Lake Authority	12
Cobar Water Board	8
Community Services	31
Corrective Services NSW	48
Country Rail Infrastructure Authority	703
Darling Livestock Health and Pest Authority	7
Delta Electricity	8
Department of Attorney General and Justice (DAG&J)	191
Department of Education and Communities (DEC)	2,684
Department of Finance and Services (DFS)	805

Source: GPR

1. Entities comprising UGNSW reflected separately

Agency	Assets
Department of Health	763
Department of Planning and Infrastructure	3,028
Department of Trade and Investment, Regional Infrastructure and Services (DTIRIS)	2
Department of Transport	7
Endeavour Energy	180
Eraring Energy	40
Essential Energy	588
Fire and Rescue NSW	340
Historic Houses Trust of NSW	20
Hume Livestock Health and Pest Authority	7
Hunter Development Corporation	34
Hunter Region Sporting Venues Authority	2
Hunter Water Corporation	1,209
Hunter-Central Rivers Catchment Management Authority	3
Illawarra Venues Authority	1
Jenolan Caves Reserve Trust	1
Juvenile Justice	8
Lachlan Catchment Management Authority	1
Lake Illawarra Authority	17
Land and Housing Corporation (Land and Housing Corp)	130,437
Land and Property Management Authority (Corporate)	57
Landcom ¹	110
Legal Profession Admission Board	1

PROPERTY ASSETS BY AGENCY

PAUT

Agency	Assets
Library Council of NSW	1
Lifetime Care and Support Authority	8
Lord Howe Island Board	17
Macquarie University	35
Mid Coast Livestock Health and Pest Authority	12
Mine Subsidence Board	13
Museum of Applied Arts and Sciences	5
New England Livestock Health and Pest Authority	13
Newcastle Port Corporation	24
North Coast Livestock and Pest Authority	6
North West Livestock Health and Pest Authority	12
NSW Aboriginal Land Council	44
NSW Food Authority	2
NSW Maritime	231
NSW Office of Water	838
NSW Police Force	1,033
NSW Rural Assistance Authority	1
NSW Rural Fire Services	1
NSW Sport and Recreation	18
NSW Trustee and Guardian	2
Office of Environment and Heritage	2,914
Park	1
Parliament of NSW	1

Agency	Assets
Parramatta Stadium Trust	1
Port Kembla Port Corporation	46
Primary Industries (Agriculture)	273
Primary Industries (Crown Land)	58,688
Primary Industries (Fishing and Aquaculture)	19
Primary Industries (Forests NSW)	1,029
Primary Industries (Minerals and Petroleum)	11
Rail Corporation New South Wales (Rail Corp)	28,452
Redfern Waterloo Authority	2
Residual Business Management Corporation	4
Riverina Livestock Health and Pest Authority	21
Roads and Traffic Authority	27,025
Royal Botanic Gardens and Domain Trust	3
SAS Trustee Corporation	7
South East Livestock Health and Pest Authority	3
Southern Cross University	16
State and Regional Development and Tourism	8
State Emergency Service	1
State Property Authority (SPA)	159
State Records Authority of NSW	1
State Transit Authority of NSW	38
State Water Corporation of NSW	10
Super Administration Corporation	2

Source: GPR

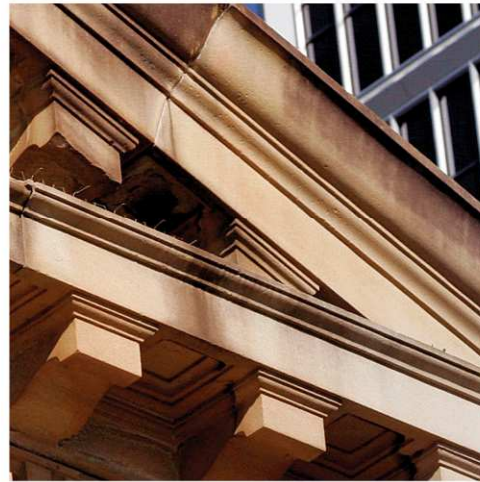
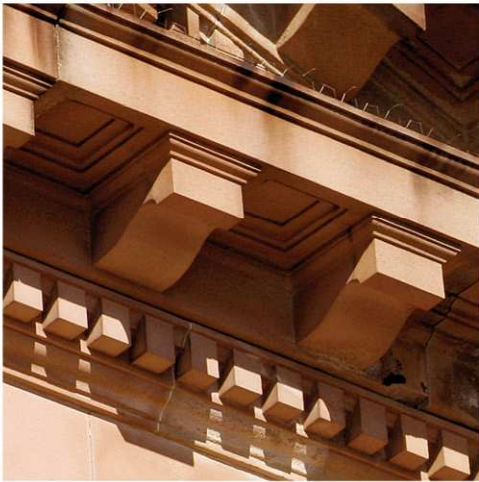
PROPERTY ASSETS BY AGENCY

PAUT

Agency	Assets
Sydney Catchment Authority	111
Sydney Cricket and Sports Ground Trust	1
Sydney Ferries	2
Sydney Harbour Foreshore Authority (SHFA)	237
Sydney Olympic Park Authority	40
Sydney Opera House Trust	1
Sydney Ports Corporation	42
Sydney Water	2,065
Tablelands Livestock Health and Pest Authority	7
Taronga Conservation Society	3
Teacher Housing Authority	762
Transgrid	143
Transport Construction Authority	114
Trustees of the Anzac Memorial Building	1
University of New England	22
University of Newcastle	23
University of NSW	71
University of Sydney	132
University of Technology	14
University of Western Sydney	21
University of Wollongong	34
Waste Assets Management Corporation	12
Wentworth Park Sporting Complex Trust	1

Agency	Assets
Western Livestock Health and Pest Authority	7
Western Sydney Parklands Trust	326
Wild Dog Destruction Board	15
Wine Grapes Marketing Board	1
Workcover Authority	1
Worker's Compensation Dust Diseases Board	1
Total	274,146

Source: GPR



4.2

INFORMATION AND DATA ROADMAP: 'SINGLE SOURCE OF TRUTH'

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INFORMATION AND DATA OVERVIEW

'Single source of truth' has been created to provide a data roadmap for obtaining real property asset information and is an essential tool to real property asset management reform in NSW

- The 'single source of truth' data roadmap aims to facilitate preliminary aggregation of all available real property asset-level information in relation to the Government's property portfolio with the ultimate aim of creating a comprehensive real property asset register.
 - This information is required to inform:
 - Asset retention and disposal decisions;
 - Leasing decisions; and
 - Ongoing strategic planning (including State plan, State infrastructure strategy, Metropolitan plan, Transport plan etc.).

- Furthermore, a thorough examination of the following databases has been undertaken with a view to identifying the strengths and weaknesses of each:
 - GPR;
 - TAM database;
 - SPA Property Portfolio Database and Government Office Accommodation Database;
 - DAG&J Courthouse property register;
 - DEC property register;
 - Land and Housing Corp's SAP asset management system;
 - DTIRIS property register (partial register only comprising former Department of Industry and Investment (DI&I) assets); and
 - DFS (non-SPA) – Public Works property register.

INFORMATION AND DATA OVERVIEW

PAUT

'Single source of truth' has been created to provide a data roadmap for obtaining real property asset information and is an essential tool to real property asset management reform in NSW

- The Taskforce makes the following recommendations in relation to improvement of the State's information management processes going forward:
 - GPR is a functionally adequate product to be utilised as the Government's central property asset register if populated appropriately.
 - Current weaknesses of GPR relate primarily to inadequacy of information provided by agencies.
 - The GPR features approximately 75 different fields that can be populated.
 - These include fields such as responsible agencies, land uses, local government areas, legal owners, property name, size, valuation details and lease details.
 - Agencies should be encouraged via appropriate incentives to ensure the relevant information in GPR is populated and up-to-date.
 - GPR should be further enhanced by the addition of further information fields (including, for instance, current market valuations of real property assets, utilisation data, leasing data, etc.).
 - GPR should be maintained as the only real property information database and agencies should relinquish any parallel registers.
 - GPR updating should be automated and integrated with TAM planning and budget data to minimise errors.
 - See Section 8 of this Report for detailed recommendations on the incentive structures / controls that are designed to achieve this outcome over time.

SINGLE SOURCE OF TRUTH

PAUT

Overall, GPR is functionally adequate; however information quality is poor due to inadequacy of data population and unreliability of populated data

- All Government departments can access the GPR database.
- Whilst GPR's capabilities, spatial integrations and comprehensive fields are adequate, the unreliable accuracy and inadequate population of its data limits its usability.
 - Most agencies maintain their own internal real property asset databases which can be well populated with data but have not been aggregated into a centralised repository because there has not been a requirement to do so. Further, agencies have no incentive to accurately update GPR.
 - We have been given access to and/or demonstrations of a number of these databases in the context of preparing this Report.
- A comprehensive solution that is used consistently across all Government agencies for whole-of-government decision making would be optimal.
 - Comprehensive, centrally managed real property asset registers have been successfully utilised by large corporates with substantial portfolios (e.g. CBA, Telstra).
- To fulfil its potential, GPR needs to be 'the database' and the 'single source of truth' on real property asset holdings within two years of the commencement of Property NSW.
 - Agencies must relinquish stand-alone, conflicting systems. We note that this will take a few years but we must 'target as we go'.

GPR strengths

- ✓ Comprehensive data fields
- ✓ Flexible in how data is presented
- ✓ Integrated into the spatial mapping service SIX Maps (beta)
- ✓ Accessible to all Government agencies
- ✓ Ability to extract customised data reports
- ✓ Individual Property IDs for all properties owned by the Government; this forms a good basis for common reference across departments
- ✓ Serves large volumes of data with a high uptime and online access
- ✓ Ability to export data in Excel format enables sorting by various fields, including owner, land use, suburb, etc.

GPR weaknesses

- ✗ Lack of consistent use across departments; often superseded by a departmental solution
- ✗ Lack of incentives to encourage, and controls to enforce, population and ongoing refresh of data – compliance burden to departments
- ✗ Blank fields without explanation; in particular, large volumes of properties do not currently have a valuation in GPR
- ✗ Where a valuation has been provided, it typically represents the Valuer General's vacant land valuation and may materially understate the market value, which includes improvements
- ✗ Haphazard use of GPR codes to describe certain fields e.g. all properties in GPR are marked as 'essential', hence strategic value cannot be determined (may indicate lack of common classification)
- ✗ No ability to input tenancy and utilisation data
- ✗ No ability to identify ground leases

SINGLE SOURCE OF TRUTH

PAUT

GPR's key limiting factor is consistency of use by departments

- Reliability of data dependent upon agencies updating GPR database as required.
- Currently database is incomplete, and reliability of data also questionable.

	Data in GPR	Completeness ¹	Comments
General	Principal department	5	Except where departments no longer exist
	Agency responsible	5	
	Lot / Plan / Property number	5	Often duplication
	Asset name and address	3	Generally populated however missing / incomplete for many assets
	Legal owner	3	Generally populated however missing for some assets
	Crown Land (Y / N)	3	Incomplete – need to supplement with agency data (this field is not populated at all for some agencies)
	Essential / strategic (Y / N)	1	Most assets characterised as essential – need a more reliable assessment by each department
Asset level	Land use	3	Land use missing for some assets and marked as 'Unknown' for others. Categories are often too broad to accurately decipher land use / type of asset
	Land size	3	Incomplete – to be reconciled with agency level data
	Valuation	3	Incomplete. Valuations are generally land valuations undertaken by the Valuer-General for land tax purposes – some look conspicuously low
	Valuation date	3	Valuation dates generally provided where valuation given, however limited usefulness
Leasing	Leasing information	1	Leasing information in GPR is sporadic and often outdated (e.g. stated lease term expired but lease details not removed / updated)

1. 'Completeness' refers to an assessment of the comprehensiveness, consistency and accuracy of the information available in GPR, based on the following scale: **1** = Incomplete and/or no reliable information for all assets; **2** = field populated for some assets, however incomplete and/or no reliable information for most assets; **3** = field populated for most assets, however some incomplete and/or unreliable information; **4** = complete and accurate information available for most assets; **5** = complete and accurate information available for all assets

SINGLE SOURCE OF TRUTH

PAUT

SPA sources of data

- Government Office Accommodation Database contains data relating to Government tenancies in both private and state owned office buildings.
- Accuracy not consistently reliable – some discrepancies between databases.

	GPR	SPA Property Portfolio	Gov Office Accom Database	Other	Comments
Agency responsible	✓	✓	✗	n/a	
Lot / Plan / Property number	✓	✗	✗	n/a	
Asset name and address	✓	✓	✗	n/a	Some inconsistencies but generally available Note: 159 assets in GPR and only 154 in SPA Property Portfolio
Legal owner	✓	✗	✗	n/a	
Crown Land	✓	✗	✗	n/a	GPR only contains data in this field for 6 assets – need to confirm with SPA if this is correct
Essential / strategic properties	✓	✗	✗	✓	Query reliability of 'Essential Property' column in GPR SPA has provided a 'Surplus Properties' document – need confirmation that this is comprehensive and up-to-date
Land use	✓	✓	✗	n/a	SPA Property Portfolio contains useful land use data – small number are missing
Area	✓	✓	✓	n/a	GPR contains land area; SPA contains leasable area – however some instances where GPR area > SPA area SPA Property Portfolio incomplete – data missing for some assets including Macquarie Park and Sydney Fish Markets carpark Government Office Accommodation Database contains gross office area where asset tenanted by government body
Valuation	✓	✓	✗	n/a	GPR contains land value; SPA contains total asset value – however some instances where GPR val > SPA val SPA Property Portfolio incomplete – valuations missing for range of assets
Valuation date	✓	✓	✗	n/a	SPA valuations generally more recent
Tenant data	✓	✗	✓	n/a	GPR data old and sporadic; Government Office Accommodation Database only contains data where asset is tenanted by government – has data on lease term, gross rent, parking rent, metre cost
Utilisation data	✗	✗	✓	n/a	Utilisation data only provided for government-occupied buildings
Heritage asset	✗	✓	✗	n/a	Some commentary provided in SPA database, however will need to confirm if this is comprehensive
Ownership level – i.e. ground lease and relevant details	✗	✗	✗	n/a	
Third party tenant data	✗	✗	✗	n/a	Need both tenant and utilisation data for buildings tenanted by 3rd parties

SINGLE SOURCE OF TRUTH

PAUT

Department of Attorney General and Justice sources of data

- DAG&J maintains separate databases by category of asset.
 - The Taskforce was given access only to the courthouses database; other asset databases have not been reviewed.

	GPR	Courthouses	Other asset classes	Comments
Agency responsible	✓	✗	✗	
Lot / Plan / Property number	✓	✓	✗	Multiple property or lot numbers for each property – unclear as to how these reconcile to GPR; a large majority of assets are marked as 'TBD'
Asset name and address	✓	✓	✗	GPR: Present for most data aside from vacant land or other assets (courthouse data is largely available)
Legal owner	✓	✗	✗	
Crown Land	✗	✗	✗	GPR: Crown Land field is blank for all properties
Essential / strategic properties	✗	✗	✗	
Land use	✓	✗	✗	Sparse data for non-courthouse assets
Area	✓	✓	✗	Does not reconcile between GPR and Courthouses
Valuation	✓	✗	✗	GPR: values for 122 out of 191 unique assets in GPR (unique assets by property number)
Valuation date	✓	✗	✗	GPR: valuation dates for 116 out of 191 unique assets in GPR (unique assets by property number)
Tenant data	✗	✗	✗	The tenants for courthouses would be the DAG&J
Utilisation data	✗	✗	✗	
Heritage assets	✗	✗	✗	
Ownership level – i.e. ground lease and relevant data	✓	✗	✗	Minimal lease data – could be the result of this department having minimal lease arrangements
Third party tenant data	✗	✗	✗	

SINGLE SOURCE OF TRUTH

PAUT

Department of Education and Communities

- DEC has an extremely well populated database within a powerful data management program which could provide a template for the central Government property information database going forward.
- Information provided to the Taskforce for review was more limited as follows:

	GPR	DEC	Comments
Agency responsible	✓	✓	Assumed that the agency responsible is DEC
Lot / Plan / Property number	✓	✓	Unclear as to what the 'Site ID' and 'Use ID' mean. No clear match to GPR property IDs
Asset name and address	✓	✓	Many names are missing property street numbers
Legal owner	✓	✗	
Crown Land	✓	✗	Some properties have been earmarked for transfer to Crown Land in 'Comments'
Essential / strategic properties	✗	✗	Some commentary on key assets or assets identified for future development or disposal
Land use	✓	✓	Sparse data for non-courthouse assets
Area	✓	✓	Unclear whether the area is total land area or net leasable area
Valuation	✓	✗	No valuation data in the DEC database
Valuation date	✓	✗	No valuation data in the DEC database
Tenant data	✗	✓	Schools, TAFEs or offices; basic info on occupation or utilisation
Utilisation data	✗	✗	Has 'operating' or 'closed' in the name fields, and identifies vacant or strategic plans for assets in random fields
Heritage assets	✗	✓	Some assets have been identified as 'local' under the heritage field, it is unclear what this means
Ownership level – i.e. ground lease and relevant data	✓	✗	Minimal lease data – could be the result of this department having minimal lease arrangements
Third party tenant data	✗	✗	Not relevant

SINGLE SOURCE OF TRUTH

PAUT

Land and Housing Corp

- Land and Housing Corp uses a SAP asset management system and housing management system, HOMES, with comprehensive detail on the assets within its portfolio.
 - HOMES is accessed and updated by officers from DFS.
- Land and Housing Corp approach to property information management is professional.
 - Illustrates that asset management is a very significant component of their business – these types of agencies may be justified in retaining their own separate asset registers, although the data they maintain should be aggregated into the central Government property information going forward.
- Whilst the majority of properties are residential, the department holds ~90 commercial assets (out of over 146,000 total properties).

	GPR	HNSW Property Details	Comments
Agency responsible	✓	✓	
Lot / Plan / Property number	✓	✓	The HNSW Property Details property IDs tie into the GPR database
Asset name and address	✓	✓	
Legal owner	✓	✓	
Crown Land	✓	✗	The HOMES system does not differentiate Crown Land but this is available on the GPR system by the same property ID
Essential / strategic properties	✓	✓	Have identified properties for disposal, to be reviewed and vacant
Land use	✓	✓	Have basic data about what type of property is on the land – no extended detail on what the asset does or whether it is revenue generating
Area	✓	✓	
Valuation	✓	✓	Blanks, inconsistencies and out-dated valuations exist
Valuation date	✓	✓	Many of the valuations are out of date or blank
Tenant data	✓	✓	Very basic data about whether there is a tenant in the property and how much rent they are being charged (relative to market rent) – no data for properties that are managed by third parties
Utilisation data	✗	✓	Have individual occupancy records – management are currently working on bring the occupancy data together Also have up to date records on whether a property is occupied, vacant or under review
Heritage asset	✗	✓	Heritage assets listed in property type by code 'H'
Ownership level – i.e. ground lease and relevant details	✗	✗	
Third party tenant data	✗	n/a	All are tenants are third parties – there may be some inter-agency leasing in the commercial assets – this isn't clear

- In addition, HNSW maintains a Title List file which shows comprehensive detail on a title's history.

SINGLE SOURCE OF TRUTH

PAUT

Department of Trade and Investment, Regional Infrastructure and Services sources of data

- DTIRIS was recently formed and consequently is still in the process of aggregating its asset information from a number of other agencies with difficult portfolios (including Crown Land and Primary Industries).
- Consequently, the GPR database only lists 5 properties owned by DTIRIS compared to the internal property list provided which contains over 200 properties, comprising only assets formerly within I&I (other entities within DTIRIS are yet to aggregate asset information).
- Note that only the partial register (comprising former I&I assets) was reviewed for the purposes of the below table.

	GPR	Trade and Investment	Comments
Agency responsible	n/a	✓	
Lot / Plan / Property number	n/a	✓	Multiple property or lot numbers for each property – unclear as to how these reconcile to GPR
Asset name and address	n/a	✓	
Legal owner	n/a	✓	
Crown Land	n/a	✗	No Crown Land field exists in the departmental database; occasionally properties are labelled as Crown Land in other fields. This is a critical data point given the department now holds Crown Land
Essential / strategic properties	n/a	✓	Comprehensive information on whether the agency plans to expand, dispose or maintain each asset along with priority levels for assets; information is not always consistent or complete
Land use	n/a	✓	
Area	n/a	✓	Good area data with a distinction between office space and land area
Valuation	n/a	✓	Valuation missing for ~125 assets (out of 200) in the departmental database
Valuation date	n/a	✓	Only 75 assets have a valuation date; latest valuation date listed is 23 August 2007
Tenant data	n/a	✓	Has tenant data for some assets but the data is sparse and all external tenants listed are Government tenants
Utilisation data	n/a	✓	Good utilisation data where office space used to calculate utilisation; limited by the number of properties with office space and employee data; lists several assets which should have office space area listed but are blank
Heritage assets	n/a	✗	
Ownership level – i.e. ground lease and relevant data	n/a	✓	No data on whether the lease is a ground lease or not; contains lease terms but limited data on external tenants; lease data often out of date
Third party tenant data	n/a	✓	Limited data on external tenants – all the tenants are other Government departments

SINGLE SOURCE OF TRUTH

PAUT

Minister for Finance and Services (non-SPA) – Public Works

- Minister for Public Works' property register includes land at 31 March 2010, no further or more up-to date information was received from the department.
- Some properties have been vested to SPA (and these are accounted for in the SPA Property Portfolio).
- The relevant properties sit within the Department of Financial Services; the information contained in the files is generally of poorer quality than the GPR.

	GPR	Public Works	Minister for Public Works vested to SPA	Comments
Agency responsible	✓	✓	n/a	
Lot / Plan / Property number	✓	✓	n/a	The MPW 'Land_Reference' IDs are the same tie into the GPR database
Asset name and address	✓	✗	✓	The MPW database has some names but no addresses for properties. The SPA vested properties' file does have property addresses not for all properties
Legal owner	✓	✓	n/a	All properties are legally owned by The Minister Administering the Public Works Act 1912; sites vested to SPA are presumed to be legally owned by SPA
Crown Land	✗	✗	n/a	No information on whether a property is on Crown Land
Essential / strategic properties	✗	✗	n/a	Have codes for property use but additional information on strategic value of property; GPR lists all properties as 'essential'
Land use	✓	✓	n/a	Have codes for property use (these are currently unknown) and the property descriptions have some detail
Area	✓	✗	n/a	The GPR has good data on land size but it is not complete
Valuation	✓	✗	n/a	Blanks, inconsistencies and out-dated valuations exist
Valuation date	✓	✓	n/a	Many of the valuations are out of date or blank
Tenant data	✗	✗	n/a	Very sparse data about whether there is a tenant in the property
Utilisation data	✗	✗	n/a	Very sparse data about whether there is a tenant in the property
Heritage asset	✗	✗	n/a	
Ownership level – i.e. ground lease and relevant details	✗	✗	n/a	
Third party tenant data	✗	✗	n/a	There may be some inter-agency leasing in the commercial assets – this isn't clear

SINGLE SOURCE OF TRUTH

PAUT

Department of Transport

- The Department of Transport's Consolidated Property Register (**CPR**) contains asset information for Rail Corp, Roads and Maritime Services, Country Rail Infrastructure Authority, State Transport Authority of NSW and the Transport Construction Authority.
- Key issues identified during the data collection process include:
 - No property IDs linking GPR entries to those in the CPR; and
 - Discrepancy between number of assets listed for each agency in GPR vs. CPR.

	GPR	CPR	RMS property disposals	Comments
Agency responsible	✓	✓	n/a	
Lot / Plan / Property number	✓	✗	n/a	
Asset name and address	✓	✓	n/a	GPR often 'Unknown' or street and/or suburb only; CPR contains more detailed asset names
Legal owner	✓	✗	n/a	
Crown Land	✓	✗	n/a	GPR sporadically identifies land to be Crown Land – query reliability CPR identifies that majority of STA assets are 'Non crown' land
Essential / strategic properties	✓	✓	n/a	GPR identifies small number of assets to be non essential – query reliability CPR provides slightly more information in relation to assets earmarked for disposal (esp. for Rail Corp)
Land use	✓	✓	n/a	GPR land use is largely 'Unknown' / has unclear classifications; CPR provides more detailed land use information
Area	✓	✓	n/a	
Valuation	✓	✓	n/a	Query reliability of valuation data
Valuation date	✓	✗	n/a	
Tenant data	✓	✗	n/a	GPR tenant data is sparse and often out of date
Utilisation data	✗	✗	n/a	
Heritage assets	✗	✗	n/a	
Ownership level – i.e. ground lease and relevant data	✗	✗	n/a	
Third party tenant data	✗	✗	n/a	CPR outlines where CRIA assets are leased to 3rd parties – no info beyond this

SINGLE SOURCE OF TRUTH

PAUT

Other agencies

- Department of Health maintains its own real property asset database however, unlike all the other departments, did not initially provide any detailed data in relation to its assets.
 - Information has been provided quite recently, although not in any database form.
- Similarly, the Department of Planning & Infrastructure administers the Sydney Region Development Fund (**SRDF**) pursuant to ss 129-130 of the Environmental Planning and Assessment (**EPA**) Act and services the Corporation Sole (Minister for Planning and Infrastructure) established under s 8 of the EPA Act.
 - Under these functions, land is acquired for Strategic Planning purposes such as long term transport corridors and regional open space.
 - Land assets are actively managed pending transfer to the relevant line agency.
 - Surplus land is divested with funds received used to service SRDF debt.

SINGLE SOURCE OF TRUTH

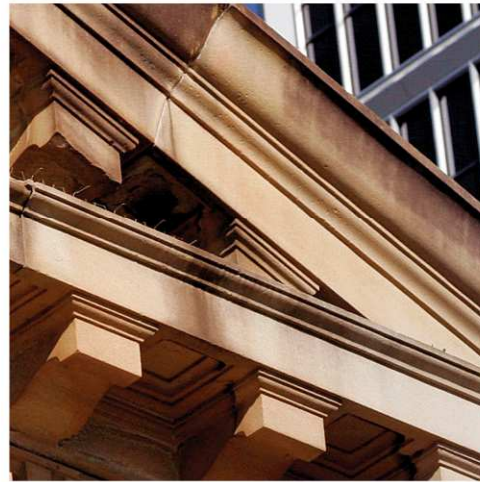
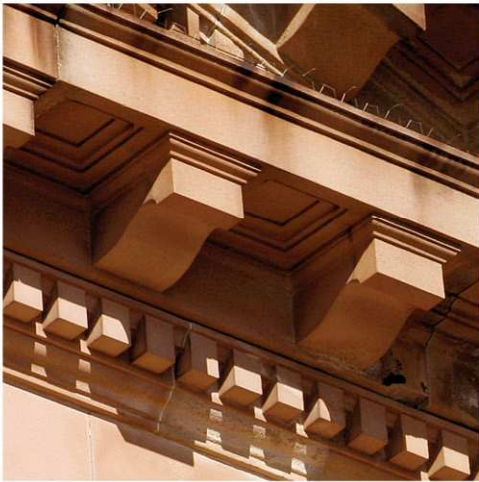
PAUT

Schott review of TAM database

- The recent Schott Report outlined a critique of Government TAM submissions.
- TAM submissions were characterised as late, incomplete, poor quality and unreliable, and significantly diminished Treasury's ability to make informed decisions about capex for the Budget and the next ten years.
- In particular, the following deficiencies were identified:
 - deficiencies in the development and submission of asset strategies, including failure to submit asset strategy as part of the TAM;
 - not linking project priorities to identified risks, service delivery outcomes and asset gaps or identifying the risk to service delivery if major projects are not funded;
 - not prioritising proposed expenditure between asset expansion, asset renewal and maintenance of existing assets;
 - not referencing measures of existing and future asset utilisation to support proposed disposals;
 - not considering cross-agency projects – agencies incorrectly assumed other parties to multi-agency projects had included the project in their submissions;
 - general, non-specific narratives were substituted where hard factual data was required;
 - uncertainty about reporting obligations resulting in under provision of information;
 - deficiencies in submitting strategic gateway reports and final business cases;
 - incomplete TAM data tables;
 - required deadlines not being met;
 - failure to obtain both Ministerial and CEO sign-off prior to TAM submission; and
 - failure to submit the proposed TAM and asset strategies in the required format
- Treasury modified the TAM submission process for the 2010-11 Budget to be more streamlined and targeted.
- Despite 100% compliance with TAM policy for nominated agencies, many are still preparing their TAM plan merely as a compliance exercise.
- The Schott Report identified that agencies (beyond just the capital intensive agencies such as Transport and Health) would also benefit from better feedback by Treasury on TAM submissions to promote continuous improvement and signal that submissions are scrutinised.

Source: Schott Report

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4.3

EXISTING ASSET MANAGEMENT FRAMEWORK

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EXISTING FRAMEWORK OVERVIEW

PAUT

Government's real property asset management incorporates a number of inter-relating stages and entities

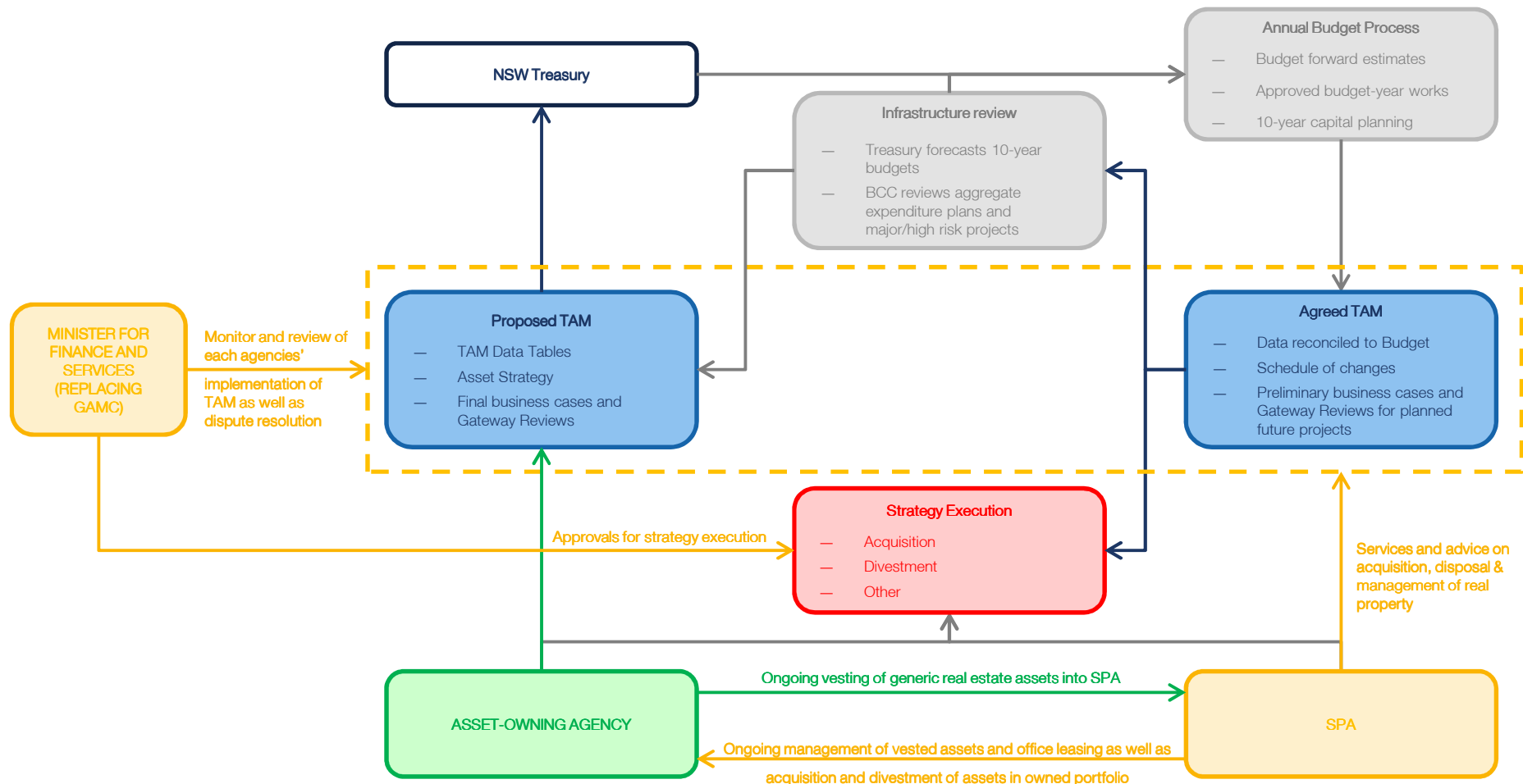
- The current real property asset management framework for the Government involves participation of a number of parties including:
 - Asset owning agencies;
 - SPA;
 - Minister for Finance and Services (replacing the GAMC's function);
 - Treasury;
 - Place managers;
 - Development authorities;
 - Other Government departments / agencies (e.g. Department of Planning and Infrastructure, UGNSW, Infrastructure NSW (INSW)); and
 - Expenditure Review Committee (ERC).

- The Government's real property asset management processes were designed to facilitate integration across Government as follows:
 - Office and generic accommodation to be vested to SPA who will undertake active management and provide leasing services to the agencies.
 - Agencies are responsible for submitting TAM plans to Treasury detailing their long-term real property asset management strategies in order to meet service delivery requirements.
 - Strategic overlay provided by SPA (for accommodation) and Department of Planning (for UGNSW).
 - TAM plans incorporate Property Disposal Plans to rationalise those real property assets surplus to requirements.
 - Feedback process in relation to TAM provided by Treasury who ultimately incorporates plans in State Budget.
 - Approvals process in relation to TAM submissions (including disposals and acquisitions) conducted by Minister for Finance and Services (replacing GAMC) with whole-of-government approach.
 - ERC only involved in property disposals where the proposed disposal is on such a scale that it is of interest to the Government and impinges on other decision-making processes.
 - Acquisition and divestment services provided to agencies by SPA.

EXISTING FRAMEWORK OVERVIEW

PAUT

Real property asset owning agencies must navigate several key processes in relation to strategy and execution



Source: Agency discussions, Government website

TOTAL ASSET MANAGEMENT

PAUT

Introduced to achieve better planning and management of the State's real property assets

Overview

- TAM Policy seeks to ensure an agency's real property assets best support its business operations and service delivery within available resources.
- All General Government agencies and businesses are required to submit TAM data to Treasury.
- Annual TAM submissions comprise:
 - A set of TAM data tables providing related data for individual real property assets over 10 years;
 - Real property asset strategy (for nominated agencies); and
 - These are top level strategic plans for the agency to demonstrate the relationship between the performance of its real property asset portfolio and the services its delivers.
 - Final business cases and Gateway Review reports (as required).
- TAM information plays a vital role in developing the NSW Annual Budget and Government 10-year State Infrastructure Strategy (SIS).
- Government entities using TAM information include:
 - Treasury;
 - Department of Planning; and
 - SPA.

Property Disposal Plans (PDP)

- PDPs form an integral component of an agency's TAM strategic planning and budgeting cycle.
- PDPs should include a range of key information, including:
 - Details of how the proposed disposal program supports overall real property asset strategy;
 - Any particular issues that are applicable to the disposal program;
 - Preferred general disposal methodology; and
 - Preferred disposal agency.
- PDP should also categorise properties and provide sufficient information to facilitate informed decision making.

Observation: TAMs often viewed as a compliance exercise. Done inconsistently, often using different consultants. In some cases not done at all.

STATE PROPERTY AUTHORITY

PAUT

SPA was designed to be a central property asset owner and manager to drive efficiencies

Overview

- SPA is a statutory authority formed under the State Property Authority Act 2006.
- SPA provides services and advice in real property acquisition, management and disposal, to agencies (by agreement) and the Government.
- SPA's three key property functions are:
 - Planning and Strategy;
 - Portfolio Management; and
 - Divestments, Acquisitions and Development.
- The SPA portfolio consists of the former Crown Property assets in addition to generic property vested in the Authority for management on behalf of service provider agencies.
 - Over one million square metres of property assets are under ownership and management, including significant heritage properties in the Sydney CBD and regional NSW.

Framework implemented to facilitate SPA

General

- SPA to function as the Government's preferred property acquisition and disposal agency.
- SPA to conduct regular and ongoing reviews of agency property portfolios to identify efficiencies.
- Provision of information by all agencies for the generic property database.
- DPC, SPA and Treasury to work cooperatively with Government agencies and relevant unions to address staffing and funding implications arising from implementation of the policy framework.

Office assets

- All Government owned office accommodation to be vested to SPA.
- Implementation of a commercial rental charge for vested accommodation.
- The transfer to SPA of management responsibility of all Government leased office accommodation.
 - Agencies pay management fee to SPA.

Generic assets

- Assets vested by agreement with SPA and Treasury.
- SPA to conduct all lease negotiations in the Greater Sydney Metropolitan Area except where Minister for Finance and Services (replacing GAMC) deems otherwise.

Observation: SPA has been relatively successful in consolidating the management of the Government's office accommodation. However, its effectiveness has been limited by lack of empowerment and resourcing, inefficient processes and lack of incentive for agencies to cooperate

PLACE MANAGEMENT

PAUT

In addition, numerous place management authorities are also responsible for ownership and management of real property assets in certain precincts

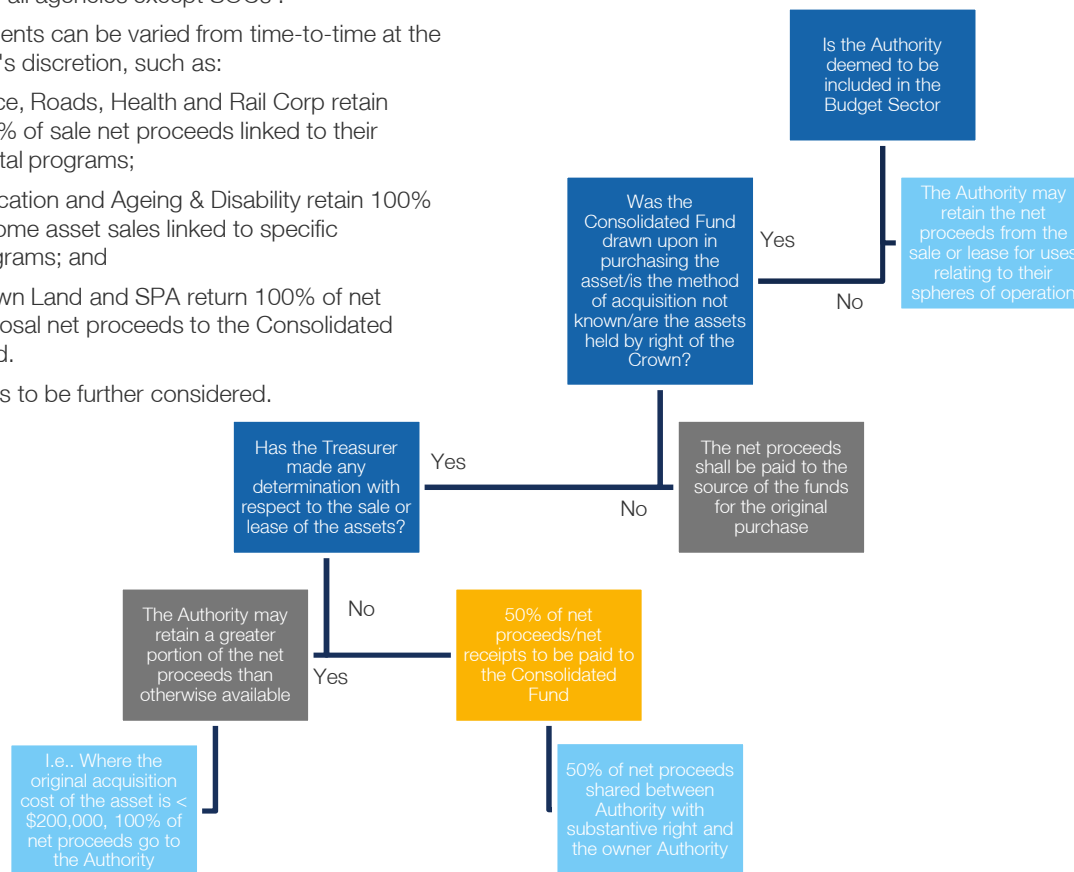
- A number of place management entities exist across NSW including:
 - SHFA;
 - Sydney Metropolitan Development Authority (SMDA);
 - Central Coast Regional Development Corporation;
 - Chipping Norton Lake Authority;
 - Hunter Development Corporation;
 - Redfern Waterloo Authority; and
 - Barangaroo Delivery Authority.
- Observation: whilst authorities achieve a focus in areas which involve local representation, they also replicate significant structural inefficiencies and do not benefit from expertise developed independently.
 - For instance, Barangaroo Delivery Authority is on a critical delivery timeframe and significant expertise and capability is being developed. While not removing focus, we would suggest this capability would be of benefit across all place management authorities and, simplistically, it would be a shame if this expertise were to be lost once Barangaroo is delivered.
- Some place managers are more 'venue' based, including:
 - Centennial Park and Moore Park Trust;
 - Sydney Cricket Ground and Sports Ground Trust;
 - Sydney Opera House;
 - The Royal Botanic Gardens and Domain Trust; and
 - Western Sydney Parklands Trust.
- We have not addressed recommendations across venue managers but observe that there would be a benefit in cooperation and leveraging of skills across these entities

DISTRIBUTION OF PROCEEDS FROM ASSET SALES PAUT

Treasurer's Directions 469 provide guidance as to the distribution of proceeds from an asset sale

Distribution of proceeds from asset sales model

- Applies to all agencies except SOCs .
- Arrangements can be varied from time-to-time at the Treasurer's discretion, such as:
 - Police, Roads, Health and Rail Corp retain 100% of sale net proceeds linked to their capital programs;
 - Education and Ageing & Disability retain 100% of some asset sales linked to specific programs; and
 - Crown Land and SPA return 100% of net disposal net proceeds to the Consolidated Fund.
- This needs to be further considered.



- When is the Authority deemed to be included in the Budget sector?
 - The Authority is shown as an Organisational Unit (department) in the State Budget Estimates; and
 - Receives an appropriation from the Consolidated Fund to meet payments for recurrent services.
- When do the provisions of this direction not apply?
 - Where the Authority is charged with administering large landholdings or major assets.
 - Where the initiative to dispose of the asset arises as a result of Government directive.**
- Proposals to utilise funds retained to finance capital expenditure must be submitted to ERC.
- Approval of the Treasurer must be gained to use retained funds for the maintenance of capital assets.

Observation: Despite policy, there remains confusion amongst all stakeholders on the incentive to achieve and impact of sale proceeds on Agency budgets – in most cases leading to non-disposal of surplus assets.

Source: Treasurer's Directions (469.06 – 469.08)

1. Arrangements can be varied across an agency, in relation to a specific program, or for an individual asset

SALE PROCEEDS CASE STUDY

DEPARTMENT OF EDUCATION

PAUT

DEC has not received any additional funding from Treasury to compensate for rental payments to SPA

- DEC has an office accommodation strategy whereby it uses former school sites or sections of underutilised schools for office accommodation where appropriate.
- In 2010, DEC also vested to SPA a number of former school sites that are used for office accommodation:
 - Smalls Road, Ryde;
 - Henry St, Penrith;
 - Middle Road, Forster;
 - Crown St, Wollongong; and
 - Ballina Rd, Goonellabah.
- Following vesting to SPA, DEC commenced rental payments to SPA:
 - Treasury did not increase DEC's budget to compensate for the additional cost.
- SPA agreed to repatriate net proceeds to DEC should any of the sites be sold however this agreement does not extend to new rental revenue:
 - i.e. if DEC were to vacate and SPA found new tenants, DEC would not receive any share of the new rental revenue.
- SPA also vested DEC's property at 101 York St, Queens Park (site of Moriah College who also lease the adjoining former Health Department property):
 - Agreement that if future agreements between SPA and Moriah College result in profit on sale, DEC will be fairly compensated.

SALE PROCEEDS CASE STUDY

DEPARTMENT OF FAMILY AND COMMUNITY SERVICES

PAUT

FACS receives approximately \$3.5 million p.a. from Treasury to compensate for rental payments to SPA

- Within the FACS office accommodation portfolio there were three main agencies affected by the vesting program:
 1. Ageing, Disability and Home Care
 - Vested all leased sites but did not vest any 'owned' facilities, so the impact was negligible
 2. Land and Housing Corp
 - Owned offices are held within Land & Housing Corporation and therefore were not vested to SPA
 3. Community Services
 - Owned a substantial number of offices which were vested to SPA during Tranches 5 and 6
- Community Services were compensated (via an increase in recurrent funding) to cover rental payments post vesting
 - Rental compensation provided approximately \$3.5 million p.a.
 - This appropriation did not include out-goings costs or the SPA management fee but did cover full rental of those sites transferred

PROPERTY OWNERSHIP, UTILISATION AND MANAGEMENT DECISIONS

PAUT

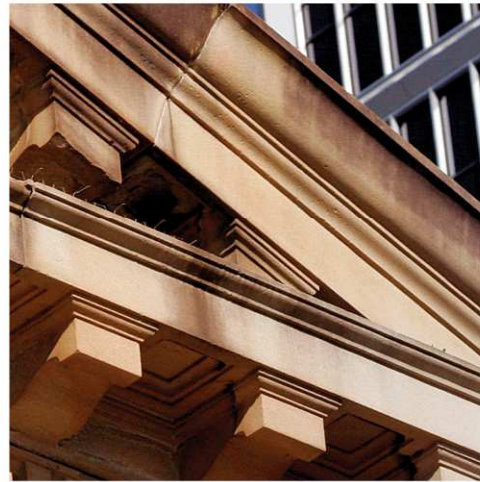
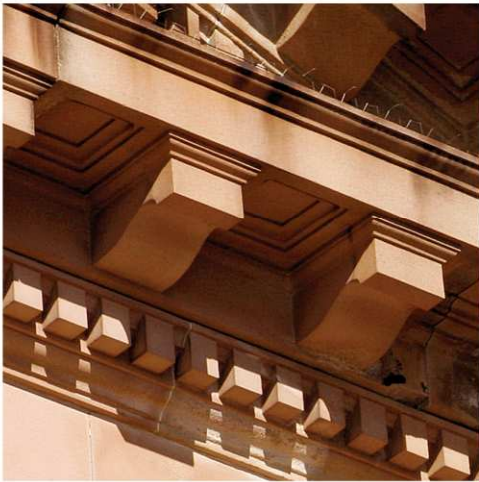
Financial decisions are undertaken following financial or economic appraisals

- Following the strategic and budgeting process (including TAM submissions) but prior to execution of a chosen strategy, Treasury requires agencies to undertake financial and/or economic appraisals for proposed projects in order to decide whether to proceed.
 - Financial appraisals show cash flow demands on the Government's finances and the financial rate of return.
 - Economic appraisals also take into account qualitative factors and the impact that projects may have on third parties.
- Feedback suggests that uncertainty exists as to which appraisal is appropriate in which situations or if an appraisal is required at all

	Financial Appraisals	Economic Appraisals
Scope	<ul style="list-style-type: none"> ■ Required for capital projects of Government businesses and all projects of Government agencies which involve a financing decision ■ Greater relevance to commercial proposals 	<ul style="list-style-type: none"> ■ Required for proposed new capital works ■ Greater relevance for State Budget funded proposals
Objective	<ul style="list-style-type: none"> ■ Evaluate financial viability of a proposed project 	<ul style="list-style-type: none"> ■ Ensure efficient allocation of resources within the NSW public sector and within the broader community
Treasury involvement	<ul style="list-style-type: none"> ■ Treasury involved via ERC process and directly when appraisal is submitted 	<ul style="list-style-type: none"> ■ Treasury involved via ERC process and directly when appraisal is submitted
Factors considered	<ul style="list-style-type: none"> ■ Focuses on the effects to the agency sponsoring the project ■ Only considers the direct cash flow effects of an organisation's investment proposal 	<ul style="list-style-type: none"> ■ Considers a wider range of factors including: <ul style="list-style-type: none"> — Qualitative, non monetary factors — External benefits and costs for third parties (i.e. other Government agencies, private sector enterprises and individuals)
Assessment of benefits and costs	<ul style="list-style-type: none"> ■ Use of market prices and valuations 	<ul style="list-style-type: none"> ■ Often also considers measures such as willingness to pay and opportunity cost
Methodology	<ul style="list-style-type: none"> ■ NPV of project-specific nominal cash flows discounted by a post-tax WACC 	<ul style="list-style-type: none"> ■ Costs and benefits in real terms over 20 years to be discounted by rate of 7% (with sensitivities at 4% and 10%)
Nominal v real basis	<ul style="list-style-type: none"> ■ Discount rate and cash flow usually specified on a nominal post tax basis 	<ul style="list-style-type: none"> ■ Costs and benefits valued in real terms ■ Discount rate also in real terms

Source: NSW Treasury, Commercial Policy Framework: Guidelines for Financial Appraisal (July 2007); NSW Treasury, Economic Appraisal Principles and Procedures (July 2007).

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CRITIQUE OF EXISTING FRAMEWORK

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OBSERVATIONS OF EXISTING FRAMEWORK IN PRACTICE

PAUT

Feedback received consistently indicates that the existing property ownership, utilisation and management process departs materially from what was originally intended

- As it was designed, the existing property ownership, utilisation and management framework of the Government is reasonably robust.
- In practice, property ownership, utilisation and management is not being conducted as originally envisaged.
 - Whilst there is a central real property asset register (GPR), it does not contain comprehensive information relating to Government real property assets required to identify and drive efficiencies; discrepancies have been identified between agency databases and GPR; and GPR does not contain reliable information beyond titling on most real property assets.
 - Some real property assets (predominantly office) have been vested into SPA but a number of agencies retain ownership and management of substantial portions of their portfolios.
 - Property decisions of a relatively straight forward nature still require Ministerial or ERC approval. There is no clear set of 'rules' for each class of real property assets that can be easily adopted.
 - It appears that SPA has not been adequately supported to follow through with its intended powers, with agency feedback including:
 - It has become an 'agent to the agencies' in order to create a niche for itself;
 - Ability to deliver strategic outcomes has been hampered by constant change of agency / cluster portfolios;
 - Vesting has not been consistent and agencies retain ownership of a lot of real property assets and power over leasing decisions for real property assets they do not own;
 - Inability to control key management tasks at a portfolio level (e.g. leasing) makes it difficult to drive other cost efficiencies (e.g. in relation to fit-out) which may be enhanced by a more standardised approach;
 - SPA is generally reactive and often 'gamed' by the agencies; and
 - Extreme perspectives: SPA – passive resistance and obstructiveness from agencies vs Agency – lack of responsiveness, timeliness and service quality from SPA.
 - The approval process places significant constraints upon it – Treasury / ERC.
 - Significant inconsistency of approach to basic functions such as submitting TAMs with some agencies engaging third party consultants and contractors to assist in this process.
 - Agencies are often more focused on 4-year budget cycle than 10-year planning cycle required for TAM process.
 - Due to the Government's AAA credit rating, its borrowing costs are cheaper than the rent it would pay on a lease.
 - Current financial analysis ignores true ownership costs across the asset life cycle including maintenance and capex, thus often leading to decisions to acquire real property assets rather than lease. This is an important by-product of both the annual and the 4-yearly budgetary focus as well as the annual and central holdings of funds for maintenance and depreciation.

OBSERVATIONS OF EXISTING FRAMEWORK IN PRACTICE

PAUT

Feedback received consistently indicates that the existing property ownership, utilisation and management process departs materially from what was originally intended

- Surplus or underutilised real property assets are often not identified for disposal or improvement as agencies lack motivation or incentive to deal with them.
 - No clear guiding policy as to when real property asset ownership is appropriate – default position is to maintain property ownership, even where not required, resulting in inefficient capital utilisation where that capital may be better deployed elsewhere to meet policy objectives.
 - Lack of capital charging or requirement to deal with surplus real property assets results in agencies not dealing with real property assets for long periods of time.
 - Majority of real property assets are too small to deal with economically within a government context.
 - Dealing with surplus real property assets is not the agencies' core business and neither they nor SPA have the resources to undertake this role to the full extent required.
 - Property maintenance and capital works are often neglected as agencies retain or divert funds for other purposes (e.g. service delivery) – growing and ageing real property asset base exposes the State to long-term risks associated with its deteriorating due to failure to correctly reserve against depreciation to maintain its capital base to an appropriate standard.
- Approval process on what a property business would consider 'ordinary course' is a constraint.
 - Treasury requirements can be unclear to some agencies.
 - ERC process adds a layer of administration for transactions of material size which can sometimes frustrate processes and provide a deterrent to agencies undertaking value creating initiatives.
- A level of cynicism exists between the agencies and Treasury.
 - Without a level of clear oversight Treasury does not have faith in the capability of agencies to consistently execute appropriate real estate disposals and acquisitions.
 - Agencies do not trust that Treasury will repatriate net proceeds of sale without taking from other areas of the budget, hence undermining their motivation to expend the time and resources required to undertake real property asset disposals.
- Financial evaluation criteria are unclear and are not supported by an easily applied decision framework which is adaptable to changing market conditions.
- Different agencies are subject to different treatments in relation to net proceeds from sale of real property assets (i.e. inconsistent application of policy).
 - More real property asset intensive agencies (Transport, Education, Health) appear to have more power to dictate the treatment of their real property assets and proceeds.
 - Some agencies do not fully understand their entitlements in this regard.

FUNCTIONAL DUPLICATION

PAUT

There is also a significant amount of duplication across the existing framework

- The lack of a centralised framework has led to substantial duplication of function across the Government in relation to real property asset ownership and management.
 - This leads to a less coordinated approach, greater costs, diluted expertise and a lack of process efficiency.
- Elimination of duplication may lead to material economic benefits to the State.

	Information Database	Strategy & Planning	Utilisation Improvement	Portfolio Management	Asset Management	Facilities Management	Leasing Management	Development Facilitation	Asset Ownership
Asset owning agencies	✓	✓	✓	✓	✓	✓	✓	✓	✓
Land & Property Information	✓	-	-	-	-	-	-	-	-
Landcom (now within UGNSW)	✓	-	-	-	-	-	-	✓	✓
Planning & Infrastructure	-	✓	✓	✓	✓	✓	-	-	✓
SPA	✓	✓	✓	✓	✓	✓	✓	✓	✓
Treasury	-	✓	-	-	-	-	✓	-	-
Place managers	✓	✓	✓	✓	✓	✓	✓	✓	✓
Third party contractors	-	✓	-	✓	✓	✓	✓	✓	-

INCENTIVES

PAUT

Learnings from the private sector may be applicable to the Government

- A number of critical issues relating to real property asset ownership are currently leading to inefficiencies.
- A comparison with private sector illustrates why some of these inefficiencies are perpetuated.

Government	Private sector best practice
— Whole-of-government approach not incentivised or mandated	— Whole of corporation approach facilitated by centralised management; healthy competition between business units generally outweighed by common goals and reinforced by incentive structures
— No capital charging on real property assets held by agencies so limited incentive to drive performance / no cost to hold	— Capital charging common in larger, particularly financial, institutions — Underutilised or poorly managed real property assets adversely impact profitability and ability to raise new capital
— Retention of sale proceeds can be inconsistent and agencies often are unaware of what they are entitled to	— Policy around net proceeds of real property asset sales clearly defined and consistently applied across business divisions
— ERC approval process can be a deterrent to undertaking value-creating initiatives (thresholds too low, engagement too frequent, timeliness)	— Delegated authorities provide management with level of autonomy to pursue commercially viable transactions
— Often under-resourced to drive improved real property asset performance outside ordinary service delivery	— Stronger commercial incentives drive resourcing to areas where returns justify it, with non-core functions often outsourced
— Remuneration of staff does not provide motivation for improving returns on real property assets	— Incentive based payment structures typically reward outperformance (and penalise underperformance)
— Consideration typically limited to short/medium term analysis, driven by 4-year budget cycle	— Management generally focused on delivering shareholder value over both the short and long term, supported by remuneration structures which reward superior long-run performance
— No accountability for failure to live within budget	— Management accountable to the board and shareholders
— Multiple stakeholder considerations add complexity to decision making	— Predominant stakeholder objective is to maximise shareholder value

KEY IMPEDIMENTS TO DELIVERING EFFICIENCIES

PAUT

There are several impediments to a coordinated approach to ownership, utilisation and management of Government real property assets

■ Context:

- Dealing with surplus real property assets is not the agencies' core business and they are not incentivised or held accountable for real property asset utilisation.
- Continuous Government structural change creates impediments to maintaining a sustained focus.
- Majority of real property assets are too small to deal with economically .
- As a result, little or no focus or resourcing is given to driving real property asset efficiency and management is typically reactive.

■ Capability:

- Examples of poor execution or strategic planning in relation to real property asset sales in particular has led to some reluctance to undertake efficiency creating transactions:
 - Examples include sale-and-leaseback transactions at the McKell Building and the DTIRIS office complex in Orange, SHFA sales process, overseas passenger terminal, Green Square development.
- Lack of corporate memory / cultural issues – need will to overcome and learn from, historical issues.
- Under-resourcing and lack of sufficient talent / energy limit potential value-add.

■ Coordination:

- Lack of coordination regarding information – each department keeps its own database of real property assets.
- Lack of stability in clusters.
- Lack of consistent titling procedures.
- Lack of complete and up-to-date central information database (although agencies generally maintain good databases).
- Lack of truly coordinated accommodation planning process leading to frequent sub-optimal portfolio management (ownership AND leasing).
- Whole-of-government view is absent because incentives and broader system are not aligned – Government acts as a 'conglomerate of silos'.

KEY IMPEDIMENTS TO DELIVERING EFFICIENCIES

PAUT

There are several impediments to a coordinated approach to ownership, utilisation and management of Government real property assets

■ Vision:

- Need for long term planning for real property asset utilisation and financing – i.e. working to real property asset cycle, not the budget cycle or political cycle.
- Commercially driven decision-making ensuring that evaluation process is sensible and applicable to the relevant real property asset / situation.
 - Appropriate use of economic vs. financial appraisals.
 - Appropriate use of commercial WACC vs. Government discount rate vs. Government cost of debt.
 - Consideration of true ultimate use of funds.
 - Viability of process under a variety of Government financial / budgetary situations.
 - More accurate property valuation, depreciation expense provisioning and reserving for maintenance capex.
- Stability / timeframe of strategy and vision.
 - Need to ensure that limited resources are applied to strategic priorities.
- Recycling of capital efficiently within Government to avoid increased debt levels.
- Structural framework to facilitate optimal real property asset utilisation – need appropriate balance of positive and negative incentive mechanisms to promote more effective decision making.

AGENCY FEEDBACK

PAUT

Feedback from agencies provides insights as to where framework improvement is required

	Comments
SPA	<ul style="list-style-type: none"> — Role has become an agent to agencies – not enough power to deliver on whole-of-government approach — Ability to deliver strategic outcomes hampered by constant change of agency / cluster portfolios — Vesting is continuing to occur, however sign-off of agency required so not all real property assets are being brought into SPA <ul style="list-style-type: none"> — Real property assets vested are often in poor condition — Divestment programs given to SPA to execute are often the most challenging that agencies feel unable to do themselves, however many agencies like to conduct their own acquisition / divestment programs where they can — Current haphazard processes lead to cost inefficiencies (e.g. fitout, etc.) which may be minimised by a more standardised approach — SPA has the capability to deliver different transaction structures, but Treasury typically reluctant to consider the spectrum of possible transaction structures between 'own and operate' and 'take space in an existing building' — Past strategic work not embraced — Important to 'break the mould' by illustrating SPA's capabilities — Difficulties in implementing 'Decade of Decentralisation' policy
Agency 2	<ul style="list-style-type: none"> — Changing profile of service delivery may provide opportunities to improve utilisation of existing real property assets — Rationalisation impacted by complex stakeholder interests
Agency 3	<ul style="list-style-type: none"> — Whole-of-government treatment is imperative to drive improved performance of the State — Structure should align incentives with the objectives of the State — SPA manages leases but under-resourced and conflicted (role with agencies comprises leasing adviser vs. real property asset owner vs. quasi-regulator) <ul style="list-style-type: none"> — Also is not sufficiently strategic (i.e. generally approach from a property perspective rather than a service delivery perspective)
Agency 4	<ul style="list-style-type: none"> — Issues with lack of coordination and responsiveness from central agencies make it less worthwhile bringing proposals forward — Community and other stakeholder concerns around real property assets make execution challenging and daunting – disincentive — Incentives required to bring their unutilised real property assets forward — Retention of divestment net proceeds essential to fund capex

Source: Agency discussions

AGENCY FEEDBACK

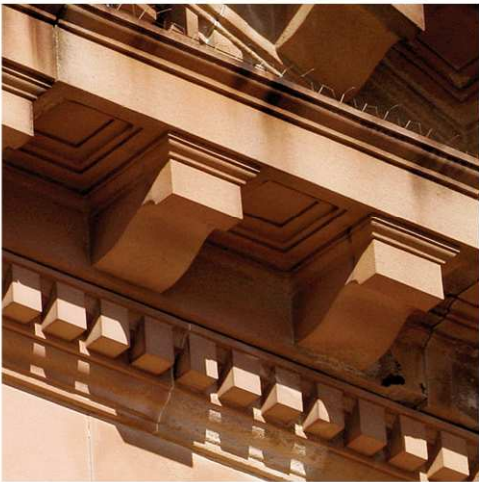
PAUT

Feedback from agencies provides insights as to where framework improvement is required

	Comments
Agency 5	<ul style="list-style-type: none"> — TAM process for capital budgeting does not function well and information is not used strategically, only assessed from cost / affordability viewpoint — Leasing processes could move more quickly and best-cost outcomes are not always achieved compared with the market
Agency 6	<ul style="list-style-type: none"> — SPA manages all external leases but not adequately resourced to deliver optimal outcomes — Titling system requires improvement as title to properties held across multiple entities
Agency 7	<ul style="list-style-type: none"> — Clearer view of Government's intentions for future service delivery (e.g. centralisation vs. decentralisation) is required — Capital is free which creates skewed decision making – getting the incentives right is important — Need long term framework, not just a quick fix via real property asset divestments — Potential exists to streamline process once divestment or optimisation opportunities are identified
Agency 8	<ul style="list-style-type: none"> — Government decision making on accommodation has been very poor – agencies gaming system — Government needs to exercise its commercial power and minimise the number of bodies that are engaging in significant property dealings
Agency 9	<ul style="list-style-type: none"> — Good relationship with SPA but believes they are under-resourced so not always able to deliver leasing outcomes quickly — Government should be more commercial about dealing with Crown land – consider releasing for development / monetise where appropriate — Under-utilisation is prominent — Insufficient capital to fund major refurbishments
Agency 10	<ul style="list-style-type: none"> — Real property asset disposals / acquisitions handled (or at least approved) centrally within cluster <ul style="list-style-type: none"> — Believed better handled internally due to nature of real property assets and long-term planning view required — Require 100% of sales net proceeds to fund unfunded liabilities and continued capital requirements
Agency 11	<ul style="list-style-type: none"> — TAM process requires improvement – not as integrated as it could be — Maintenance and capex is a big issue for Government buildings – easy to cut maintenance spending when budget allocation is under pressure — Lack of trust for structured deals as many have failed in the past — Sales proceeds to agencies inconsistent – dealt with on case by case basis — Overall desire for central control and whole-of-government treatment

Observation: Requires revitalisation. Extreme perspectives: SPA view – passive resistance and obstructiveness from agencies vs. Agency view – lack of responsiveness, timeliness and service quality from SPA.

Source: Agency discussions



5

NEW GUIDING POLICY

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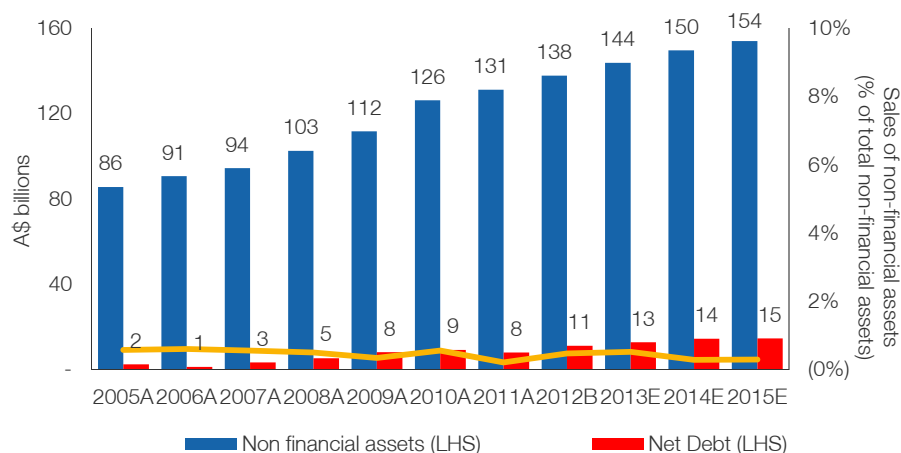
NEW GUIDING POLICY

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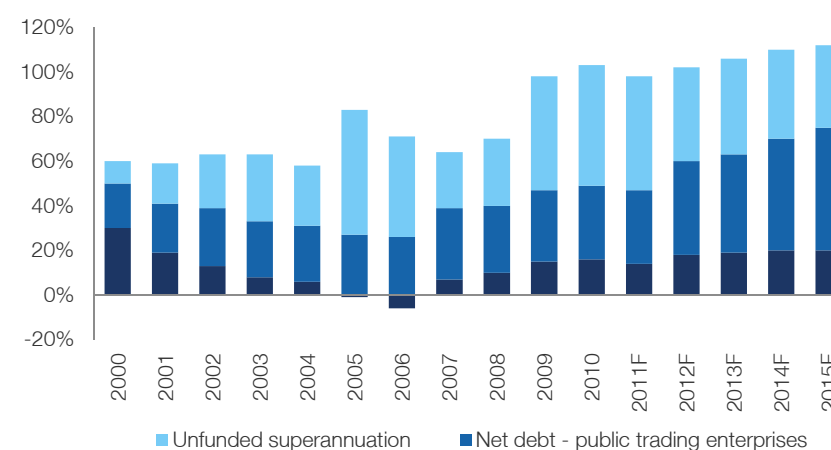
The issue: Government needs to recycle capital and preserve the value of its capital base

- Government has an upward trending non-financial assets balance implying that it is a net acquirer of assets¹.
 - Total non-financial assets of \$131.1 billion in June 2011, expected to increase to \$153.9 billion in June 2015².
 - Non-financial assets predominantly consists of land and buildings as well as infrastructure systems, in roughly equal proportions.
 - Growing and ageing asset base exposes the State to long-term risks associated with the deteriorating quality of its asset base, and consequent inability to deliver a consistent quality of services, due to Government's failure to correctly reserve against depreciation and commit capital expenditure to maintain its capital base to an appropriate standard.
- Sale of non-financial assets as a proportion of total non-financial assets is forecast to remain below historical average of only 0.5%, despite an upward trending net debt balance and marginal forecast budget surpluses over the next three years.
 - Downward pressure on the State's credit rating could emerge if measures of its debt obligations (such as net financial liabilities to operating revenue) continue to deteriorate.

Annual change in non-financial assets



Net financial liabilities as % of operating revenue



Source: Budget Statements

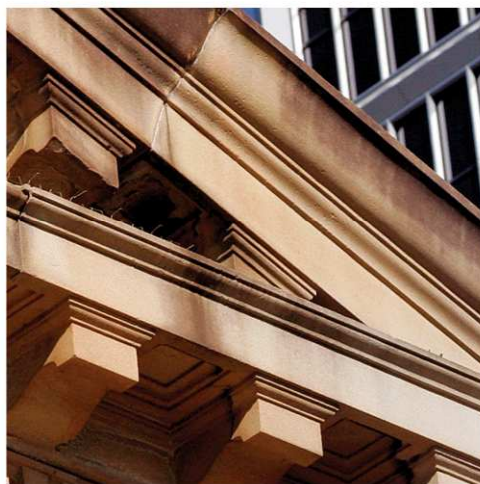
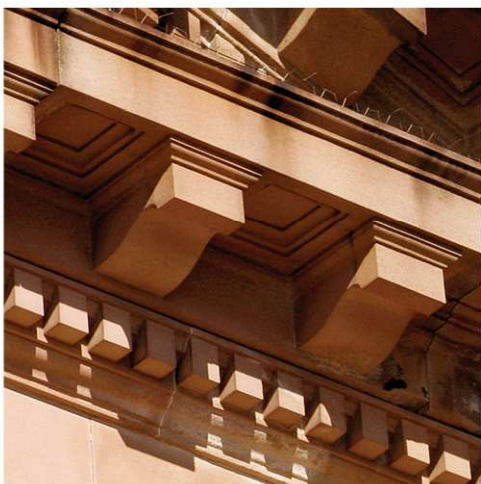
1. Increase may be partially attributable to valuation gains on existing assets
2. Value covers general government sector only

NEW GUIDING POLICY

PAUT

A new real property asset management policy is required to support Government objectives

- Consistent with the findings of the Commission of Audit Report, the Government's existing real property asset management policy is not working to achieve outcomes consistent with the Government's key purpose of providing core services which cannot be adequately provided by the private sector, as well as supporting the NSW 2021 goals and the State Plan.
- The goal of real property asset management policy should be to ensure that real property assets are only held when required, and in a form necessary, to support core Government service delivery and/or to meet long term strategic Government objectives.
 - Capital tied up in real property asset holdings (owned or leased) which is surplus to these goals should be recycled into 'higher and better uses', which includes maintaining, improving and extending the State's capital base.
 - The recommendations set out in the Taskforce's Report, and summarised here, present a comprehensive and integrated reform package designed to improve, refresh and, where required, replace existing real property asset management policy in order to support Government objectives.
- Successful execution of the Taskforce's recommendations should ultimately result in the following key differences relative to the existing framework:
 - Government should own less property, being only that which is essential for service delivery or of long-term strategic importance;
 - Government should be able to take a whole-of-government strategic approach to property utilisation;
 - Real property assets should be better utilised and maintained, and capital should be more actively recycled;
 - In particular, more property should be sold each year as it becomes surplus, freeing up capital for higher and better use (which may, from time to time, include reduction of liabilities in order to reduce reliance on debt and alleviate downward credit rating pressure, free up the State's ability to take on further borrowing to assist with financing of service delivery and other projects and/or reserve for capital maintenance).
 - Government should have comprehensive, current and accurate information relating to ownership, condition and utilisation of its real property assets;
 - Centralisation of information is one of the key pillars of the new framework and should enable whole-of-government strategic decision making.
 - Over time, property valuation and depreciation expense provisioning should become more accurate;
 - Agencies to routinely budget to maintain their property to appropriate standards and be funded to do so.
 - To the extent agencies are unable or unwilling to maintain their existing real property asset base, the size of the asset base should be reduced.
 - Decisions to buy, sell and lease real property should be referenced to service delivery objectives, real property asset plans and budgets, and Government capital management objectives over the life of the asset;
 - Real property asset management policy should be simple, consistently applied across Government and clearly communicated to agencies;
 - Policies, systems and processes should enable more efficient real property asset planning, performance management, reporting and evaluation; and
 - A cooperative and collaborative approach to property management should underpin whole-of-government real property asset management decisions.



6

REVISED DECISION-MAKING FRAMEWORK

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REVISED DECISION-MAKING FRAMEWORK

PAUT

Property ownership should only occur where required for service delivery or other strategic reasons

- Recommendation 1 provides that Government should only hold real property assets when, and in the form necessary, to support core service delivery (including where those assets are of long term strategic importance).
 - In order to implement this recommendation, a revised decision-making framework is required.
- At present, the Government appears to default to maintaining property ownership.
 - This results in inefficient capital utilisation where that capital may be better deployed elsewhere to meet policy objectives.
 - Also exposes the State to long term risks associated with deteriorating quality of its real property asset base due to failure to correctly provision for depreciation.
- A key reason for this default position is that the current financial analysis framework fails to adequately account for the opportunity cost of capital being 'tied up' in real property assets where ownership is not required.
 - Leads to sub-optimal results where real property assets are retained as they 'return' greater than Treasury's cost of borrowing, failing to recognise the potential benefits of re-investing the net proceeds into other capital intensive projects.
- Implicitly, every time that the Government resolves to retain a real property asset on its balance sheet it is essentially agreeing to repurchase that asset for future use (i.e. behaviour suggests the Government would rather use its capital to own that particular asset than allocate the capital elsewhere).
- Consistent with Recommendation 1, the Taskforce recommends revision of the Government's property ownership decision-making framework to encourage a property investment / retention decision making process underpinned by disciplined consideration of:
 - Efficient and appropriate use of capital to meet the Government's strategic objectives;
 - Government's desired financing arrangements (particularly in the context of its credit rating); and
 - Prevailing market conditions.

REVISED DECISION-MAKING FRAMEWORK

PAUT

Property ownership should meet a strategic objective and consider the opportunity cost of capital

- Under the revised decision-making framework, the first decision in relation to currently owned real property assets is: do they meet a strategic objective or are they necessary due to market failure?
 - If not, real property assets should be divested to release capital for other projects.
 - A financial analysis would only be required to ensure market value is being received via the sales program, or for dispute resolution.
- Rather than proposing a revised financial analysis framework, the Taskforce recommends a revised property investment framework that evaluates the decision to sell or retain a real property asset in the context of other opportunities as well as funding considerations.
- The proposed revised real property ownership analysis framework would operate as follows:
 1. Real property assets should be subject to the decision framework outlined in pages 75 to 77.
 2. Pursuant to this assessment, the default position for real property assets that are deemed suitable for sale is that they should be sold.
 3. If it can be demonstrated that the real property asset can be sold readily for a fair market value (e.g. independent valuation) the asset is to be monetised (no financial analysis required).
 4. Should there be a dispute as to the financial viability of the sale, an analysis should be conducted on the following basis:

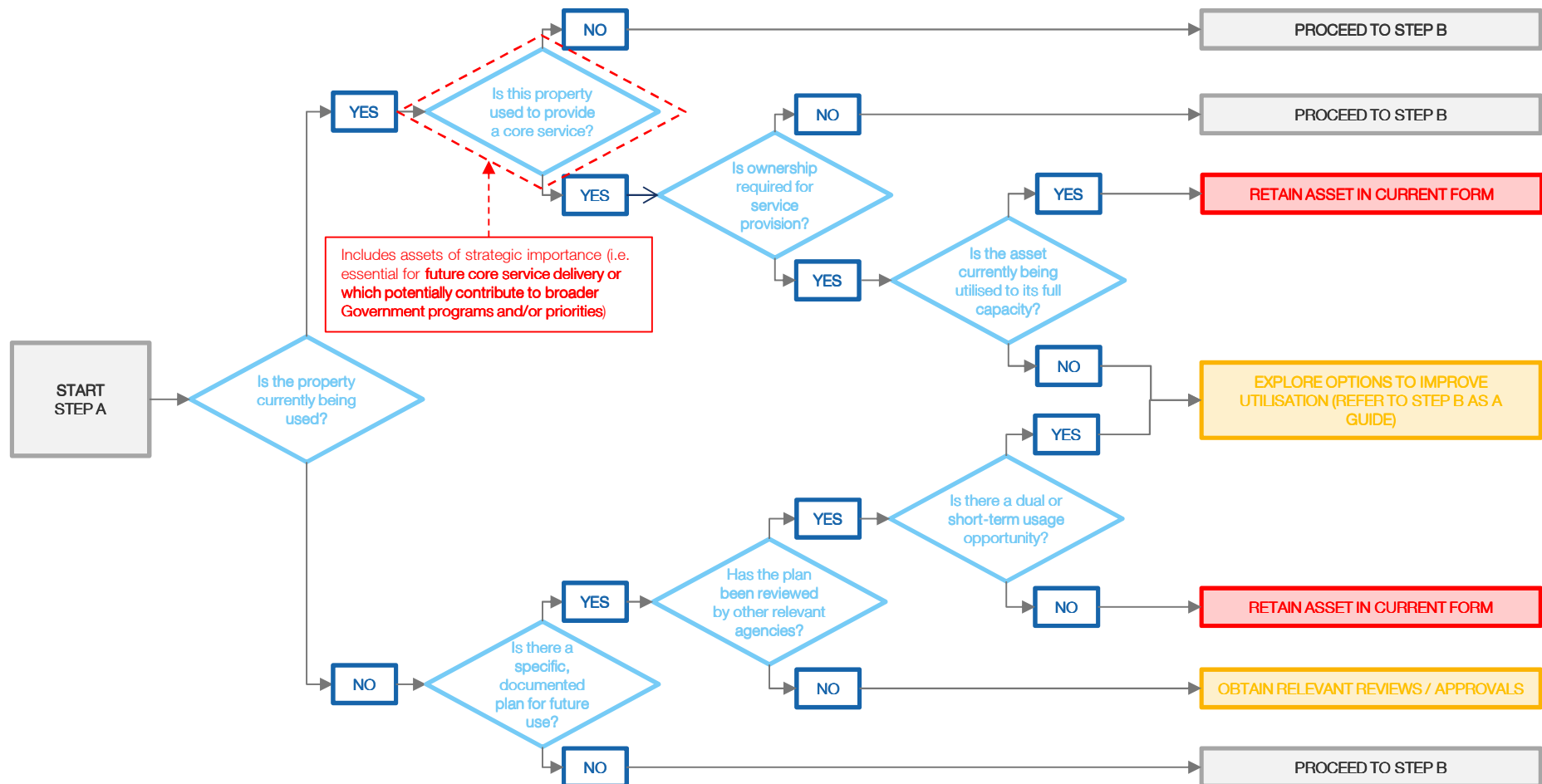
If a real property asset was not currently held by the Government, would it purchase the asset today if given the opportunity to do so (with full consideration of all capital constraints and other opportunities to deploy the funds elsewhere).

- Essentially, this should not lead to counter-intuitive results whereby the Government would prefer to purchase a **real** property asset where ownership is not essential for service delivery in preference to investing capital in transport, health, education or other key projects.
 - Note that where market failure exists, real property asset ownership will by definition be required for service delivery; therefore this analysis should still show that property ownership is desirable in this context.
- The decision framework outlined on the following pages should initially be applied by real property asset-owning agencies (including Property NSW to the extent that it is an owner of real property assets); Property NSW may also apply this test in its capacity as central agency when it decides to review a particular line agency's property holdings.

REVISED DECISION-MAKING FRAMEWORK

PAUT

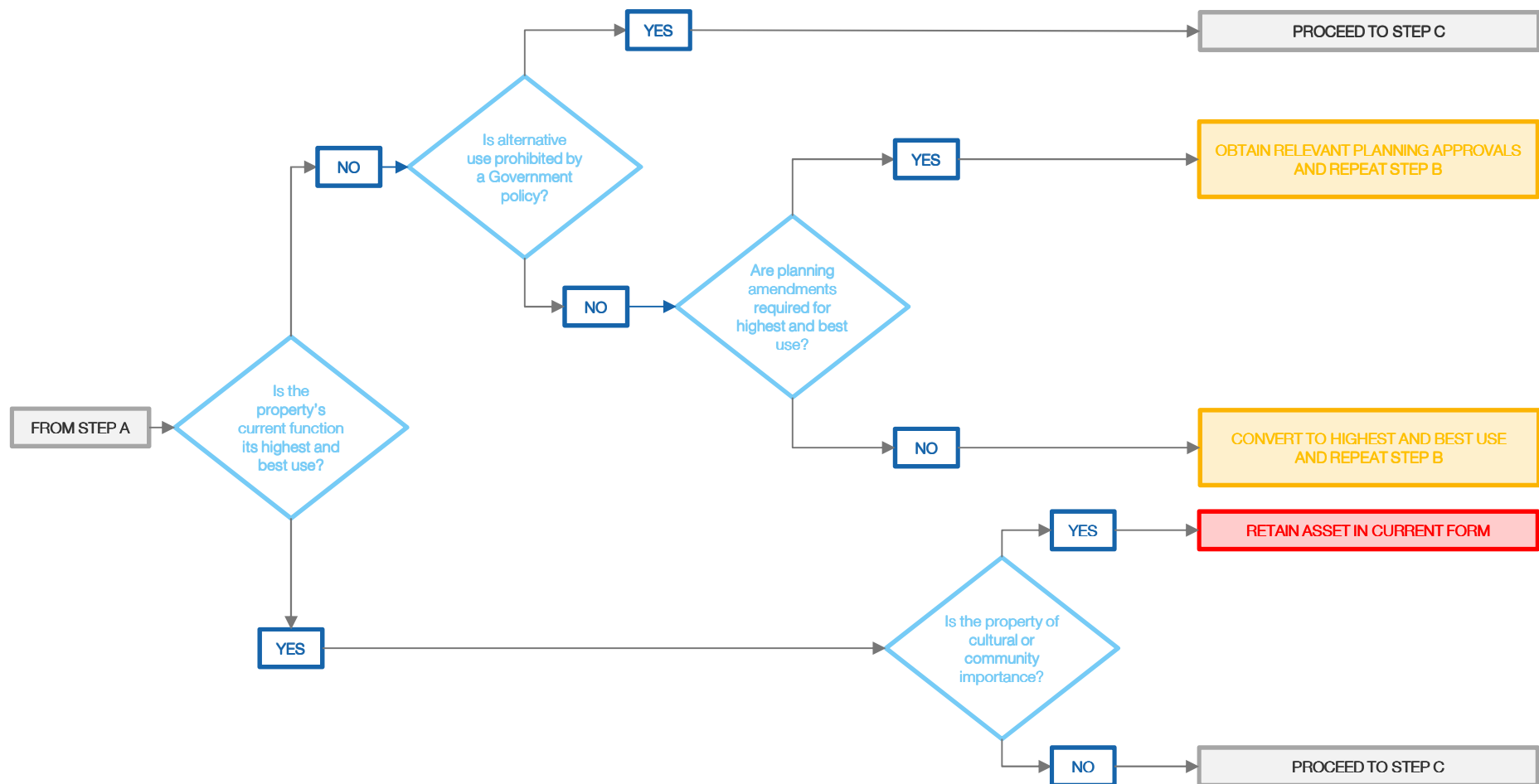
Step A: Real property asset usage and utilisation



REVISED DECISION-MAKING FRAMEWORK

PAUT

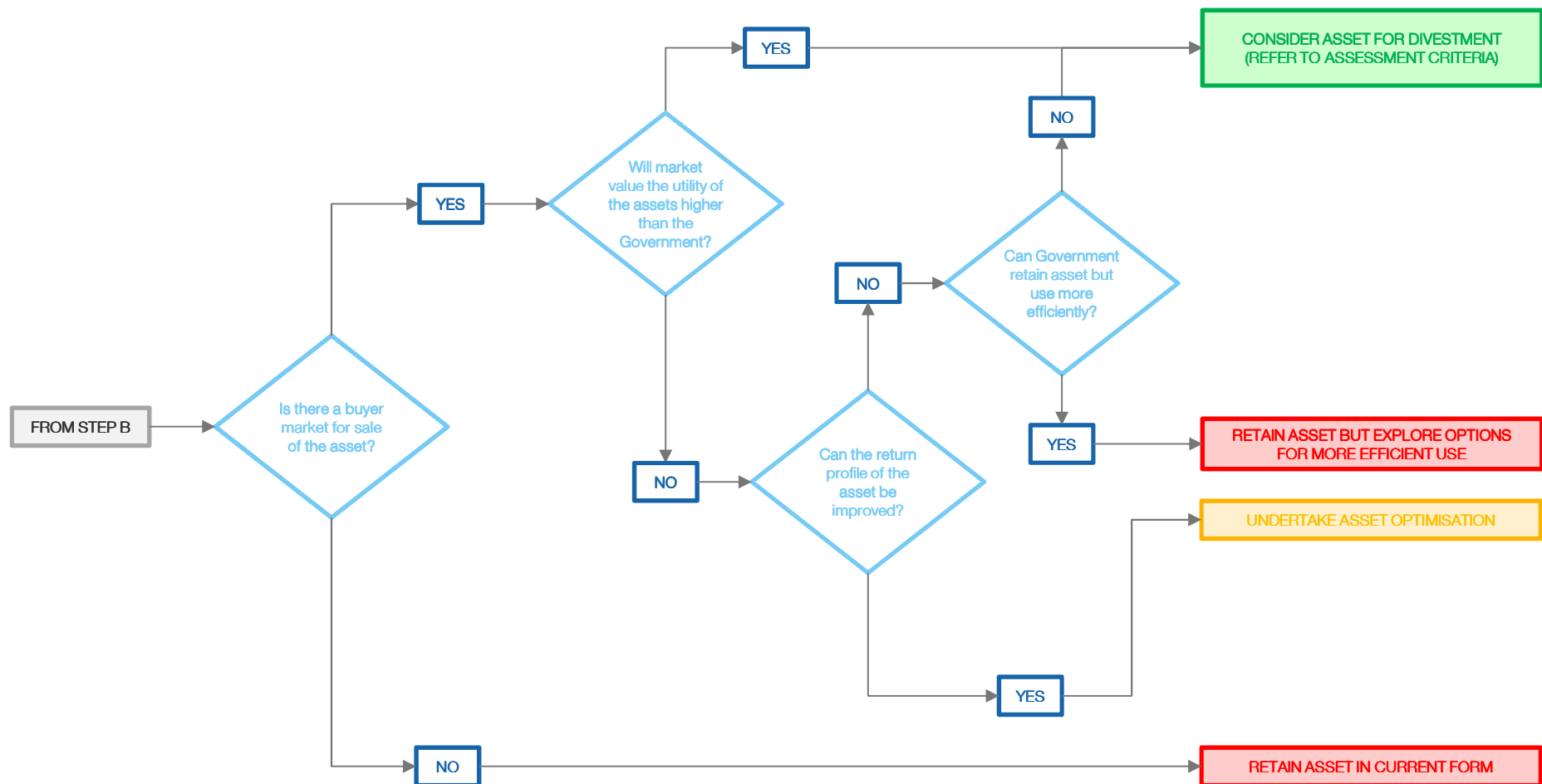
Step B: Restrictions and regulations



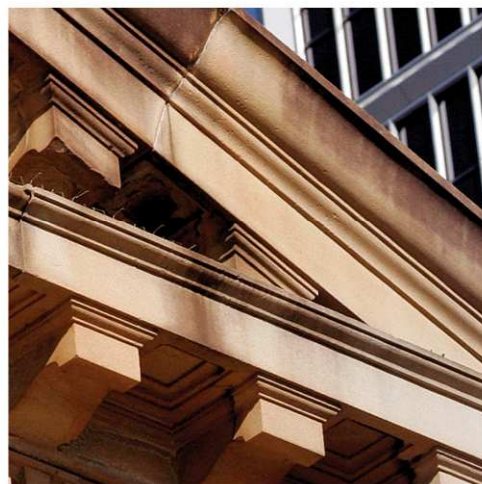
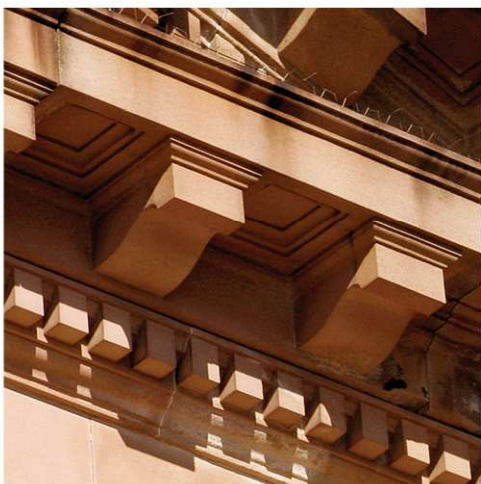
REVISED DECISION-MAKING FRAMEWORK

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Step C: Divestment evaluation



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7

MAINTAINING THE GOVERNMENT'S ASSET BASE

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MAINTAINING THE GOVERNMENT'S ASSET BASE

PAUT

Government assets are under maintained and action is required

Key findings from the Schott Report	Schott Report recommendation
There is a budget and asset cycle mismatch	There has been a failure to strategically prioritise needs within realistic future funding limits set by reference to the fiscal capacity of the State.
There is a need for renewed emphasis on the TAM process and asset utilisation	There is also significant scope for agencies to improve the management of their existing assets through more focus on maintenance, increased asset utilisation, and by selectively rationalising assets which no longer have a strong connection to service delivery objectives.
There is no capital charging currently in place	The Commission recommends that Treasury should explore the implementation of capital charging or levies, recognising that preliminary work is needed to identify asset ownership and use, and that the objective is to drive more efficient capital use.
There is a need for improved asset management at both the agency and cluster level	<p>The Commission recommends that disciplined and effective cluster asset management should be promoted through the following measures:</p> <ul style="list-style-type: none">— capital budget submissions each year to be signed off by Coordinating Ministers and Director-General as the agreed priorities of clusters;— all clusters to progressively be given 10-year capital allowances, starting with capital-intensive clusters; and— clusters to investigate the opportunities to rationalise and consolidate asset management functions across cluster agencies.
Asset and service strategies need to be aligned	An asset strategy, for nominated agencies, should explain how the overall proposed capital and maintenance program has been prioritised. Also, how it integrates to support a cohesive service delivery strategy, within expected funding levels, to achieve efficient, effective use of all assets. Agencies are also required to include their office accommodation strategy and identify maintenance expenses and performance indicators.

- Refer to Appendix G for further detail on the Schott Report recommendations

MAINTAINING THE GOVERNMENT’S ASSET BASE
(CONT.)

PAUT

Government assets are under maintained and action is required

Key findings from the Schott Report	Schott Report recommendation
Capital Spending Flexibility could improve the asset management process	Treasury has signalled reforms that allow clusters to rollover unspent appropriations for future years provided this does not increase the ongoing level of expenditure.
There is a need for a maintenance backlog	Ultimately, all maintenance is driven by the need to ensure assets continue to support service delivery and business operations. Maintenance neglected or deferred is not maintenance avoided. Deferred maintenance can increase asset degradation, leading to a drop in asset reliability and services. It also transfers greater financial burdens onto later budgets, both from a recurrent and capital expenditure perspective.
There are currently high levels of asset under-utilisation	Where there is currently underutilisation of assets, new investment decisions may be postponed as long as utilisation of existing assets can be increased, without a diminution of service delivery.

- Refer to Appendix G for further detail on the Schott Report recommendations

MAINTAINING THE GOVERNMENT'S ASSET BASE (CONT.)

PAUT

- **The Taskforce has noted the following:**
 - There is an absence of a balance sheet concept for agencies and an absence of any maintenance capital reserve requirements;
 - Depreciation is applied centrally on a notional basis;
 - The costs of ownership are not accounted for, nor is there a requirement by agencies to create reserves for maintenance and capex;
 - Financial assessment framework skewed to ownership through assumptions of AAA credit rated Government debt costs without analysis of ongoing costs of the real property asset over its life cycle;
 - There is a tendency to apply capital to new capital projections and not to maintaining and protecting the existing capital base;
 - Real property asset life cycles do not match the four year budget cycles; and
 - The annual budget allocations and the lack of a rollover treatment make adequate maintenance and capex planning difficult.

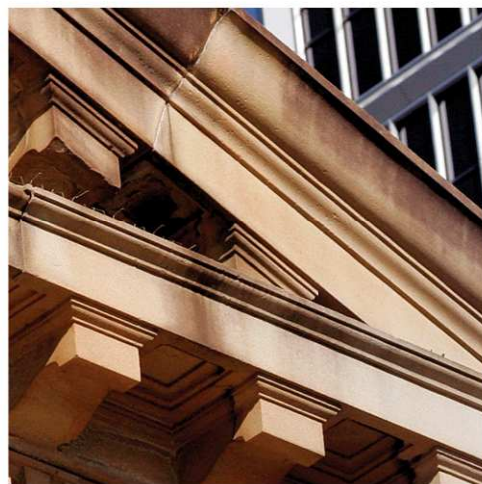
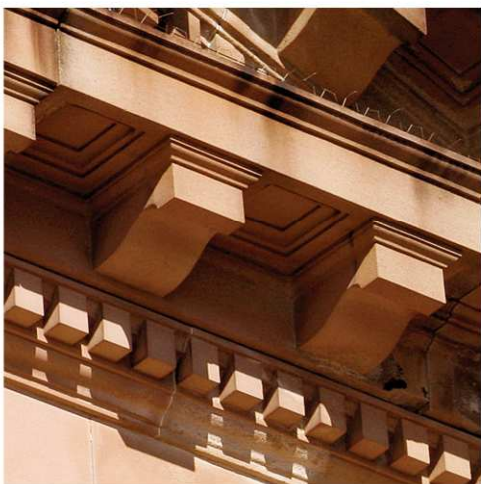
- As a result, the Government's asset base and financial position are at risk in the medium-term.

MAINTAINING THE GOVERNMENT'S ASSET BASE (CONT.)

PAUT

■ PAUT's associated recommendations:

- All agencies should be required to work with Property NSW when completing the real property components of their TAM plans in order to improve capital planning (refer to recommendation 6);
- TAM plans should be improved over time to help draw out the 'real picture' of the Government's real property asset holdings (refer to recommendation 4);
- A full review of the treatment of depreciation is required (refer to recommendation 11);
- Capital should be recycled from under-utilised real property assets into maintaining and protecting the necessary capital base (refer to recommendation 9);
- Capital unlocked through the revised policy framework (including incentives) should be available for maintaining utilised and strategic real property assets (refer to recommendation 3);
- The Government and agencies must make active and informed choices vis-a-vis maintaining necessary real property assets vs. new real property asset acquisition (refer to recommendation 1);
- The introduction of a 10 year capital planning envelope across Government to better match the real property asset life cycle with buy versus lease decisions (refer to recommendation 7);
- The potential review of capital allocation policy regarding the rollover of unused capital (refer to recommendation 3 and 7); and
- Any action to address the identified issues must be cognisant of the budgetary impacts and corrective reserving and the like implemented going forward. It is not impossible to create an immediate reserve of a size equal to the amount unreserved to date..



8

PROPERTY NSW

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Government's property ownership, utilisation and management to be streamlined into a single, specialist entity

- The Taskforce recommends the establishment of Property NSW, which should assume responsibility for the management of the Government's owned and leased property portfolio
 - Property NSW will be different in many ways to SPA, which has lost the confidence of the agencies and which reports itself that its is inhibited by its mandate and its inability to proactively plan and manage real property assets.
 - Therefore a 'refresh', not a 'reform', of the system is required.
- As the Government's dedicated real property ownership and/or management entity, Property NSW should improve real property asset utilisation and drive efficiencies in the Government's ownership, utilisation and management of its owned and leased property portfolio.
 - This mandate should be delivered via a suite of functions and controls (outlined on the following pages) designed to encourage value-enhancing behaviour – refer to page 70 for detail on the types of behaviour to be promoted.
 - Outcomes to be delivered in the most efficient and cost effective way possible, which may frequently involve leveraging the private sector to provide or outsource services, rather than Property NSW providing services itself.
- Property NSW should serve three distinct but complementary roles as: central agency, mandated service provider and service provider of choice.
 - Balancing these roles will require an approach and culture founded on mutually beneficial collaboration.
 - While Property NSW should have last resort step-in rights (with ERC approval), it should aim to achieve its objectives without using them.
 - Requires property expertise.

PROPERTY NSW FUNCTIONS

PAUT

Property NSW should be equipped to achieve optimal whole-of-government outcomes for real property asset ownership and management

- As the Government's dedicated property ownership and/or management entity, Property NSW should deliver its mandate via a suite of functions and controls designed to encourage value-enhancing behaviour

Overview of Property NSW's functions

Functions	Description
Central information management	<ul style="list-style-type: none"> — Property NSW to maintain a centralised database containing information relating to all Government real property assets (including Crown Lands and State-owned Corporations (SOCs)) — Comprehensive, current and accurate information platform to inform whole-of-government real property asset management decisions both of a tactical and strategic nature — Reviews and reporting to be undertaken to ensure agencies are actively updating information — Central information database to contain standard property performance metrics to enable comparison across agencies and over time — Monitoring of ongoing maintenance capital expenditure programs across agencies and within Property NSW over time to ensure real property assets are maintained to an appropriate level and value not lost through neglect / failure to maintain and potential value-creation opportunities identified — To avoid waste and duplication, this database will have to be enforced as 'the database' <ul style="list-style-type: none"> — Should strive to achieve this within two years of the commencement of Property NSW — Agencies must relinquish stand-alone or conflicting systems that they may currently use
Agency assistance in strategy and planning	<ul style="list-style-type: none"> — Property NSW to be a value-add resource for agencies via capability to assist with preparation of all property-specific components of TAM plans <ul style="list-style-type: none"> — Enables consistency, minimises the need for external consultants and facilitates a whole-of-government overlay to capital planning — Property NSW to have right to review all property-specific components of TAM plans and may require information to be provided at a summary or detailed level for any particular real property asset, class of real property asset, agency or geographic area <ul style="list-style-type: none"> — Ensures Property NSW is empowered to provide a whole-of-government approach to TAM plan preparation — In relation to Office and Generic assets only, Property NSW has a right to step-in where not satisfied the agency has adequately completed the property-specific components of its TAM plan (subject to ERC approval) <ul style="list-style-type: none"> — Incentivises agencies to collaborate and utilise Property NSW capability in TAM plan preparation — Standardisation and consistency of preparation of TAM plans to enable comparison across agencies and over time — Refer to page 91, 95 and 98 for detail

PROPERTY NSW FUNCTIONS

PAUT

Property NSW should be equipped to achieve optimal whole-of-government outcomes for real property asset ownership and management

Overview of Property NSW's functions (cont.)

Functions	Description
Real property asset ownership	<ul style="list-style-type: none"> — All Office assets¹ to be vested to Property NSW — Generic (i.e. non-operational) assets² to be considered on a case-by-case basis – onus on agencies to demonstrate a sound rationale for retaining these assets — Specialised³ (i.e. operational) and Strategic assets⁴ to be excluded from scope (other than by mutual agreement), however Property NSW to be empowered to request information in relation to these assets — SOCs and Crown Lands to be out of Property NSW's scope
Real property asset management	<ul style="list-style-type: none"> — Property NSW to work together with agencies' existing property functions and other related entities in a streamlined real property asset management context to achieve key objectives, e.g. maximise value and utilisation of the Government's real property asset base while minimising associated costs — Integration of this with budget outcomes and progressive improvement of TAM plans over time
Leasing management	<ul style="list-style-type: none"> — Coordinate cross-agency opportunities to facilitate whole-of government leasing strategy — Power to make decisions in relation to optimal use of Office and Generic space and best accommodation options for each agency in Government's overall interests (with capability to deal with other real property asset classes by mutual agreement) — Minimise over-renting and underutilisation and better coordinate Government tenancy, leveraging Government brand in leasing negotiations — Long term accommodation planning
Development capability	<ul style="list-style-type: none"> — Property NSW to have capability to provide funding and development expertise to assist agencies in repositioning single real property assets or adjacent sites to exploit value-creation opportunities — Transparent value capture and sharing — Co-ordination with other development capable entities, especially UGNSW, in relation to out-of-scope real property assets, i.e. Specialised and Strategic assets <ul style="list-style-type: none"> — Property NSW may choose to work with UGNSW in relation to in-scope real property assets (i.e. Office and Generic assets) where UGNSW can add material value

1. 'Office' assets refers to commercial office assets other than where they constitute a small portion of a broader mixed use property that cannot be efficiently subdivided

2. 'Generic' assets refers to non-office assets that are capable of being divested to a third party without impacting service delivery (e.g. police stations)

3. 'Specialised' assets refers to assets that are not easily divestible to a third party without impacting service delivery

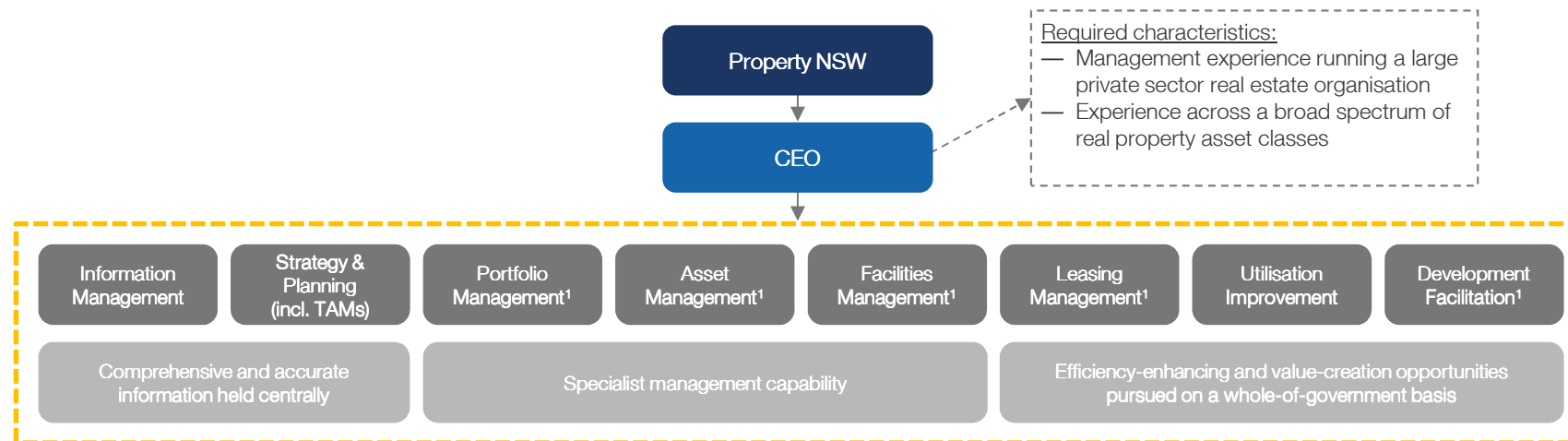
4. 'Strategic' assets refers to assets that must be owned to ensure implementation of future strategic planning or are inherently culturally or otherwise significant (i.e. irreplaceable assets)

PROPERTY NSW ORGANISATIONAL STRUCTURE

PAUT

The structure of Property NSW should provide both product and sector specialties to the agencies

- Property NSW to be established as a Statutory Authority under the DFS cluster reporting to the Minister for Finance and Services.
- Organisational structure of Property NSW should incorporate a variety of management, agency and place management capabilities under a group CEO.
 - CEO requires authority to make decisions without need for referral to ERC or equivalent bodies to ensure commercial and efficient approach (decision-making threshold to be agreed).
 - For example, autonomy to approach market / private sector to seek solutions (e.g. via issuance of an EOI) without additional approval requirements until proposals reach execution.
 - Employment of CEO in a timely manner (~6 months) is critical given key role in driving operationalisation of Property NSW and appointment of key senior support staff.



¹. Refer to Appendix B for definitions of property management functions

PROPERTY NSW

TARGET OUTCOMES

PAUT

Property NSW should be established with the intention of achieving superior outcomes relative to the existing framework

■ Once fully established and operational, the success of Property NSW to be evaluated with reference to its ability to accomplish the following objectives:

1. Complete central information platform

- Ultimately, Property NSW to maintain a 'single source of truth' in relation to information relating to all Government real property asset information.
- Comprehensive and accurate information database for all Government holdings complete within two years of commencement of Property NSW.
 - Population of the information database should initially prioritise Office and Generic assets as well as key geographic areas.
 - Initially the database should be populated with basic property information akin to the information contained in the GPR database (e.g. ownership, valuation, address); over time, additional information fields should be incorporated (e.g. asset IRR, capex plans).
 - This platform should become 'the database' within two years meaning agencies must relinquish alternative databases they may use.

2. Improved capital planning

- TAM plans (real property-specific components) transition to consistent, accurate, useful, strategic, comprehensive documents; standardised to provide consistency across agencies.
- Improved TAM plans are used to properly inform real property asset management outcomes (including around asset maintenance and asset capital planning, asset utilisation decisions and capital deployment) and to regularly inform the central information platform.
- Agencies make use of the improved TAM plans and the 10 year capital planning envelope to develop more certain and informed capital budgets.
- Over time, treatment of and reserving against depreciation (e.g. via effective sinking fund) is vastly improved and the framework and skills of Property NSW lead central agencies to the view that agencies can be funded for depreciation (albeit incrementally as TAM plans improve) with proper a accountability culture.
- Improved TAM process to underpin more effective capital allocation decision for projects that compete for limited funding.

3. Effective capital utilisation

- Government's property portfolio managed in line with service delivery and policy priorities.
- Generally move from default ownership to active utilisation / capital recycling and reinvestment to support service delivery.
- Promote ownership of real property assets only where essential to current or future service delivery or the asset is of long term strategic importance.
- Smaller real property assets rationalised over time via small new paradigm to facilitate private sector proposals.

4. Revamped relationships between agencies and central property authority

- Real property asset management policy, including financial treatment of utilisation decisions are transparent, consistent, well communicated and well understood on a whole-of-government level.
- Property NSW reports against structured key performance indicators (KPIs) which put customers (i.e. agencies) at centre of service delivery.
- Better engagement with, and effective use of, private sector expertise.
- Incentive framework promotes information disclosure by agencies.

PROPERTY NSW

KEY DIFFERENCES TO EXISTING FRAMEWORK

PAUT

A number of key aspects of Property NSW should enable it to achieve superior outcomes relative to the existing framework

Key aspects of Property NSW

Central information database	<ul style="list-style-type: none">— Property NSW to use the central information platform to inform whole-of-government real property asset management decisions— GPR must be maintained to a high standard in order to assist decision makers— Information disclosure by agencies promoted by revised incentives framework— Improved and better understood valuation policy is needed in the general government sector to ensure key valuation information is current and useful— Agencies must relinquish the use of alternative databases within two years as to avoid duplication and wastage of resources
Robust incentive framework to drive outcomes	<ul style="list-style-type: none">— Property NSW's functions to be underpinned by a robust incentive framework, incorporating a combination of positive and negative incentives, to encourage agencies to act cooperatively with Property NSW to maximise the utilisation / value of their real property assets<ul style="list-style-type: none">— Capability to assist with and right to review property-specific components of TAM plans, with limited step-in rights (Office and Generic assets only) where not satisfied that property-specific components of TAM plans are adequately completed— Development facilitation— Agencies to receive 100% of sales net proceeds from owned real property assets (unless determined otherwise by Government, e.g. ERC or equivalent)<ul style="list-style-type: none">— Excludes proceeds from real property asset sales completed by the Divestment Steering Committee, which have already been earmarked to fund housing initiatives— Step-in rights to compulsorily acquire real property assets as a last resort where utilisation or value is not being maximised (with ERC approval)— Refer to pages 94 to 100 for further detail
Accountability / strong customer focus	<ul style="list-style-type: none">— Property NSW to be accountable for achieving:<ul style="list-style-type: none">— Strong customer satisfaction— Benchmark financial returns on its portfolio and investments— Effective real property asset utilisation and service quality KPIs— Competitive cost of service— Added value in client real property asset repositioning developments— Property NSW to regularly report to the public on its activities, including its performance against KPIs, via an annual report— Government's property register to be publicly available (entirely or partially, subject to Government decision) to facilitate private sector participation in value capture opportunities – refer to Section 4.2 for detail

PROPERTY NSW

KEY DIFFERENCES TO EXISTING FRAMEWORK

PAUT

A number of key aspects of Property NSW should enable it to achieve superior outcomes relative to the existing framework

Key aspects of Property NSW (cont.)

Appropriately resourced	<ul style="list-style-type: none">— Property NSW to be staffed with sufficient and qualified people to deliver on its mandate— Recruitment to target property professionals from outside Government and capable staff from within both line and central agencies— All leadership positions to be recruited competitively based on merit— All Property NSW staff to be DFS employees, employed under the Public Sector Management Act
Leveraging private sector expertise	<ul style="list-style-type: none">— Property NSW to leverage the private sector through development of specialist panels with particular areas of expertise rather than replicating in house what can more efficiently be procured from the private sector<ul style="list-style-type: none">— Continue to embrace private sector involvement wherever most efficient and cost effective to do so (including outsourcing arrangements), with appropriate specialist oversight management from Property NSW— Appointment of CEO with management experience running a large private real estate organisation, as well as senior support staff with experience across a broad spectrum of real property asset classes— Development facilitation capability to assist agencies to reposition real property assets, including bringing real property assets to market in a form that maximises value creation potential by the private sector
Stronger mandate from Cabinet	<ul style="list-style-type: none">— The Taskforce recommends that Property NSW should initially be established on the basis of existing legislation, including the SPA Act 2006, Annual Reports (Statutory Bodies and Departments) Acts of 1984 and 1985, and the Premier's Memorandum 2008<ul style="list-style-type: none">— This approach will require amendments to the SPA Act, including renaming both the Act and the entity and strengthening its capabilities to ensure Property NSW is sufficiently empowered to fulfil its role and achieve its objectives— Subsequently, new legislation may be enacted as deemed required<ul style="list-style-type: none">— Refer to pages 108 to 110 for detail on potential legislative changes required

Revised incentive framework required to support Property NSW's functions and encourage agency cooperation

- It is critical that agencies be highly incentivised in order to have benefits released.
- The existing incentives framework does not incentivise agencies to deal with their real property assets effectively.
 - Management of real property assets is generally not part of agencies' core business.
 - Time required to identify and execute meaningful efficiencies may divert attention from service delivery.
 - Lack of understanding of the potential financial benefits of better effective utilisation of their real property assets suggests the need for this to be more clearly communicated to agencies.
 - Agencies view real property assets as 'free' given there is no capital charge.
- The intention of a revised incentive framework would be to:
 - Encourage better real property asset utilisation, pursuit of value-enhancing and value-creation opportunities and improved and transparent controls;
 - 'Level the playing field' in its application and improve consistency of treatment and predictability of outcomes;
 - Promote information disclosure by agencies;
 - Encourage engagement through TAM process and implementation of reviews for non-compliance;
 - Allow more transparent value capture, fostering a collaborative approach between Property NSW and the agencies; and
 - Encourage active management in perpetuity to counter the 'lazy capital paradox' – i.e. encourage agencies to view real property assets as a means to support service delivery only.

PROPERTY NSW

REVISED INCENTIVES FRAMEWORK

PAUT

Optimal incentive structure entails a combination of positive and negative incentive mechanisms to drive cultural change

- Incentive mechanisms should **collectively** incentivise agencies and Property NSW to work collaboratively to maximise the value of Government real property assets recognising at all times that the State must retain ultimate discretion over re-allocation of resources.
- The proposed combination of incentives has been designed to provide a mixture of both positive and negative incentives with the intention of promoting a cooperative and collaborative approach between the line agencies and Property NSW.
- Where line agencies do not act cooperatively, Property NSW may use its right to enforce negative incentives as a last resort to ensure efficiency.

Proposed incentive mechanisms

Incentive	Description	Incentive Type
1. TAM assistance, review and limited step-in rights / capital budgeting changes	<ul style="list-style-type: none"> — Property NSW to be integrated into the TAM planning process via the capability to provide ongoing assistance with, and right to review, all property components of TAM plans — Property NSW's specialist teams to work on an ongoing basis with agencies to maximise the value of their property portfolios (including potential value creation opportunities) — This should ensure consistency, information capture and sharing and an improved and uniform standard through the resourcing assistance and expertise of the Property NSW team — Property NSW to also assist agencies in identifying the unfunded maintenance and depreciation costs to preserve real property asset values by considering the life cycle of the asset (i.e. natural capital charge). Agencies to be held accountable for reserving to maintain their capital base to an appropriate standard in order to ensure better capital allocation decision making — Further consideration of this matter over the next 12 months is recommended with the benefit of improved real property asset planning information anticipated to flow from the operations of Property NSW — Reserving for capital expenditure to be phased in incrementally over time to avoid budget impact shocks — Disciplined adherence to this approach should both promote appropriate attention to maintaining real property assets as well as crystallise threshold capital and funding issues — Where funds are insufficient to adequately fund maintenance and roll out new capex programs, Government will be forced to prioritise projects more effectively rather than ignoring maintenance funding requirements altogether 	Positive (assistance and review) / Negative (step-in rights)

PROPERTY NSW

REVISED INCENTIVES FRAMEWORK

PAUT

Optimal incentive structure entails a combination of positive and negative incentive mechanisms to drive cultural change

Proposed incentive mechanisms (cont.)

Incentive	Description	Incentive Type
1. TAM assistance etc. (cont.)	<ul style="list-style-type: none"> — Recommend all agencies move to 10 year capital planning envelopes to support improved quality of real property asset planning; ensure a whole-of-government focus on its long term balance sheet position; and capture any changes in Treasury rollover policy — In relation to Office and Generic assets only, Property NSW to also have step-in rights where not satisfied the component of a TAM plan dealing with these assets has been adequately completed by an agency — Refer to page 98 for further detail 	Positive
2. Collaborative arrangement to provide further value-creation opportunities	<ul style="list-style-type: none"> — Property NSW to provide development facilitation (funding and expertise) capability to assist agencies to reposition real property assets, including bringing real property assets to market in most potentially profitable manner <ul style="list-style-type: none"> — Property NSW to share net profits on sale with line agency based on capital contribution (i.e. registered real property asset value vs. development contribution) – refer to page 99 and Appendix C — Provides for reduced capital, financial risk and duplication of management resources required by agencies — Engagement with UGNSW and/or other agencies for delivery (ensure no duplication) — Engagement with private developers, contractors etc. where required 	Positive
3. Proceeds retention	<ul style="list-style-type: none"> — Agencies to receive 100% of sales net proceeds from owned real property assets unless determined otherwise by Government <ul style="list-style-type: none"> — Provides a mechanism for agencies to convert latent capital into a source of funding for capital works programs including maintenance and new capital projects, i.e. effective capital recycling — Conversion to capital programs or maintenance of existing capital base to be priority application of net proceeds — Use of net proceeds to be proposed in TAM plan and deemed accepted unless challenged through ERC — Most critically, net proceeds retention needs to be transparent, consistently applied and predictable — Whilst the State must retain ultimate discretion over its budget setting process, changes to allocations must be separate and clearly distinct from net proceeds retention outcomes (to avoid the ‘add to the top line and take from the bottom line’ cynicism) 	Positive / Neutral

PROPERTY NSW

REVISED INCENTIVES FRAMEWORK

PAUT

Optimal incentive structure entails a combination of positive and negative incentive mechanisms to drive cultural change

Proposed incentive mechanisms (cont.)

Incentive	Description	Incentive Type
4. Step-in rights	<ul style="list-style-type: none"> — Subject to an 18 month moratorium period, Property NSW to have step-in rights to real property assets as a last resort where utilisation or value is not being maximised — Only where agency has not engaged co-operatively over a period with Property NSW to improve real property asset utilisation / value — Requires ERC approval — Real property asset deemed to be acquired at current Government book value and no Treasury subsidy for recurring income foregone <ul style="list-style-type: none"> — Designed to ensure that agencies maintain sensible real property asset valuations in the central information platform, rather than real property assets being deliberately undervalued to keep them ‘under the radar’ — Overall, agencies to be encouraged to work cooperatively with Property NSW with ultimate sanction – ‘use it or lose it’ 	Negative
5. Communication will be key	<ul style="list-style-type: none"> — The key to success will be communication of the policy changes to agencies — Consultations to PAUT have uncovered existing confusion and misunderstanding regarding the current framework — Communicating the potential of the incentives framework should draw out opportunities for rationalisation and savings which Property NSW can assist agencies to execute — Communication must be clear and consistent across the whole-of-government 	Neutral

Property NSW to be integrated into the real property aspects of the TAM planning process

- Submission of a TAM plan is compulsory for all agencies.
- Property NSW to have the capability to assist agencies with preparation of **all** property-specific components of TAM plans.
 - Voluntary for agencies to use this capability, hence Property NSW must demonstrate it can add value to agencies' TAM plans.
 - Property NSW to also complete its own TAM as it will hold a substantial property portfolio.
- Property NSW to have the right to review **all** property-specific components of TAM plans and may require information to be provided at a summary or detailed level for **any** particular real property asset, class of real property asset, agency or geographic area.
 - Ensures Property NSW is empowered to provide a whole-of-government approach to TAM plan preparation.
 - Facilitates better information discovery by Property NSW across all Government real property assets, enhancing usefulness of the central information platform.
- In relation to **Office and Generic assets only**, Property NSW to have a right to step-in where not satisfied the agency has adequately completed the property-specific components of its TAM plan.
 - Incentive for agencies to collaborate and utilise Property NSW capability in TAM plan preparation.
 - Property NSW has no right of step-in in relation to completion of Specialised and Strategic real property asset component of TAM plans, although it can discuss options to work with those real property asset-owning entities in relation to those assets.
 - Agencies are not required to implement proposals from Property NSW, however they may choose to implement such proposals either in cooperation with Property NSW or independently if desired.
 - If there is a disagreement then this would be resolved through the normal Government processes.
- Where capital works / acquisitions and divestments are undertaken outside the TAM planning process for Office and Generic assets, Property NSW should be notified.
- The TAM plan structure should also be reviewed; the rules and framework should be reconsidered with the aim of facilitating transparent disclosure of real property assets and how they're utilised (e.g. what real property assets they have, use of each asset, area, value, zoning and utilisation rate).
 - Will need to focus on priorities given resources will not facilitate a complete overhaul of all property TAM components for all agencies in year one.
 - ERC processes to require consultation with Property NSW, amongst other stakeholders, to support submissions.

VALUE-CAPTURE ARRANGEMENTS

PAUT

Agencies entitled to further value capture, with Property NSW to provide development facilitation capability to the agencies

Value capture overview

- Where a straightforward sale will not optimise value for the Government, Property NSW to have the capability to provide **funding and expertise** to assist agencies to reposition real property assets prior to bringing them to the market.
 - Property NSW takes **all** development facilitation risk (agencies take no risk), with real property asset values to be agreed up-front – ensures disciplined approach to value-added opportunities.
 - In remediation cases, Property NSW to fund remediation costs and real property assets to be valued on agency books at pre-remediation value.
 - Private sector introduced following Property NSW repositioning.
 - Avoid duplication of development etc. functions via coordination with UGNSW in relation to out-of-scope real property assets.
 - Property NSW may choose to work with UGNSW in relation to in-scope real property assets where it believes that UGNSW can add material value.
- Where agencies work cooperatively with Property NSW, agency and Property NSW to share profits on sale based on capital contribution (i.e. real property asset value vs. development contribution).
 - Where a profit is achieved on sale, agency to first recover net proceeds equal to agreed value; Property NSW to then recover development contribution (to the extent net proceeds exceed agreed value); any excess net proceeds split pro-rata (based on capital contribution ratio).
 - Otherwise, Property NSW to write-off development contribution in full and any further loss to be borne by the agency.
- The Taskforce notes that Department of Transport has legislated development capability but views the proposed development facilitation service of Property NSW as complimentary to this capability.

Worked examples (\$m)

Example	1	2	3
Agency property (agreed value)	100	100	100
Property NSW development contribution	10	10	10
Total capital contribution	110	110	110
Sale price	150	109	95
Agency proceeds ¹	136	100	95
Property NSW proceeds ²	14	9	-

1. Calculated as:
 - i. If **sale price < agreed value**, agency receives sale price or writes value of asset down to market price (in Example 3, agency proceeds = \$95m)
 - ii. If **sale price > agreed value**, agency receives the maximum of:
 - a) agreed value, and
 - b) agreed value + (sale price less agreed value less development facilitation cost) x capital contribution ratio (in Example 1, agency proceeds = 100 + ((150 – 100 – 10) x 100/110)
2. Calculated as: sale price achieved less agency proceeds

Benefits

- ✓ Encourages agencies to maintain real property asset valuations at true levels
- ✓ May promote additional real property asset discovery
- ✓ Limited agency downside risk to use development facilitation
- ✓ Retention of net proceeds by agency to encourage buy-in
- ✓ Property NSW to provide development funding reducing cost to agencies to improve their real property assets / potential for profit creation with limited resources and capital
- ✓ At worst, no sale and real property asset returned – Property NSW takes on risk / burden, ensuring careful selection of viable projects

Other detail and considerations

- Moratorium period of 18 months during which Property NSW's step-in rights to be suspended, to allow agencies to adjust to the new framework.
 - Note that this does not impact ability of Property NSW to vest applicable real property assets over this timeframe, nor the real property asset divestment process underway for funding housing initiatives.
 - During the moratorium period, all agencies are required to cooperate with Property NSW in mapping all real property asset ownership in the central information database.
 - Following the moratorium period, net proceeds retention by an agency of any real property asset divestment to be capped at the asset valuation registered in the central information database.
- Arrangements for efficiency improvements where real property assets are retained by the agency (e.g. agreed performance measures).
- Funding for works on real property assets to be undertaken prior to sale or for other efficiency improvements.
- Ensure capability to approach market for solutions does not require onerous approvals (e.g. ERC approval should not be required in order to merely issue an EOI).
- Ensure budget implications of vesting / disposal decisions are adequately considered.
 - For example, where agencies lose an income stream or crystallise a new rental expense, but are not entitled to the net proceeds of sale (e.g. an real property asset is vested), the agency should be compensated for the **net** financial impact.
- Key items for further consideration in relation to the incentives framework include:
 - Specific arrangements for Property NSW's involvement with TAM plans;
 - Further work by Government required to resolve the approach to depreciation funding; and
 - Including who receives and provides the funding, how it is baselined and accounted and how those responsible are accountable for proper treatment.
 - Resolution of likely impact on the forward estimates of the proposed changes, including to depreciation.

PROPERTY NSW

INTERACTIONS WITH OTHER AGENCIES

PAUT

Nature of Property NSW's interactions with other agencies to be clarified

- Which existing entities / capabilities should be merged into Property NSW and the manner in which Property NSW should interact with other agencies are complex issues and may require legislation, splitting complex organisations and/or encroaching upon other Government policies.
 - Recommended to be referred to a Director-General working group in order to ensure an optimal outcome.
- In addition to the specific interaction mention below, Property NSW should maintain regular structured communication with other property related entities including a notification of major plans, asset decisions or developments, and scheduled information sharing sessions to prevent duplication, waste, poor planning and to ensure Property NSW maintains a whole-of-government understanding.

Agency	Nature of interaction
DFS	<ul style="list-style-type: none"> — Property NSW to sit within DFS, which drives real property asset management strategy across the full range of Government real property assets — Responsible for whole-of-government ICT policy and support to Treasury on ICT in TAM plans –interaction between ICT assets and real property
Treasury	<ul style="list-style-type: none"> — Treasury signs off TAM policy
Real property asset-owning agencies	<ul style="list-style-type: none"> — Property NSW is designed to augment and provide additional resources to agencies beyond their existing property management capability, acknowledging many agencies have in-house property expertise — Property NSW to be a value-add resource for the agencies — Property NSW to provide review and oversight of agencies' performance against agreed property management KPIs, especially through TAMs — If Property NSW fulfils its mandate adequately, agencies may wind back in-house property capability, diverting resources to core activities
Transport Infrastructure	<ul style="list-style-type: none"> — Work with Property NSW and/or UGNSW as necessary to develop effective property utilisation opportunities that increase investment return and encourage growth in transport hubs and corridors by having some level of occupancy or present framework to encourage growth
DP&I	<ul style="list-style-type: none"> — Strategic assessments of real property assets to be conducted in consultation with DP&I — DP&I will hold key data for Property NSW to access when assessing real property asset potential — DP&I may have a regulatory role in relation to changing planning controls / development assessment for relevant real property assets
Development forum / notification	<ul style="list-style-type: none"> — A forum and notification system should be established so that all development able state agencies are aware of each others' activities and have an opportunity to participate
Development authorities	<ul style="list-style-type: none"> — Review of these against Property NSW mandate
Place management authorities	<ul style="list-style-type: none"> — Information held centrally even in relation to non-amalgamated entities — Generic real property assets owned by place managers to fold into Property NSW; facilitated real property assets to channel into UGNSW — Recommended the entities be tested against the criteria laid out in this report (refer to page 106) by the CEO of Property NSW, with recommendations around future state of entities. A separate Government decision will be made around specific consolidation, rationalisation or divestment opportunities which lie within some entities

PROPERTY NSW

INTERACTIONS WITH OTHER AGENCIES

PAUT

Recommended nature of Property NSW's interactions with UrbanGrowth NSW

- UGNSW presents opportunities for Property NSW as a potential development facilitator in a lead or partnership role regarding the release of latent value in the Government's real property asset holdings.
- Property NSW to consult with UGNSW from a bottom-up approach.
 - Consultation to occur prior to any real property asset disposals to determine whether there are any value-creation opportunities for the real property asset(s).
 - Property NSW to be focused on vanilla transactions / real property assets that can be readily transacted; any projects beyond its scope to be referred to UGNSW (subject to capacity of UGNSW to provide a competitive offering relative to the private sector).
 - Both parties to consult with each other in good faith before embarking on major projects that may overlap.
 - Improvement of specific sites to be left to UGNSW, which will have the capacity to increase the marketability of land.
 - UGNSW to also assist Property NSW in maximising Government real property asset values by providing asset facilitation and site consolidation (e.g. development approval, rezoning, acquisition of adjoining land).
- UGNSW to consult Property NSW from a top-down approach, e.g. whether Property NSW has plans for particular real property assets and/or areas.
 - Identification of surplus Government property via Property NSW's central information platform to inform decision making by UGNSW.
 - If opportunities are identified, Property NSW and UGNSW to work collaboratively to maximise the value of relevant Government real property assets.
 - For instance, UGNSW to consult with Property NSW on areas of interest to gauge the Government's property holdings. Both parties to endeavour to co-operate in order to achieve the Government's initiatives.
 - An example can be demonstrated from UGNSW's amalgamation project of Green Square Town Centre. Following the establishment of Property NSW, a top-down consultation process illustrated in the following pages should facilitate communication between UGNSW and Property NSW.
- Property NSW and UGNSW to prioritise agency requirements for real property assets to ensure service delivery will not be jeopardised.
- The Taskforce recommends formation of a property council with representatives from agencies with property holdings and functions, to meet regularly (e.g. quarterly) to discuss real property assets and areas under consideration.

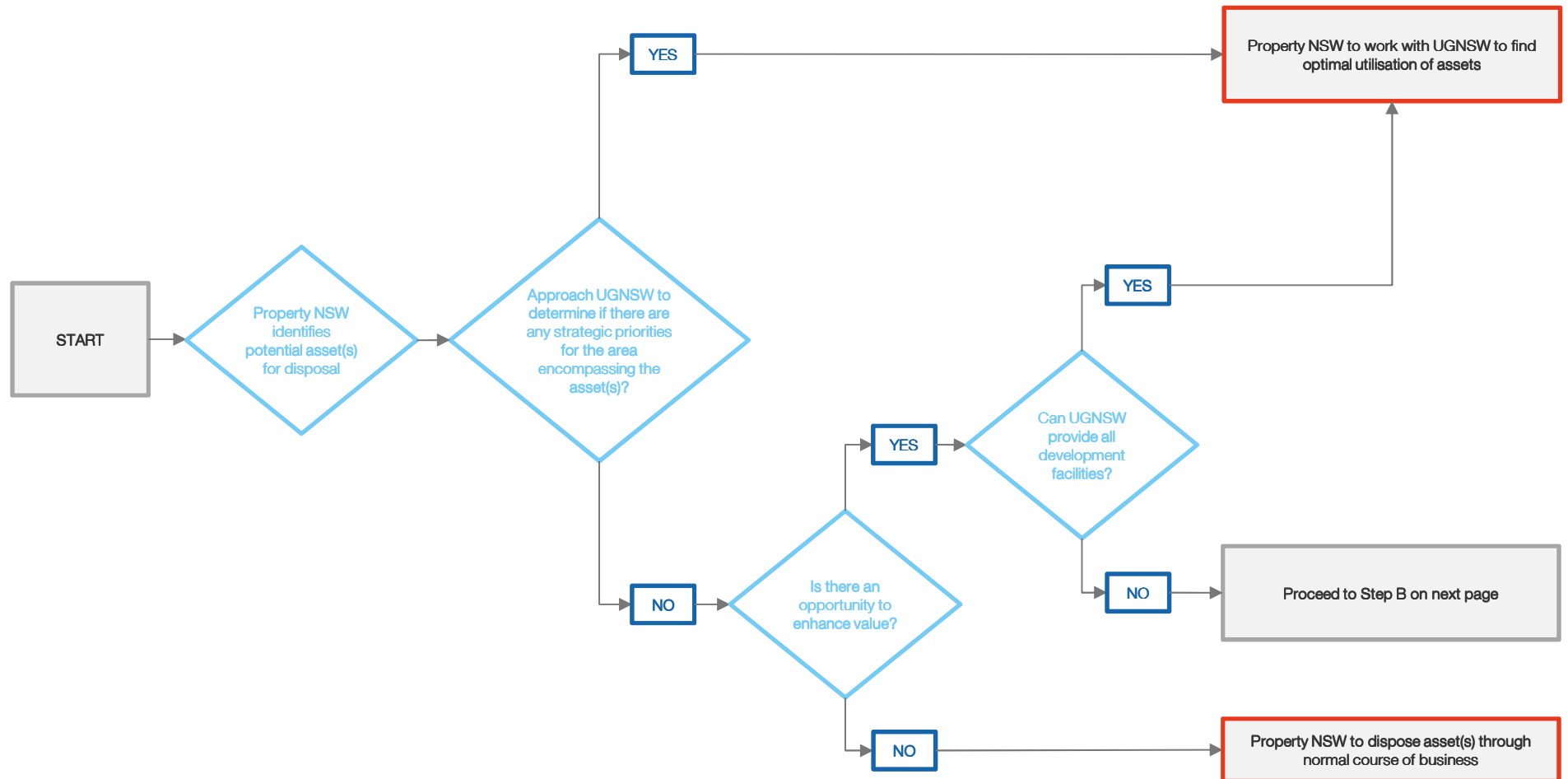
PROPERTY NSW

INTERACTIONS WITH OTHER AGENCIES

PAUT

Recommended nature of Property NSW's interactions with UrbanGrowth NSW

Bottom-up consultation process



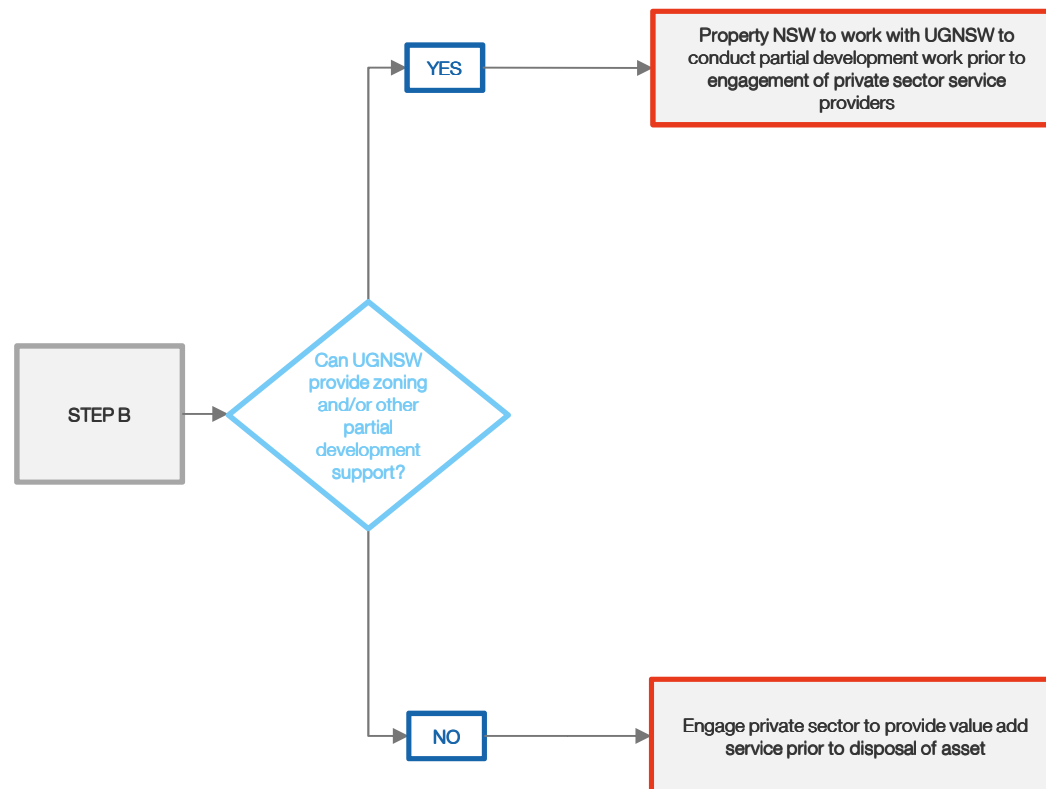
PROPERTY NSW

INTERACTIONS WITH OTHER AGENCIES

PAUT

Recommended nature of Property NSW's interactions with UrbanGrowth NSW

Bottom-up consultation process (cont.)

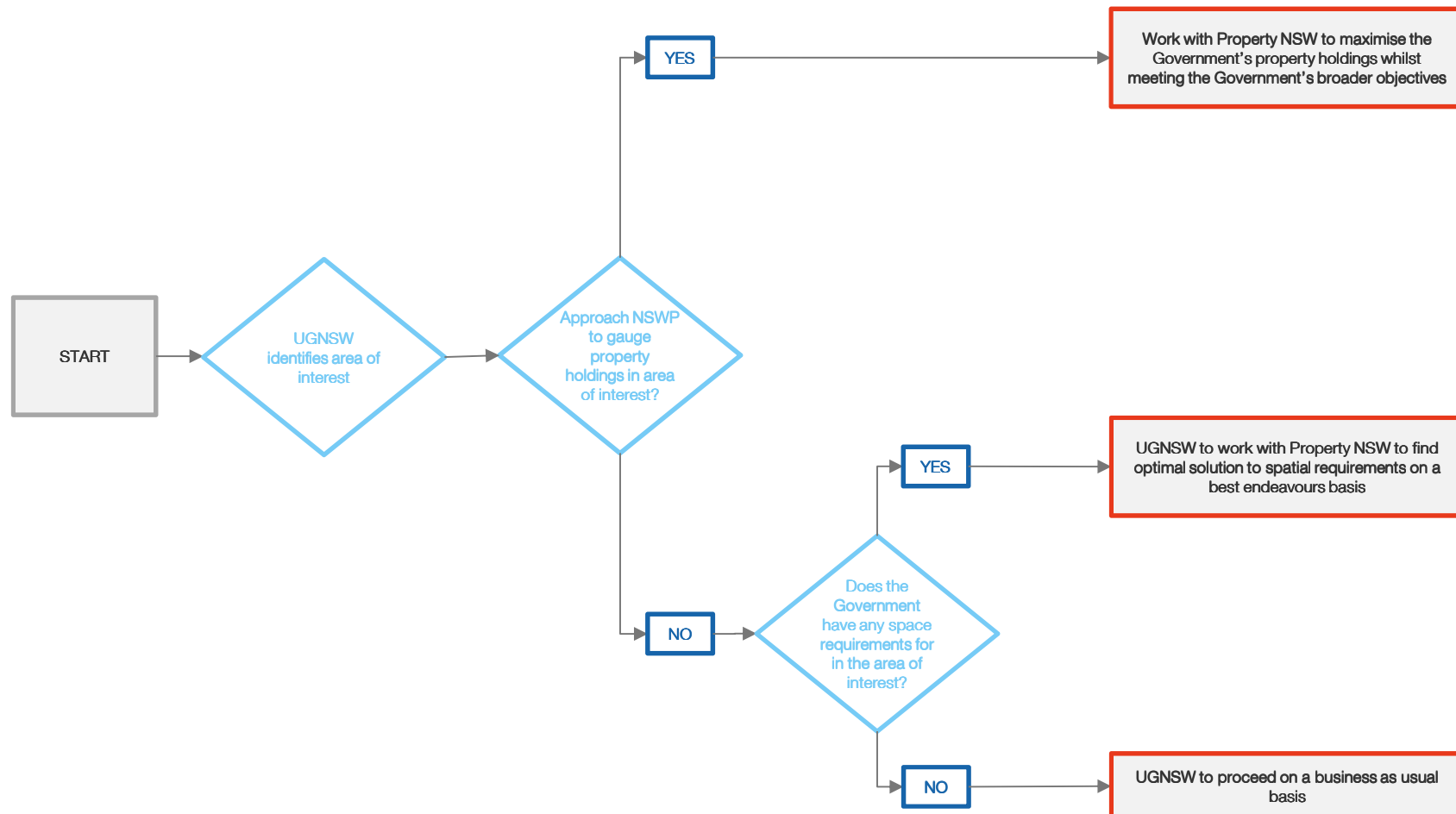


PROPERTY NSW INTERACTIONS WITH OTHER AGENCIES

PAUT

Recommended nature of Property NSW's interactions with UrbanGrowth NSW

Top-down consultation process



PROPERTY NSW

INTERACTION WITH OTHER PROPERTY HOLDING ENTITIES

PAUT

Review of other Government property-owning entities required

- Once Property NSW has been established, the Minister for Finance and Services must initiate a proposal in consolidation with other affected Ministers which will make recommendations to Cabinet for endorsement around the future state of other real property-owning entities (including place management authorities) to assess which of these should be merged under the management of Property NSW or completely dissolved.
- To give effect to Property NSW, there needs to be recognition within the Government and the property industry that Property NSW is the Government's central property body. Duplication of real property ownership across the general government sector should be minimised.
- Whether property-owning entities should be amalgamated into Property NSW will depend on a range of factors, including whether:
 - Cost savings and potential for reduction of duplication exists;
 - How much Government land they own;
 - Whether they have outlived their original mandate;
 - Expertise can be more effectively retained and utilised across current and future place management activities;
 - Real property assets are simply a source of funds (and may ultimately be monetised) or they are necessary for service delivery;
 - Real property assets are underutilised;
 - Whether their functions are simple or there is an element of operational complexity (e.g. events, planning powers);
 - They merely lease out venues (e.g. Parramatta Park Trust leases out, and does not operate, Parramatta Stadium) as opposed to 'operate' / manage them commercially (e.g. Sydney Cricket Ground Trust operates SCG); and
 - Whether they fall within the UGNSW framework.
- This review will reference the criteria listed above against the entities being assessed for inclusion.
- A separate proposal on consolidation, rationalisation or divestment opportunities which lie within development authorities will be submitted to Government for consideration.
- The decision tree framework should then be applied to the entities' real property asset holdings as per usual.

PROPERTY NSW

FUNDING CONSIDERATIONS

PAUT

Further work must be undertaken to establish the appropriate funding arrangements for Property NSW

- Detailed funding, business plan and year 1 budget to be prepared once more definitive information is available.
 - To be undertaken during the establishment phase of Property NSW.
- Property NSW could be funded from a combination of sources including:
 - Rental income;
 - Management fees;
 - Development profits;
 - Direct budget funding of non-commercial activities (e.g. public domain operation and Government advisory function); and
 - Sale of properties (part of these funds could be used as seed capital with ERC approval).
- Key questions are whether Property NSW can run a balance sheet to enable development facilitation and fund other value-creation initiatives as required, in what circumstances, and with what controls / approvals?
- At least initially, Property NSW will likely require seed funding for property consolidation or development facilitation projects as well as appropriate resourcing and systems.
 - Initial funding will be required to facilitate hiring of qualified staff including CEO and direct reports – estimated to be at least \$1.5 million in total.
 - In addition, further funding will be required to facilitate compilation of the detailed real property asset register and likely development and/or integration of appropriate data systems to support Property NSW's functions.
- The funding for strategic property development projects should be approved by ERC on a project-by-project or rolling program basis.
 - Avoid duplication of other agencies (e.g. UGNSW).

PROPERTY NSW

SUMMARY OF LEGISLATIVE OPTIONS

PAUT

Property NSW may be established without the need for new legislation

- Establishing Property NSW with new legislation offers a number of benefits in that it communicates a stronger message to the agencies that Property NSW is a 'fresh' entity with superior powers to deliver on its mandate rather than a renamed State Property Authority. However, at least on a transitional basis, there are a number of existing legislative and non legislative instruments that go a long way to achieving the desired features of Property NSW, namely:
 - The *State Property Authority Act 2006* is enabling legislation and it empowers the State Property Authority (SPA) to own, hold, manage, maintain, acquire, dispose, co-ordinate or participate in developing property assets by itself, through subsidiary corporations or in joint ventures – a change of name would require an amendment to this Act;
 - The *Annual Reports (Departments) Act 1985*, section 17 and the *Annual Reports (Statutory Bodies) Act 1984*, section 14, contain very wide powers enabling the Director-General to direct the provision of information in relation to land owned or occupied by the Department or statutory body and all information furnished is to kept in a Register by the Director-General. The Government Property Register is the result of this provision;
 - Under Section 9 of the *Public Finance and Audit Act 1983* the Treasurer may make directions to **accounting officers** and **officers of an authority** with respect to the principles, practices and procedures to be observed in relation to the sale, disposition and control of public property.
 - Premier's Memorandum M2008-06 applies to and is mandatory for all of the General Government Sector and Public Trading Enterprises except SOCs although SOCs are encouraged to use the State Property Authority. It provides that SPA is the Government's real estate provider and is responsible for acquiring and managing the Government's generic property assets and, where agreed, the Government's other property assets.

PROPERTY NSW

SUMMARY OF LEGISLATIVE OPTIONS (CONT.)

PAUT

■ Reissue and strengthen Premier's Memorandum M2008-06

- Include an objective: Property NSW will assume responsibility for the management of the NSW Government's owned and leased property portfolio to improve the current approach to property ownership, utilisation and management decisions by facilitating a whole-of-government approach;
- Include a provision in the Property Policy Framework (PPF) and the Government Property Principles (GPP) for vesting into the name of SPA (Property NSW will not at this stage be a legal entity) of all generic assets (not just office accommodation) unless otherwise directed by the Minister for Finance and Services on behalf of Government (if satisfied in his absolute discretion that there exists a sound rationale for Agency to retain);
- Include a provision which spells out the role of Property NSW in the TAM Plan process (the Treasury Policy regarding TAM Plans will need to mirror this provision);
- Include a provision which gives Property NSW a reserve power, subject to ERC approval, to make decisions, in the Government's overall interest, to relocate people into alternate office accommodation, in accordance with Government policy;
- Replace reference to GMAC with Property NSW.

■ Issue a Treasury Policy to embody the Incentives Framework.

■ Mechanism to roll in Place Management Authorities

- Step 1 – Allocation of Administration of Acts whereby administration of Act allocated to Minister for Finance and Services
- Step 2 – Administrative Changes Order construing reference to Director-General as Director-General of the Department of Finance and Services
- Step 3 – Minister to review membership of Board
- Step 4 – Review appointment of Chief Executive Officer
- Step 5 – Consider which properties can be vested in SPA and vest.

PROPERTY NSW

SUMMARY OF LEGISLATIVE OPTIONS

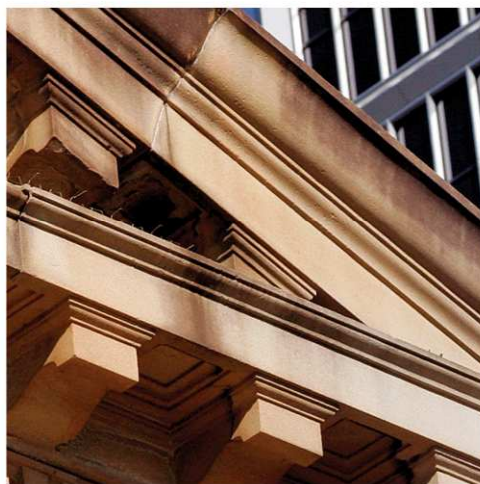
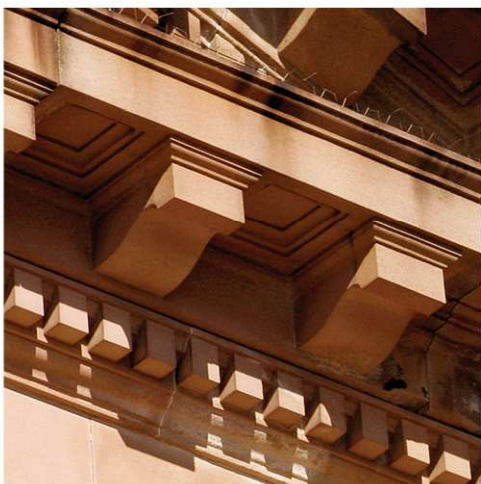
PAUT

Although not necessarily required, Property NSW may be established with new legislation

- While Property NSW can be established on the basis of existing legislation, subject to the changes mentioned on the preceding pages, establishing Property NSW with new legislation offers a number of benefits including that it;
 - communicates a stronger message to the agencies that Property NSW is a ‘fresh’ entity with superior powers to deliver on its mandate, rather than a renamed SPA.
- The following table outlines the changes required to establish Property NSW with new legislation

Aspect / function	Changes required under legislative option
Name change	— New legislation or change in Statute Law Revision Amendments
Objectives	<ul style="list-style-type: none">— The PAUT objectives are broader whilst the SPA objectives are enabling rather than mandatory.— Beneficial to broaden the objectives in the new legislation so that powers to acquire and lease for commercial purposes are not restricted— Power to acquire should also be clarified so that it does not have to depend on powers under the Interpretation Act.— Power to lease for commercial purposes (and not just for office accommodation) should also be included
Development capability	<ul style="list-style-type: none">— Specific legislative amendment could cover the funding issue.— It may be possible to provide the investment powers of SPA under a PAFA Regulation
Mechanism to roll in place management authorities	<ul style="list-style-type: none">— Step 1 – Allocation of Administration of Acts¹ whereby administration of Act allocated to Minister for Finance and Services— Step 2 – Administrative Changes Order to construe reference to DG as DG DFS— Step 3 – Minister to review membership of Board— Step 4 – review appointment of CEO— Step 5 – consider which properties can be vested in SPA and vest— Step 6 – look at what parts of the Act can be repealed and what needs to be retained

- Refer to Appendix D for further detail on the legislative options available to establish Property NSW



9

NEW PARADIGM FOR SMALLER ASSETS

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NEW PARADIGM FOR SMALLER ASSETS

OVERVIEW

PAUT

A new paradigm for real property assets <\$5 million has the potential to deliver significant benefits to Government

- The Taskforce recommends the creation of a new paradigm to deal with smaller real property assets.
 - Valuation based on the greater of current cost or replacement value (although real property assets outside these parameters may be included by agreement).
- The rationale underpinning the merits of a new paradigm is as follows:

CONSIDERATIONS	RECOMMENDATION	ANTICIPATED BENEFITS
<ul style="list-style-type: none">— Currently there is little reason to deal with smaller real property assets due to:<ul style="list-style-type: none">— Inadequate resourcing— Likely minimal financial benefits— Limited rewards / incentives to do so— It not being part of agencies' core business— No current charge for usage of owned real property assets— Potential value (in aggregate) may be created if surplus smaller real property assets can be realised efficiently	<ul style="list-style-type: none">— Creation of smaller real property asset paradigm— Paradigm to be created via 4-stage process:<ol style="list-style-type: none">1. Compilation of information2. Filtering of information3. Construction of informational platform4. Request for, and assessment of, private sector proposals	<ul style="list-style-type: none">— Unlock significant value in currently under-utilised and/or surplus real property assets providing proceeds to Government for reinvestment— Cost saving on management of real property assets (e.g. maintenance and holding costs)— Encourages development / construction instead of 'lazy' real property assets (significant income multiplier for the broader economy)— Proposals likely to be received with respect to most valuable real property assets— Flexibility to deal with proposals if and when they arise— Assessment required over 'live' proposals only rather than entire portfolio

- A potential regional pilot has been proposed to test viability of this paradigm and understand what a 'successful' outcome looks like

NEW PARADIGM FOR SMALLER ASSETS

PROCESS OVERVIEW

PAUT

Information relating to smaller real property assets can be most efficiently compiled and managed by Property NSW as part of a broader information database establishment program



- Consistent with Recommendation 5, Property NSW should be entrusted with managing the Government's central property information database.
 - Work with agencies to ensure information is up-to-date and complete.
 - Database should incorporate all information required to facilitate investment decisions (both from a Government and third party perspective) including:
 - Valuation information;
 - Usage information;
 - Rental and tenancy information;
 - Capex requirements;
 - Crown and heritage overlays; and
 - Other information as required.
- Establishment of the information database should be a high priority for the Government with a dedicated team assigned to undertake this task.
- Smaller real property assets to form a subset of the overall information gathering exercise and may be prioritised along with priority disposal opportunities identified by PAUT or the Government itself.

NEW PARADIGM FOR SMALLER ASSETS

PROCESS OVERVIEW

PAUT

The Government may wish to exclude information relating to certain real property assets from public release



- There are two main alternatives under which information relating to the smaller real property assets could be offered to the private sector:
 - Information relating to **all** smaller real property assets released to the private sector; or
 - Only information relating to **select** smaller real property assets released to the private sector.
- If the Government wishes to release only information relating to select smaller real property assets, the filtering process should be consistent with the revised decision-making framework outlined in pages 75 to 77) and should be based on the following criteria:
 - Current and future usage requirements (potentially exclude real property assets that are essential for future core service delivery or which potentially contribute to broader Government programs and/or priorities);
 - Cultural and/or community significance (potentially exclude real property assets where private sector proposals are likely to compromise important cultural or community assets); and
 - Legislative impediments to sale.

NEW PARADIGM FOR SMALLER ASSETS

PROCESS OVERVIEW

PAUT

A suitable platform must be established to facilitate delivery of information to the private sector



- The most critical aspect of the new paradigm for smaller real property assets is delivery of the information to the private sector.
- Information may be provided in a number of ways, including:
 - Online portal / data room;
 - Physical data rooms open for inspection; and
 - Delivery of copies upon request (electronically or hard copy).
- It would appear preferable to provide access to information via an online data room as it;
 - Convenient and enables interested parties to access information in a timely fashion as they desire / require it;
 - Would require only periodic information updates from Government (versus 'on request' basis);
 - Minimises physical limitations of providing the same documents to multiple parties (versus physical room);
 - Ensures consistency as all parties are basing their proposals on the same set of information; and
 - Enables tracking of which parties have accessed which documents.
- The ideal online portal / dataroom would ensure the following:
 - All relevant information to facilitate decision-making provided in electronic format (e.g. land dimensions, current usage, current ownership, restrictions, easements, environmental considerations);
 - Information must be kept current – updates to be made dynamically as circumstances change.
 - An extensive codified index of real property assets and the information provided for each asset; and
 - Functionality to facilitate requests for additional information and further particulars as well as Q&A functionality.

NEW PARADIGM FOR SMALLER ASSETS

PROCESS OVERVIEW

PAUT

Property NSW should assign a dedicated team to assess proposals in relation to smaller real property assets



- Property NSW must be equipped with a dedicated team of people that are responsible for assessing and responding to (or escalating) proposals as they arise.
 - Staffing of this team should be sufficient to ensure that responses are timely to maximise ongoing bidder engagement.
 - Also require market expertise to properly analyse and assess proposals.
 - Should have delegated authority to respond to indicative and final proposals to the extent that certain criteria are met.
 - Gives bidders comfort that if they lodge a bid for a real property asset, the bid will be considered by decision-makers capable of consummating a transaction rather than getting lost in red tape.
 - May be a role for local real estate agencies in assessment of proposals or providing a conduit for the information provided by Government to the private sector or high net worth investors.
- Proposals should be assessed with reference to the following key criteria:
 - Maximising price and minimising transaction costs;
 - Budgetary or credit rating impact (only for competing proposals and only relevant where smaller real property assets are revenue generating);
 - Credibility of the bidder; and
 - Alignment of the proposed use of the property with any relevant Government objectives.
- Unsolicited proposals in relation to smaller real property assets should be directed via the existing unsolicited proposals framework through to Property NSW to be dealt with as per above.

NEW PARADIGM FOR SMALLER ASSETS

CASE STUDIES

PAUT

The smaller real property assets paradigm would seek to attract value enhancing proposals to facilitate value creation where the Government may otherwise find it difficult to earn a return

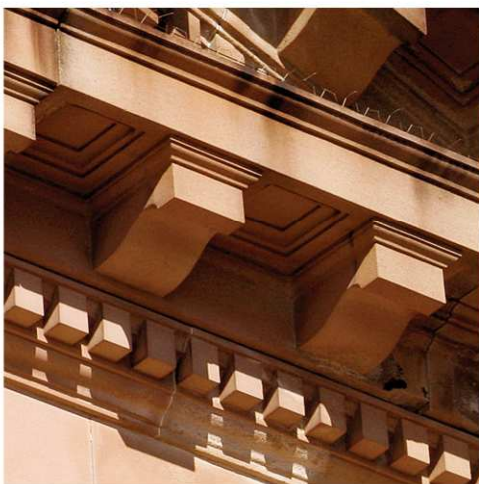
- Below are two illustrative case studies (based on experiences in Victoria) of the types of proposals that the new smaller real property assets paradigm would hope to elicit

Bulleen Golf Driving Range

- The establishment of the Golf Driving Range in Bulleen (Melbourne) occurred as follows:
 - Private sector identified an unutilised block of government owned vacant land located within Bulleen
 - Limited uses for block as located on flood plains
 - Unsuitable for commercial or residential development
 - Opportunity was identified to convert the premises into a golf driving range
 - Enabled the government to realise value for land on which it was otherwise unable to earn a return

Chapel Street retail precinct

- A portion of the shopping precinct on Chapel Street, South Yarra (Melbourne) was formerly unutilised space above railway lines
- It was identified that development could occur above the railway tracks in order to provide a return
 - Air rights above the railway lines were ultimately sold to the private sector
 - The space was converted into additional retail space in keeping with the surrounding area
 - Enabled government to earn a return over space that would otherwise have remained unutilised



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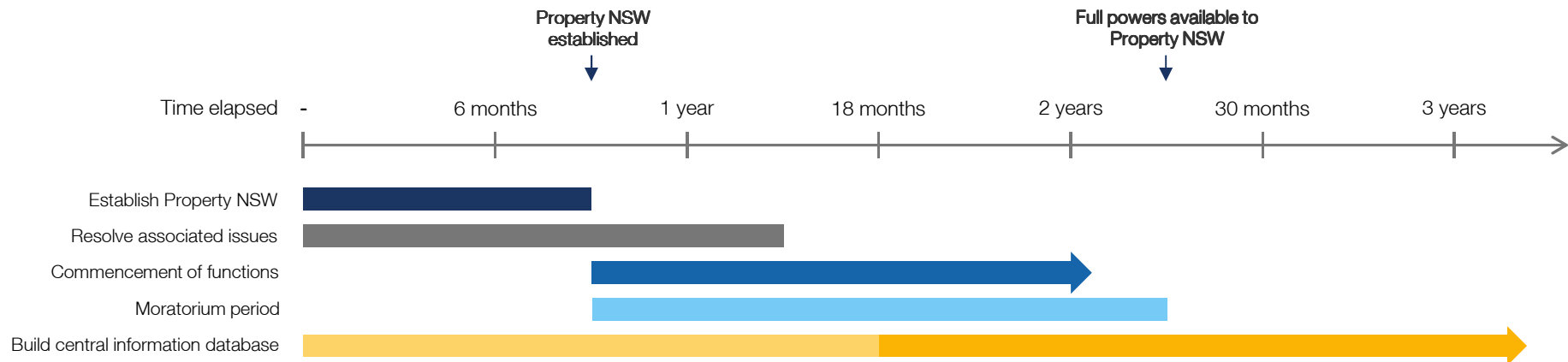
NEXT STEPS: BEYOND PAUT

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BEYOND PAUT

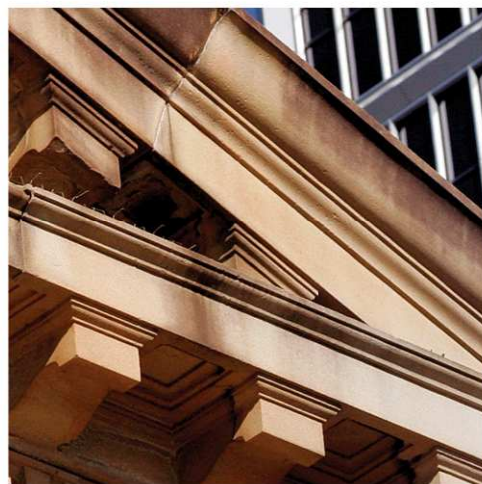
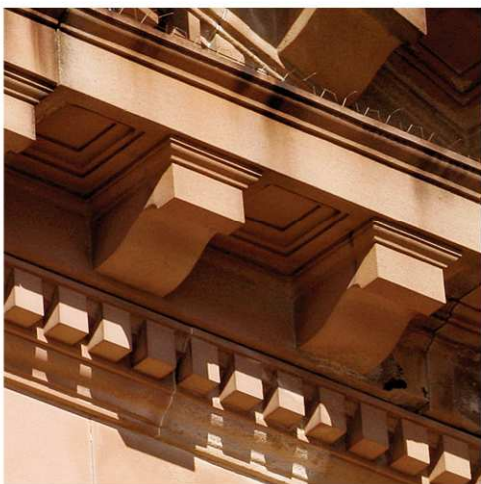
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Several key work streams will need to be undertaken following submission of this Report to establish and implement Property NSW and the revised incentive framework



ESTABLISH PROPERTY NSW	RESOLVE ASSOCIATED ISSUES	COMMENCEMENT OF FUNCTIONS	MORATORIUM PERIOD	CENTRAL INFORMATION PLATFORM UPGRADE
<ul style="list-style-type: none"> Develop and agree mandate Formalise terms of reference Clarify interactions with agencies and other entities Set measurable KPIs Establish a business case and begin the analysis of the amalgamation of place management authorities by Nov 2012 Obtain relevant approvals Procure staff (including CEO) Overhaul TAM process with Treasury Prepare communication and implementation plan Communicate transparent real property asset management policy to agencies Clarify funding and create initial business plan / budget 	<ul style="list-style-type: none"> Resolve methodology for dealing with depreciating real property assets, including how maintenance is funded on a sustainable basis Review of place management authorities Commence review of valuation policy (including content, application and agency understanding) and the depreciation rates schedule Capital charging – with Treasury (timing TBC) 	<ul style="list-style-type: none"> Identify real property assets to be vested Begin vesting real property assets and undertake initial portfolio evaluation Commence performance of broader real property asset ownership, utilisation and management functions Pilot program for new paradigm for smaller real property assets Implementation of new revised decision-making framework 	<ul style="list-style-type: none"> 18 month moratorium in which Property NSW's step-in rights are suspended <ul style="list-style-type: none"> Will not impact Property NSW's ability to vest real property assets Also does not impact disposals dealt with by Divestment Steering Committee, where proceeds have already been allocated Full powers available to Property NSW following moratorium period Rolling improvement in TAM planning and usefulness 	<ul style="list-style-type: none"> Creation of a single central information platform (18 months) Reviews and reporting to be undertaken to ensure agencies are actively updating information (ongoing) Selectively utilise information database to leverage private sector expertise to maximise utilisation and/or value

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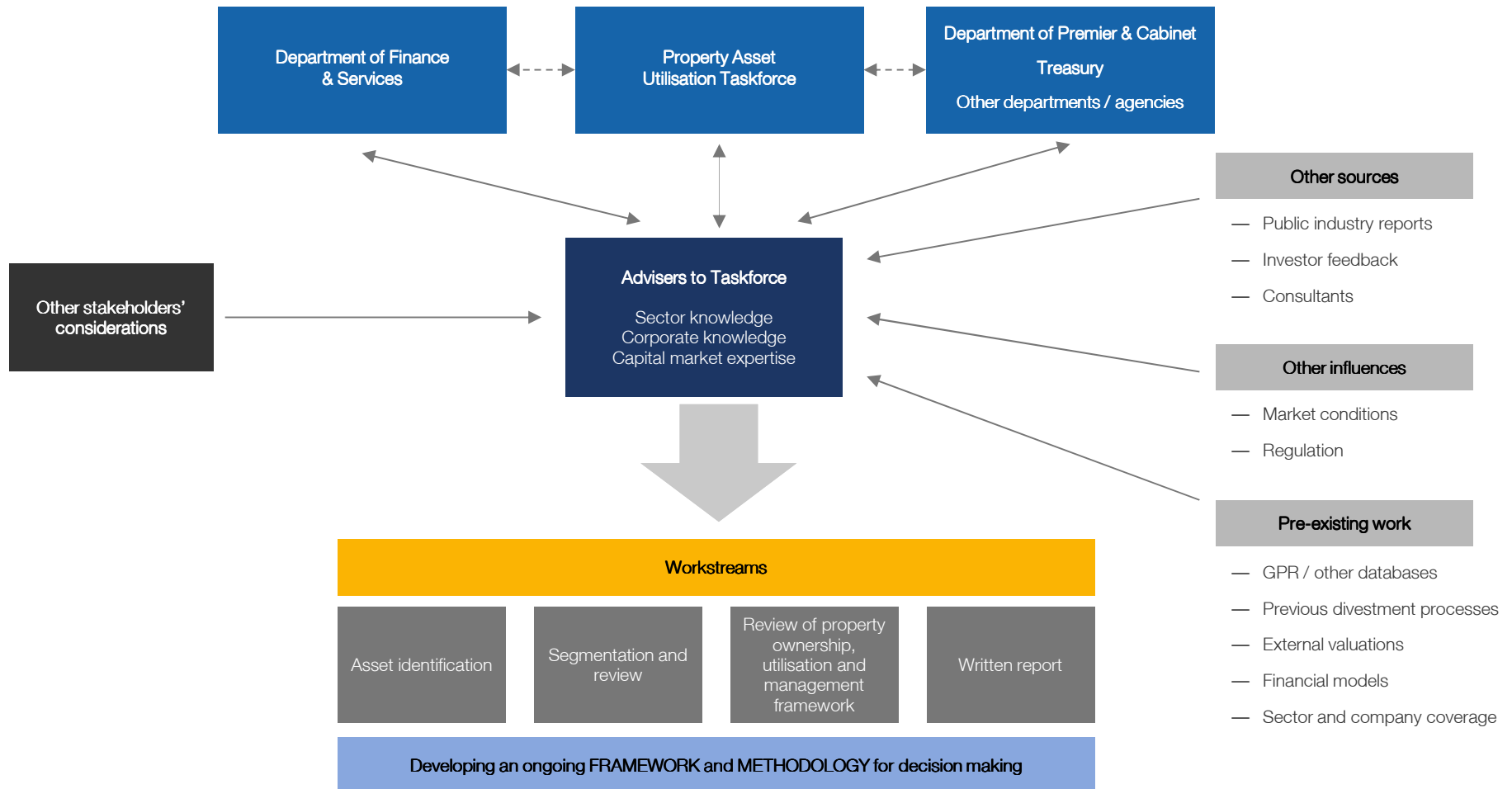
APPENDIX PROCESS UNDERTAKEN

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PAUT PROCESS OVERVIEW

PAUT

The Taskforce has sought feedback from a range of different groups and stakeholders



PAUT PROCESS OVERVIEW

PAUT

The process has comprised five key elements aimed at meeting the Government's short and long term objectives



This Report establishes an ongoing FRAMEWORK and METHODOLOGY for decision making going forward

PAUT PROCESS OVERVIEW

PAUT

Depth of conclusions subject to limited availability of relevant information across the portfolio

	Information required	Availability	Comments
General	Property name / number	4	Available from GPR; some assets unidentified
	Principal department	5	Available from GPR
	Agency	5	Available from GPR
	Location	3	In most cases available from GPR; no location available for some assets
	Legal owner	5	Available from GPR
	Ownership level	2	Ground leases only available by requesting list of sub-leases in respect of specific properties
	Essential / non-essential	2	Generally disclosed, if ever, in discussions with Departments and Agencies
Asset level	Land uses	4	In most cases available from GPR; no land use available for some assets
	Asset size	4	Only land area available from GPR
	Asset grade	1	Not available
	Valuation	2	Market values only available in relation to office assets managed by SPA; for most assets, only Valuer General valuations available; no valuations available for many assets
	Valuation date	2	Only available in relation to office assets managed by SPA; GPR valuation dates related to Valuer General valuations only
Leasing	Total leasable area	1	Not available
	Total leased area	2	Only available in relation to office assets managed by SPA
	Number of tenants	1	Not available
	Major tenants	1	Not available, though sometimes disclosed publicly
	Average remaining lease term	2	Only available in relation to office assets managed by SPA
	Average passing rent	2	Only available in relation to office assets managed by SPA
Other	Major capex requirements	3	Some capex information available in TAM database; however, not always available for 10-year asset life cycle

- Refer to Section 4.2 of this Report for more detail

PAUT PROCESS OVERVIEW

PAUT

Opportunities identified to realise substantial value from the State's portfolio

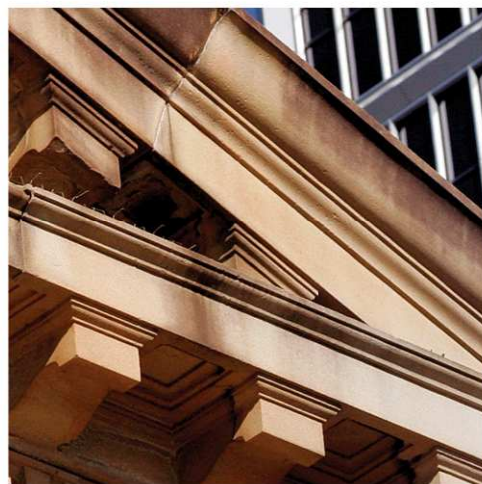
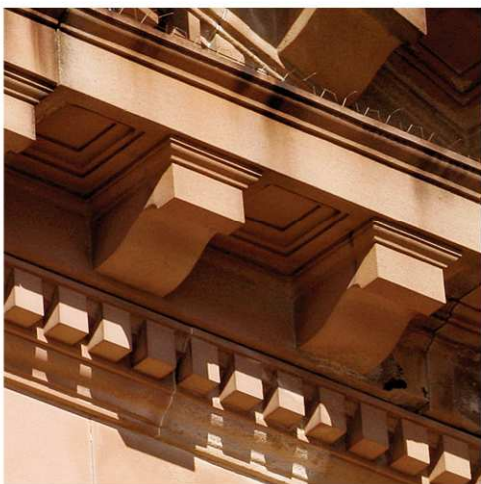
Task	Issues	PAUT stage	Complete?
Department and Agency discussions	<ul style="list-style-type: none"> — Meetings with DGs and key staff in relation to — Real property asset register — Identification of any priority opportunities for disposal — Department / agency strategic plan — Current key obstacles to efficient property ownership, utilisation and management 	1	✓
Data mapping / 'single source of truth' investigation	<ul style="list-style-type: none"> — Evaluation of current information management systems, including GPR — Preparation of a data map to demonstrate the source of each type of information 	1	✓
Real property asset identification and segmentation	<ul style="list-style-type: none"> — Compilation of a comprehensive real property asset register based on GPR system, etc. — Consideration of possible divestment structures, likely buyer interest and disposal methods — Targeted real property asset identification by regions and/or departments and agencies 	1	✓
Review of property ownership, utilisation and management framework	<ul style="list-style-type: none"> — Critical evaluation of existing practices and policies — Establishment of ongoing property ownership, utilisation and management framework, including suggested changes to methodologies and decision-making processes relating to real property asset disposals 	1	✓
Market analysis	<ul style="list-style-type: none"> — General macroeconomic trends — Real estate market trends and market data — Financial market conditions — Alternative sources of capital — Impact of prevailing market conditions on timing of disposals 	1	✓
Preparation of written report	<ul style="list-style-type: none"> — Preparation of Interim Report on behalf of the Taskforce — Sub-committees formed to further develop recommendations for formalisation and implementation — Recommendations to facilitate achievement of short and long term objectives of the Government and individual departments and agencies — Identification of opportunities for immediate real property asset disposals and longer-term opportunities to improve the Government's ongoing property ownership, utilisation and management framework 	1	✓

PAUT PROCESS OVERVIEW

Additional information and analysis will be required within the context of the new framework to tailor opportunities to the State's needs

Task	Issues
Service delivery review	<ul style="list-style-type: none"> — Review of current service delivery plans — Assessment of medium-long term business plan <ul style="list-style-type: none"> — Changing nature of service delivery (e.g. shifts to new technology) — Likely space requirements for existing services and potential new projects / services in the future (20+ years) — Early portfolio rationalisation opportunities
Tenancy & financial analysis	<ul style="list-style-type: none"> — Analysis of physical characteristics of the current portfolio, including: <ul style="list-style-type: none"> — Location, size, value, specialist fit-out & features — Lease and financial analysis, including: <ul style="list-style-type: none"> — Specifications, third party lease agreements, contingent liabilities, depreciated balance, ongoing capital projects, opex — Taxes & insurance — Strategic alternatives for value optimisation — Workplace / corporate standards
Analysis of future portfolio requirements	<ul style="list-style-type: none"> — Analysis should cover: <ul style="list-style-type: none"> — Type of space, area / size, infrastructure, zoning and planning, support services & facilities, building services (incl. fire, security, HVAC etc.) — Other savings initiatives and workforce planning
Execution	<ul style="list-style-type: none"> — Execution of short-term real property asset disposals — Exploration of medium-term development opportunities — Implementation of longer-term changes to ongoing property ownership, utilisation and management framework

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APPENDIX PROPERTY MANAGEMENT FUNCTIONS

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PROPERTY MANAGEMENT FUNCTIONS

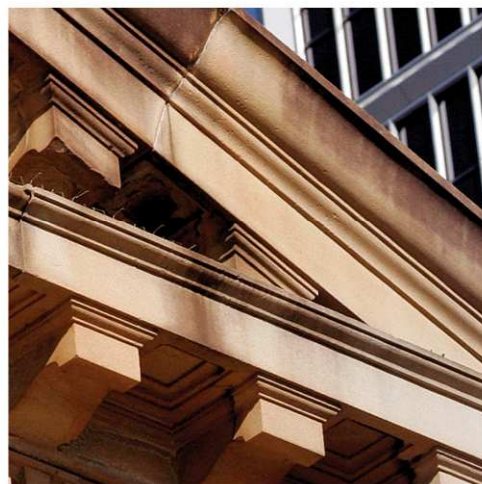
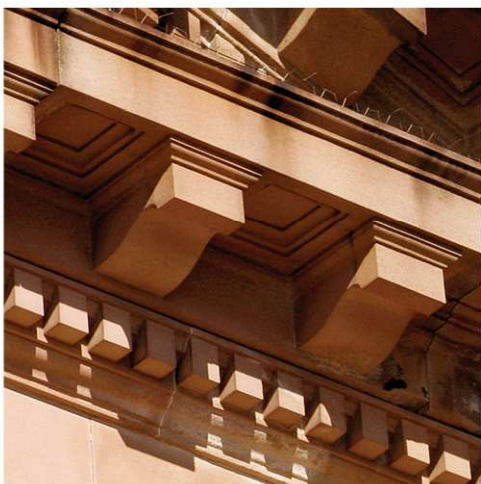
PAUT

A number of different management functions are required for the operation of a property portfolio

- A variety of specialist management capabilities are required to ensure the optimal management of a property portfolio, including:

Portfolio management	<ul style="list-style-type: none">— Portfolio manager is responsible for managing the investment decisions across a portfolio of multiple properties— Allocation of capital to different property markets and performance measurement— Acquisition, financing, and disposal decisions
Real property asset management	<ul style="list-style-type: none">— Real property asset manager acts on behalf of owners / investors to preserve property values of a particular real property asset— Ultimately responsible for all of the activities undertaken by facilities, leasing and development managers— 5-10 year budgeting in relation to the specific real property asset to inform portfolio decisions
Facilities management	<ul style="list-style-type: none">— Primary responsibilities of the facilities manager include:<ul style="list-style-type: none">— Rent collection— Real property asset specific accounting/reporting and 1-year budgeting— Maintenance of the physical asset
Leasing management	<ul style="list-style-type: none">— Leasing manager is responsible for negotiating new leases and lease renewals and managing existing leases— Seeks optimal tenant mixes and designs leasing space— Conducts occupancy cost analysis, negotiates lease renewals, supervises rent reviews, renovation of anchor spaces and rent collection
Development management	<ul style="list-style-type: none">— Development manager manages different stages of the creation of new buildings which include<ul style="list-style-type: none">— Land purchase— Securing zoning permits— Construction procurement— Other responsibilities may also include making renovations, improvements, and alterations

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APPENDIX VALUE CAPTURE ARRANGEMENTS

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VALUE-CAPTURE ARRANGEMENTS

PAUT

Worked example illustrates that agencies are incentivised to cooperate with Property NSW

- The following worked examples demonstrate that agencies are incentivised to maintain sensible real property asset values and work cooperatively with Property NSW in order to share in development profits generated from value-added opportunities pursued by Property NSW.
- It is anticipated that cooperative engagement with Property NSW will entail:
 - Agreement on real property asset valuation;
 - Open disclosure of information requested by Property NSW; and
 - Proactive dialogue around optimal utilisation of real property assets.
- Each example assumes a Property NSW development contribution of \$10m and real property asset sale price of \$150 million

Example A: Full cooperation

- Agency and Property NSW agree on real property asset value of \$100 million
- Agency works cooperatively with Property NSW to maximise utilisation and real property asset value
- Development profit split as per formulas on page 99

Example B: Real property asset value agreed BUT lack of cooperation on strategy

- Agency and Property NSW agree on real property asset valuation of \$100 million
- Agency uncooperative so real property asset compulsorily vested to Property NSW at book valuation of \$100 million
- All development profits accrue to Property NSW

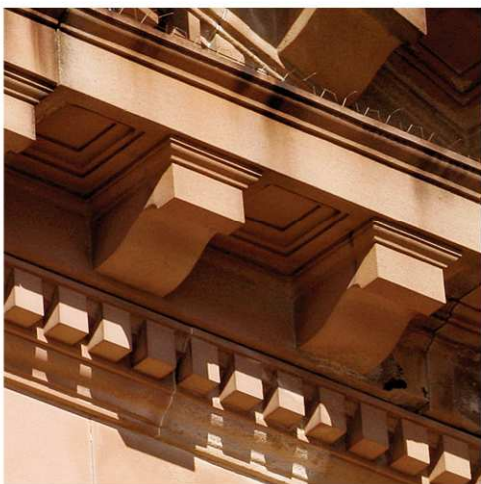
Example C: Real property asset value not agreed AND lack of cooperation on strategy

- Agency maintains artificially low real property asset valuation of \$70 million
- Agency uncooperative so real property asset compulsorily vested to Property NSW at book valuation of \$70 million
- All development profits accrue to Property NSW

Worked examples (\$m)

Example	A	B	C
Asset book value	100	100	70
Property NSW development contribution	10	10	10
Total capital contribution	110	110	80
Sale price	150	150	150
Agency proceeds	136	100	70
Property NSW proceeds	14	50	80

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APPENDIX LEGISLATIVE OPTIONS FOR PROPERTY NSW

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LEGISLATIVE OPTIONS FOR PROPERTY NSW

PAUT

Aspect of Property NSW	Existing legislation	Premier's Memorandum 2008-06 or other instrument	Legislative option	Non-legislative option
Proposed name	SPA.	SPA.	New legislation or change in Statute Law Revision Amendments.	Registrar a Business Name for SPA being Property NSW.
<i>Property NSW</i>				
Objectives <i>Property NSW will assume responsibility for the management of the NSW Government's owned and leased property portfolio ... to improve the current approach to property ownership, utilisation and management decisions by facilitating a whole-of-government approach</i>	<p>The current objectives of SPA are contained in s 10 of the SPA Act:</p> <ul style="list-style-type: none"> (a) to improve operational efficiencies in the use of properties of government agencies, particularly generic properties (such as offices, warehouses, depots and car parks); (b) to manage properties of government agencies in a way that supports the service delivery functions of those agencies; (c) to provide advice and support within government on property matters; (d) to operate at least as efficiently as any comparable business, consistently with the principles of ecologically sustainable development and social responsibility for the community (including the indigenous community). 	<p>M2008-06 supplements the SPA Act and applies immediately to all of the General Government Sector and Public Trading Enterprises except SOC's but SOC's are encouraged to use SPA.</p> <p>SPA is the Government's real estate services provider and is responsible for acquiring and managing the Government's generic property assets and where agreed, the Government's other property assets.</p> <p>M2008-06 makes it clear that owned office accommodation and leased office accommodation is to vest in SPA and SPA manages those assets.</p> <p>It also makes it clear that by agreement with SPA, Agencies can vest non-generic assets in SPA and Government may in fact direct vesting of non generic assets.</p> <p>However, it is lacking in relation to generic assets other than office buildings except for the overriding power to acquire and manage generic assets.</p>	<p>The PAUT objectives are broader whilst the SPA objectives are enabling rather than mandatory.</p> <p>If new legislation or legislative amendment is pursued then it would be beneficial to broaden the objectives so that the power to acquire and to lease for commercial purposes would not be restricted by the objectives. The power to acquire should also be made clear so that it does not have to depend on powers under the Interpretation Act. The power to lease for commercial purposes (and not just for office accommodation) should also be included.</p>	<p>M2008-06 could be strengthened by inclusion of the objective:</p> <p>'Property NSW will assume responsibility for the management of the NSW Government's owned and leased property portfolio ... to improve the current approach to property ownership, utilisation and management decisions by facilitating a whole-of-government approach'.</p> <p>There should also be a specific provision in the PPF and the GPP for vesting of all generic assets unless otherwise directed by the Minister for Finance and Services (if satisfied in his absolute discretion on sound rationale for Agency to retain).</p>

LEGISLATIVE OPTIONS FOR PROPERTY NSW (CONT.)

PAUT

Aspect of Property NSW	Existing legislation	Premier's Memorandum 2008-06 or other instrument	Legislative option	Non-legislative option
<p>Central information management</p> <p><i>Property NSW will maintain a centralised database containing information relating to all owned and lease Government properties; Comprehensive and accurate information platform to inform whole-of-government asset management decisions; Reviews and reporting will be undertaken to ensure agencies are actively updating information</i></p>	<p>The Annual Reports (Departments) Act 1985 s 17 contains very wide powers enabling the DG of the Department of Lands to require the provision of information.</p> <p>The Annual Reports (Statutory Bodies) Act 1984 s 14 contains very wide powers enabling the DG of the Department of Lands to require the provision of information</p> <p>There is no provision requiring the establishment and maintenance of a centralised database.</p>	<p>A centralised database (GPR) is currently managed by LPI. The information provided by Agencies is held in that register.</p>		<p>This function is currently exercised by the Registrar General through Administrative Changes Order.</p> <p>An Administrative Changes Order could be put through transferring this function to the DG of DFS as CEO of Property NSW or to the Head of Property NSW.</p> <p>This could be followed through by Statute Law Reform amending the legislation.</p>
<p>Agency assistance in strategy and planning</p> <p><i>Property NSW to be a value-add resource for agencies by assisting with preparation of property specific components of TAMs, eliminating the need for external consultants and facilitating a whole-of-government overlay to capital planning; Property NSW to provide a sign-off on property component of all agency TAM submissions prior to submission to Treasury, encouraging consultation and collaboration between agencies and Property NSW</i></p>		<p>TAM is a Treasury Policy and does not have any legislative force. It is enforced by Treasury Circular.</p>		<p>This requirement could be included in the Treasury Circular and be reinforced by a provision in the Premier's Memorandum.</p>

LEGISLATIVE OPTIONS FOR PROPERTY NSW (CONT.)

PAUT

Aspect of Property NSW	Existing legislation	Premier's Memorandum 2008-06 or other instrument	Legislative option	Non-legislative option
Asset ownership				
<i>a) All office assets will be vested to Property NSW</i>	SPA enabled to have assets vested in it under s 19 of SPA Act.	M2008-06 requires all office assets to be vested in SPA.		No change required.
<i>b) Generic (i.e. non-operational) assets to be considered on a case by case basis – agencies retain these assets only where a sound rationale exists</i>		M2008-06 states that SPA is responsible for acquiring and managing the Government's generic property assets.		Specific provision to be included in the Premier's Memorandum and in particular PPF and GPP for vesting all generic assets unless otherwise directed by the Minister.
<i>c) Specialised / strategic assets to be excluded (other than as agreed), however Property NSW will be empowered to request information</i>	The Annual Reports (Departments) Act and Annual Reports (Statutory Bodies) Act cover the requirement for the provision of information.	M2008-06 requires Agencies to supply information for generic property database. It also requires Agencies to advise SPA of vacant, underutilised, or no longer required office space or other property.		An Administrative Changes Order could be put through transferring this function to the DG of DFS as CEO of Property NSW or to the Head of Property NSW.
<i>d) SOC's are out of Property NSW's scope</i>	SOCs are excluded from the operation of the SPA Act (s 3).	M2008-06 excludes SOC's but encourages SOC's to use SPA.		
Asset management				
<i>Property NSW will work in conjunction with agencies' property functions and other related entities in a streamlined asset management context ; Ongoing maintenance capital expenditure programs to ensure assets are maintained to an appropriate level.</i>	<p>The objectives under the SPA Act are broad enough to cover this.</p> <p>S 9 of SPA enables SPA to exercise its functions by itself, or through a private subsidiary corporation or both, in a partnership, joint venture or other association with other persons or bodies.</p> <p>S 11 enables SPA to undertake a wide range of functions.</p> <p>S 12 of SPA Act gives wide powers to SPA to enter into an agreement with a government agency to: hold, manage, maintain, dispose, develop, improve or acquire property.</p>			

LEGISLATIVE OPTIONS FOR PROPERTY NSW (CONT.)

PAUT

Aspect of Property NSW	Existing legislation	Premier's Memorandum 2008-06 or other instrument	Legislative option	Non-legislative option
<p>Development capability</p> <p><i>Property NSW will have capability to provide funding and development expertise to assist agencies to bring assets to market with an enhanced value ;</i></p> <p><i>Co-ordination with other development-capable entities including UGNSW, Transport etc.</i></p>	<p>Ss 11(1)(b) and 12(1)(b) of SPA Act enable SPA to carry out, manage, co-ordinate or participate in the development of the property of government agencies.</p> <p>Ss 11(1)(d) and 12 (1)(d) of SPA Act enable SPA to provide services or do other things for the management, maintenance or improvement of property of government agencies.</p> <p>S 12(4) enables SPA to use specified funds of the government agency to acquire, manage, maintain or develop property.</p> <p>S 9 of SPA Act enables SPA to do so in a partnership, joint venture or other association with other persons or bodies.</p> <p>There is no specific provision for SPA to provide funding assistance. There is a provision (s 11(3)) for SPA to do all supplemental, incidental or consequential acts as may be necessary or expedient for the exercise of its functions. It is uncertain whether this extends to funding.</p> <p>The Investment powers under the Public Authorities (Financial Arrangements) Act (PAFA) may assist.</p>		<p>Specific legislative amendment could cover the funding issue.</p> <p>It may be possible to provide the investment powers of SPA under a PAFA Regulation.</p>	<p>Treasurer's approval under PAFA may be given.</p>

LEGISLATIVE OPTIONS FOR PROPERTY NSW (CONT.)

PAUT

Aspect of Property NSW	Existing legislation	Premier's Memorandum 2008-06 or other instrument	Legislative option	Non-legislative option
<p>Leasing management</p> <p><i>Coordinate cross-agency opportunities to facilitate whole-of government leasing strategy;</i></p> <p><i>Power to make decisions in relation to optimal use of space and best accommodation options for each agency in Government's overall interests;</i></p> <p><i>Minimise under-renting and better coordinate Government tenancy to better leverage government brand and in leasing negotiations</i></p>	<p>S 11(c) SPA Act empowers SPA to arrange, where appropriate, for the sharing of facilities and premises by government agencies.</p> <p>SPA only has an advisory role (to the Treasurer) in relation to whether properties are being efficiently utilised etc.</p>	<p>Office accommodation consumes a large part of M2008-06. It provides, inter alia, for:</p> <ul style="list-style-type: none"> — immediate vesting; — charging commercial rent for owned; — charging management fee for leased; and — SPA to do all lease negotiations etc. <p>But the Agency still has a role in identifying needs and providing a business case in line with Asset Strategy and providing funding, fit-out and make good.</p>		<p>The Premier's Memorandum would need to be strengthened to give Property NSW the reserve power (subject to ERC approval) to make decisions in the Government's overall interest to relocate people in accordance with Government policy.</p>
<p>Where line agencies do not act cooperatively to maximise the utilisation or value of their assets, Property NSW may use its right to enforce negative incentives (i.e. step-in rights) as a last resort to ensure efficiency</p>	<p>There is no power to do this.</p>	<p>M2008-06 in GPP – Operating Principles No. 2 notes that the Government may direct vesting.</p>		<p>The Premier's Memorandum could be strengthened by requiring all property assets to be vested unless the Minister determines otherwise or by setting out the circumstances in which the Government may direct vesting.</p> <p>Treasury Policy is to set out the Incentives Framework.</p>

LEGISLATIVE OPTIONS FOR PROPERTY NSW (CONT.)

PAUT

Aspect of Property NSW	Existing legislation	Premier's Memorandum 2008-06 or other instrument	Legislative option	Non-legislative option
<p>Property NSW to share net profits on sale with line agency based on capital contribution</p> <p>Funding for works on assets to be undertaken prior to sale or for other efficiency improvements</p>	<p>Under Section 9 of the Public Finance and Audit Act 1983 the Treasurer may make directions to accounting officers and officers of an authority with respect to the principles, practices and procedures to be observed in the administration of the financial affairs of the State.</p> <p>In particular:</p> <ul style="list-style-type: none"> — S9(2)(c) the recording, issue and control of public property and other property; — S9(2)(d) the sale and disposition of public property and other property; — S9(2)(o) the payment, into an account in the Special Deposits Account for an authority, of a percentage (not being less than 50%) of the proceeds of a sale or lease of a surplus asset vested in, used by or under the control of the authority; — S9(2)(p) the purposes for which an authority may expend proceeds referred to in paragraph (o) being purposes in connection with the acquisition or maintenance of capital assets. <p>This could be achieved by agreement under s 12 SPA Act.</p>			

LEGISLATIVE OPTIONS FOR PROPERTY NSW (CONT.)

PAUT

Aspect of Property NSW	Existing legislation	Premier's Memorandum 2008-06 or other instrument	Legislative option	Non-legislative option
Under control and direction of Minister for Finance and Services	S 6 SPA Act provides that SPA is subject to the control and direction of the Minister for Finance and Services.			No change required.
CEO to be DG of DFS	S 3(1) provides that the CEO is the DG of DFS. S 7 provides that the CEO is responsible for the day-to-day management of the affairs of SPA and any act, matter or thing done in the name of, or on behalf of, SPA by the CEO is taken to have been done by SPA.			No change required.
Appointment of CEO with management experience running a large organisation, as well as senior support staff with experience across a broad spectrum of property asset classes				The use of CEO under the SPA Act and group CEO is confusing. It is better to use Head of Property NSW rather than group CEO.
Head of Property NSW to be appointed	This will be a position under DFS.			No change required.
Delegation from Authority to Head of Property NSW	S 8 of SPA Act enables SPA to delegate to an authorised person with power to sub-delegate.			No change required.
All Property NSW staff will be DFS employees, employed under the Public Sector Employment and Management Act (PSEM Act)	Staff employed to carry out the functions of SPA are DFS employees.			No change required.

LEGISLATIVE OPTIONS FOR PROPERTY NSW (CONT.)

PAUT

Aspect of Property NSW	Existing legislation	Premier's Memorandum 2008-06 or other instrument	Legislative option	Non-legislative option
Mechanism to roll in place management authorities (PMAs)	<p>PMA Acts usually:</p> <ul style="list-style-type: none"> — place PMAs under control and direction of a Minister; — establish a Board consisting of the CEO, DG and a number of persons appointed by the Minister; — appoint a CEO which is either the DG or a person holding office as such under Part 2 of the PSEM Act; — CEO is responsible for the day-to-day management of the affairs of PMA and any act, matter of thing done in the name of, or on behalf of, PMA is taken to have been done by PMA. 			

ANNUAL REPORTS (DEPARTMENTS) ACT 1985

PAUT

Section 17: Land register

- 1) A Department Head shall, within such time or times as may be specified by the Director-General of the Department of Lands and in accordance with such directions as may be given by the Director-General, furnish to the Director-General details of:
 - a) all land vested in or owned or occupied by, or subject to the control of, the appropriate Minister or the Department;
 - b) the current use of that land;
 - c) all land which is, at the time at which the details are furnished, considered by the Department Head to be essential to the operations of the Department;
 - d) all land which is, at the time at which the details are furnished, considered by the Department Head not to be essential to the operations of the Department; and
 - e) such other matters relating to the land vested in or owned or occupied by, or subject to the control of, the appropriate Minister or the Department as the Director-General may determine.
- 2) Without limiting the generality of subsection (1)(e), the Director-General of the Department of Lands may require a Department Head to give detailed reasons and other relevant information to indicate why land to which subsection (1)(c) applies is considered by the Department Head to be essential to the operations of the Department.
- 3) The Director-General of the Department of Lands shall cause to be kept a register which includes the details furnished to the Director-General under this section.
- 4) The Director-General of the Department of Lands may exempt a Department Head from compliance with such of the provisions of this section as are specified in the exemption.
- 5) An exemption may be granted generally or subject to such conditions as the Director-General of the Department of Lands may specify in the exemption or in relation to such matters as may be so specified.
- 6) An exemption ceases to apply where the Director-General of the Department of Lands, by notice in writing, so informs the Department Head to whom the exemption was granted.

ANNUAL REPORTS (STATUTORY BODIES) ACT 1984 PAUT

Section 14: Land register

- 1) A statutory body shall, within such time or times as may be specified by the Director-General of the Department of Lands and in accordance with such directions as may be given by the Director-General, furnish to the Director-General details of:
 - a) all land owned or occupied by the statutory body;
 - b) the current use of that land;
 - c) all land which is, at the time at which the details are furnished, considered by the statutory body to be essential to its operations;
 - d) all land which is, at the time at which the details are furnished, considered by the statutory body not to be essential to its operations;
 - e) in relation to land to which paragraph (d) applies:
 - i. a valuation of the current market value of that land, and
 - ii. the date and source of that valuation; and
 - f) such other matters relating to the land owned or occupied by the statutory body as the Director-General may determine.
- 2) Without limiting the generality of subsection (1)(f), the Director-General of the Department of Lands may require a statutory body to give detailed reasons and other relevant information to indicate why land to which subsection (1)(c) applies is considered by the statutory body to be essential to its operations.
- 3) A statutory body shall, at intervals of not more than 3 years, review a valuation of the current market value of land to which subsection (1)(d) applies.
- 4) The Director-General of the Department of Lands shall cause to be kept a register which includes the details furnished to the Director-General under this section.
- 5) Where the Valuer-General is of the opinion that:
 - a) any matter furnished to the Director-General of the Department of Lands under this section, or
 - b) any matter included in the register kept under subsection (4), is incorrect, inadequate or inappropriate, the Valuer-General shall make a report to the Director-General accordingly.

PREMIER'S MEMORANDUM M2008-06

PAUT

SPA and Government Property Principles

- SPA is the Government's real estate services provider and is responsible for acquiring and managing the Government's generic **real** property assets and where agreed, the Government's other property assets
- This Memorandum will need to be revised and re-issued to apply immediately to all of the General Government Sector and Public Trading Enterprises except SOCs. SOCs are encouraged to use SPA

Property Policy Framework:

1. Immediate vesting to SPA of Government owned office accommodation
2. Commercial rent charge
3. Transfer to SPA of management responsibility of Government leased office accommodation
4. SPA to do lease renewals and new and existing lease negotiations for generic property in Greater Sydney Metropolitan area
5. SPA to undertake reviews of Agency Property Portfolios
6. Agencies to supply information for generic property data base
7. GAMC (whose role is now assumed by the Minister for Finance and Services) to review and endorse all proposed acquisitions and disposals
8. SPA is Government's preferred acquisitions and disposals agency
9. SPA is lead agency on multifaceted property proposals
10. To work cooperatively

PREMIER'S MEMORANDUM M2008-06

PAUT

SPA and Government Property Principles

GPP – Operating Principles:

1. Owned office buildings to be vested in SPA (no compensation, MOU, budget funding for net rental payments)
2. Agencies may vest non-generic owned property assets in SPA (SPA and Treasury to agree resource and funding transfers). Government may direct vesting
3. SPA assumes management responsibility for all leased office space and other leased property assets (MOU and management fee). Transfer.
4. SPA to undertake all lease negotiations (Minister for Finance and Services may exempt)
5. SPA to undertake all lease pre-commitments
6. Requests to SPA to acquire new property assets need consistency with Asset Strategy, business case, funding for acquisition, rental and fit-out and if over 1,000 sq m a facilities plan
7. GAMC (whose role is now assumed by the Minister for Finance and Services) to approve all property asset acquisitions
8. No General Government Sector Agency will approach market to acquire property assets other than through SPA (Minister for Finance and Services may exempt)
9. Sale and leaseback or amortisation of fit-out must be referred to SPA and be approved by Treasury
10. Agencies are to advise SPA of vacant, underutilised or no longer required office space or other property
11. Car parking spaces to be used for office Government vehicles (proviso)
12. MOU to be entered into for office space or other property assets SPA provides
13. SLA for maintenance of owned or leased non-generic property assets to be entered into
14. Agencies responsible for fit-out and make good and need approval of SPA
15. Regular and ongoing reviews of Agency Property Portfolios

PREMIER'S MEMORANDUM M2008-06

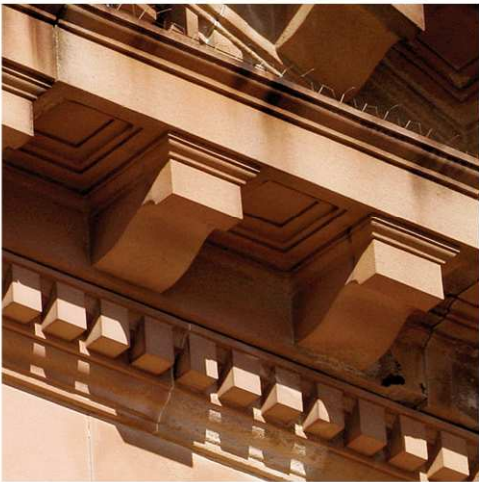
PAUT

SPA and Government Property Principles

GPP – Guiding Principles:

1. GAMC is peak body regarding strategic asset management (however it has subsequently been disbanded and its role is now assumed by the Minister for Finance and Services)
2. Where Minister does not have legislative power to deal in property transactions, title for new acquisitions will vest in SPA
3. Agencies to meet office space targets determined by SPA
4. Agencies to pursue opportunities to share common resources or services
5. Preference for southern sector if located in Sydney CBD and active living principles to apply
6. Sustainability and energy conservation principles to apply

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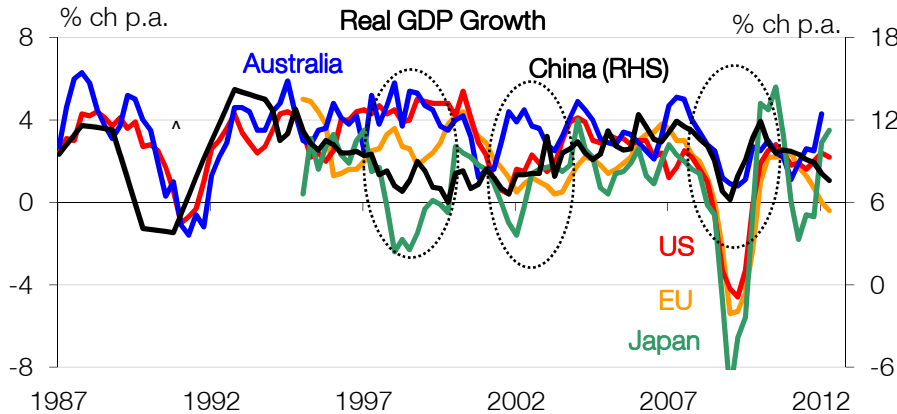
APPENDIX PROPERTY MARKET CONDITIONS

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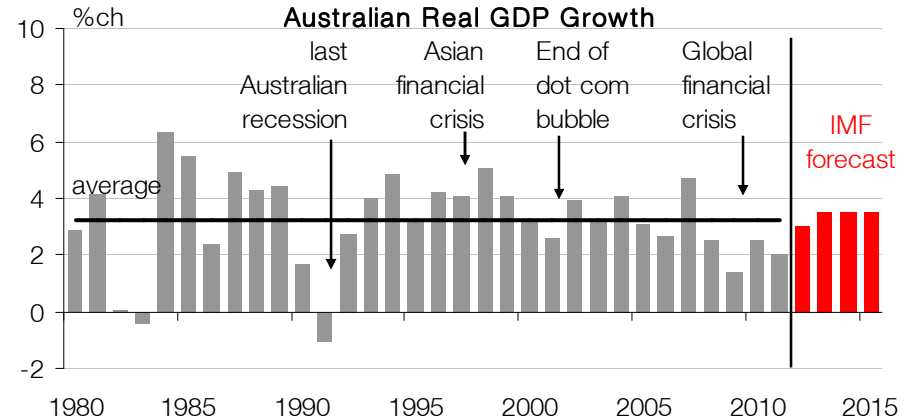
AUSTRALIAN ECONOMY

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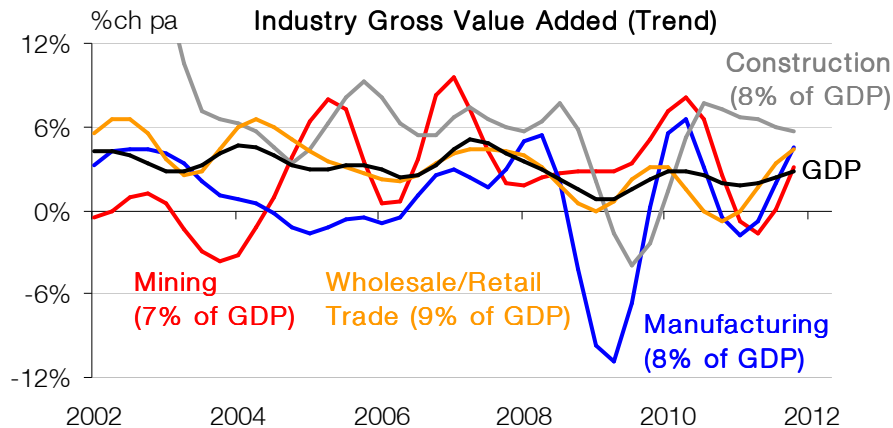
Global economy showing signs of moderation after initial upswing.
Australia increasingly aligned to emerging Asia including China



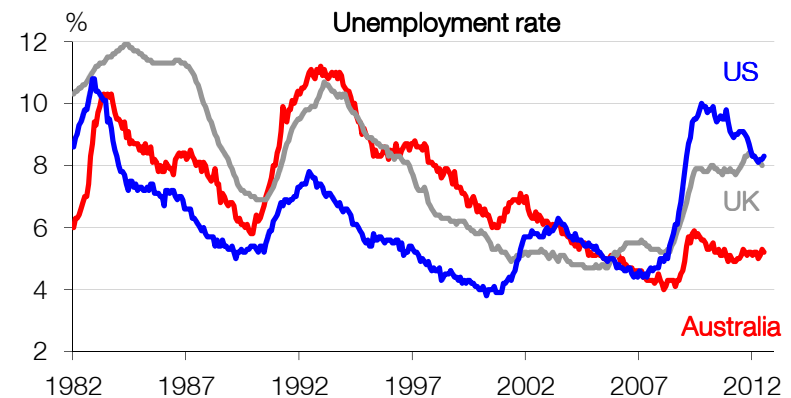
Australia has been resilient through several global / regional cycles.
IMF expects growth to revert to trend of 3.5% p.a. by 2013



GDP growth more driven by services than mining / manufacturing.
Recent softness due to mortgage rates, \$A and flood disruptions



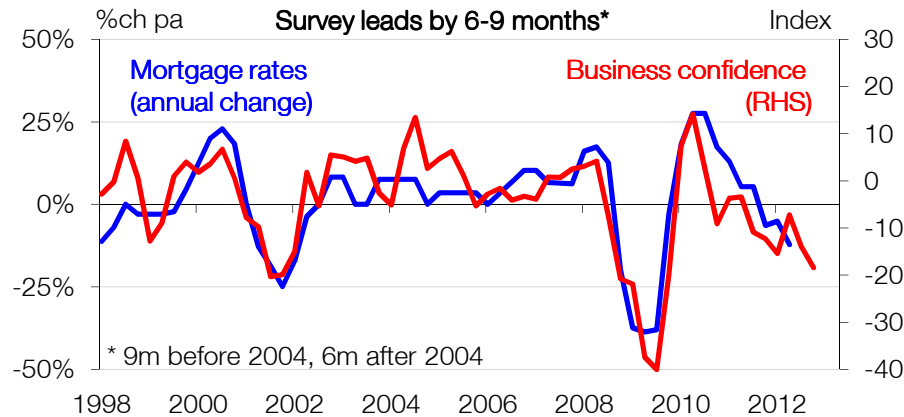
Sustained Australian expansion and no recession over past 20 years have seen unemployment fall to near historical lows



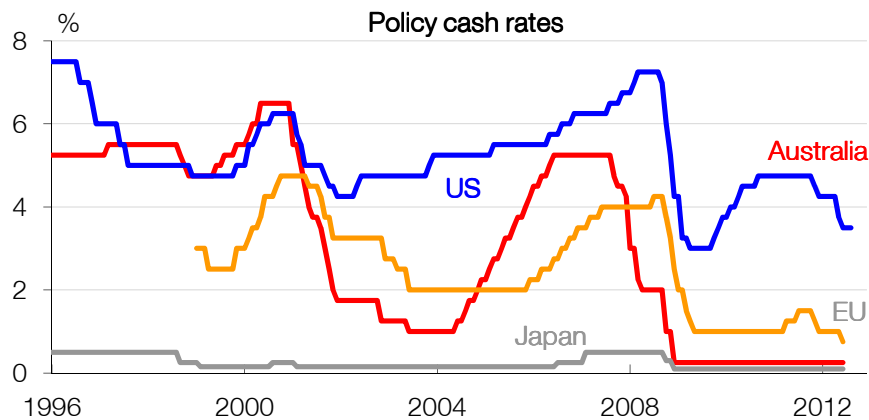
Source: Macquarie Capital, ABS, Bloomberg, IMF

POLICY SETTINGS

Current rate easing cycle has trailed the softening in economy-wide business conditions. Indicator still signals modest rate cuts ahead.



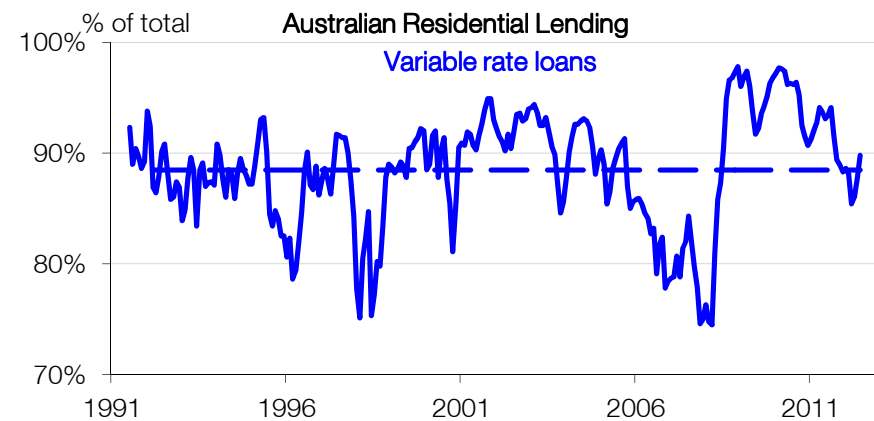
Unlike most major economies, Australia still has scope for conventional policy easing if needed. Market expects >25 bps cut.



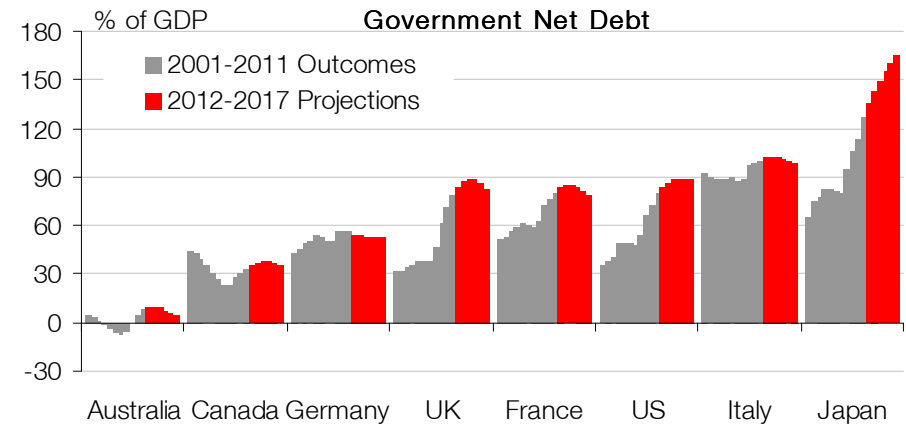
Source: Macquarie Capital, ABS, Bloomberg, NAB, IMF

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Australian households / businesses are extremely sensitive to interest rate changes, with exposure skewed towards short rates.

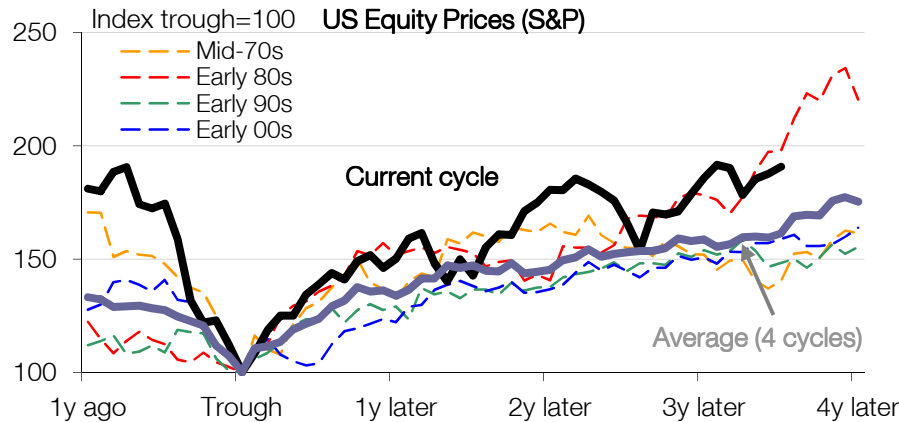


Australian fiscal balance still in very good shape. Less urgent need for dramatic fiscal austerity measures as seen in the US / Europe.

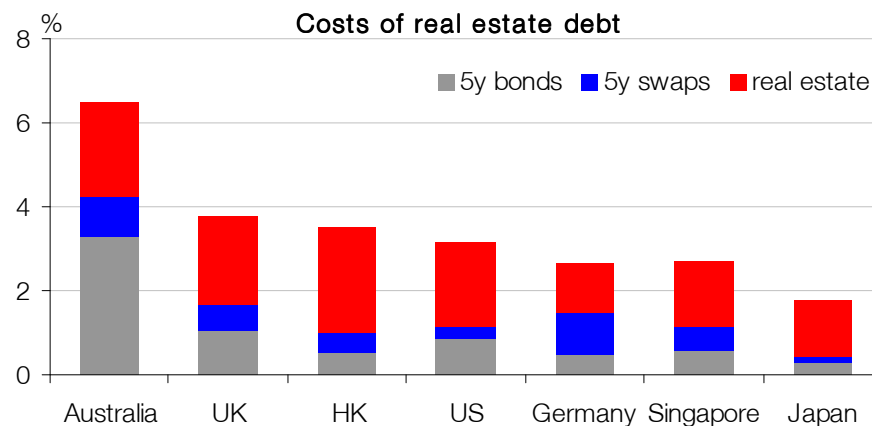


CAPITAL MARKETS

US sharemarket has rebounded as concerns over European sovereign debt faded slightly. This cycle is running ahead of average.



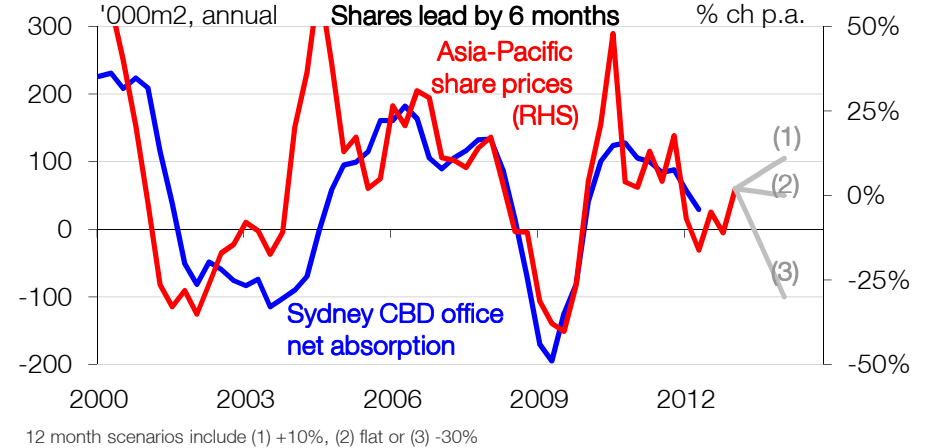
All-in cost of real estate debt has been held down by low cash rates in many regions, notwithstanding relatively higher margins



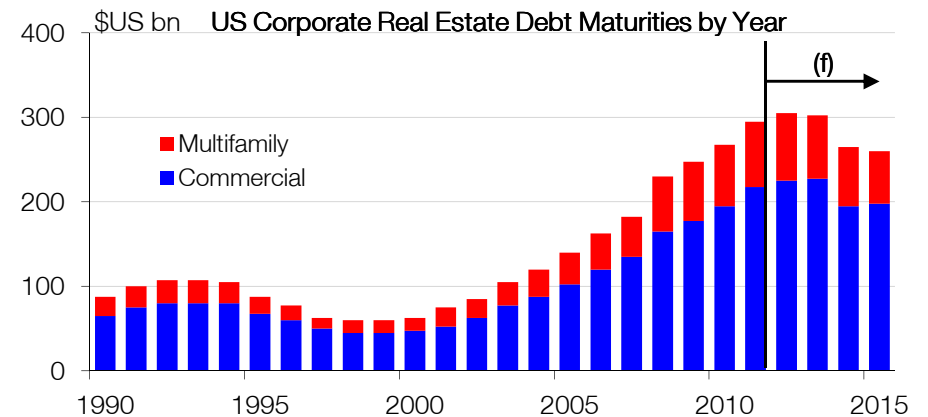
Source: Macquarie Capital, Bloomberg, JLL, Trepp

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Sharemarkets can be a significant leading driver of office market demand and pricing. Sizeable downturn needed to reverse cycle.



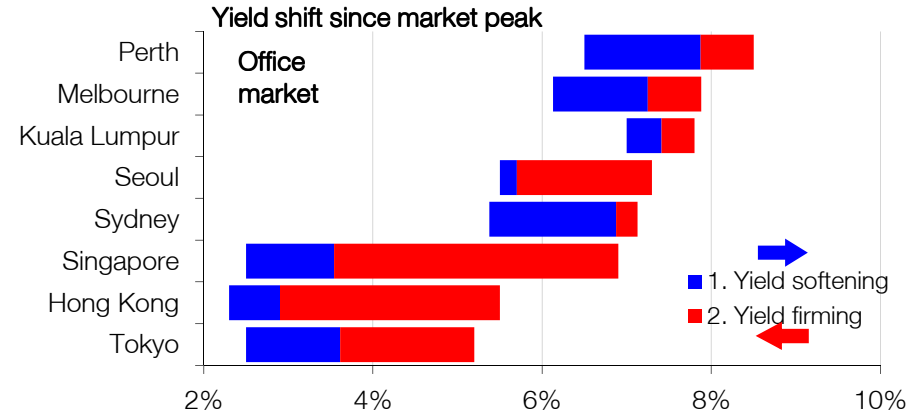
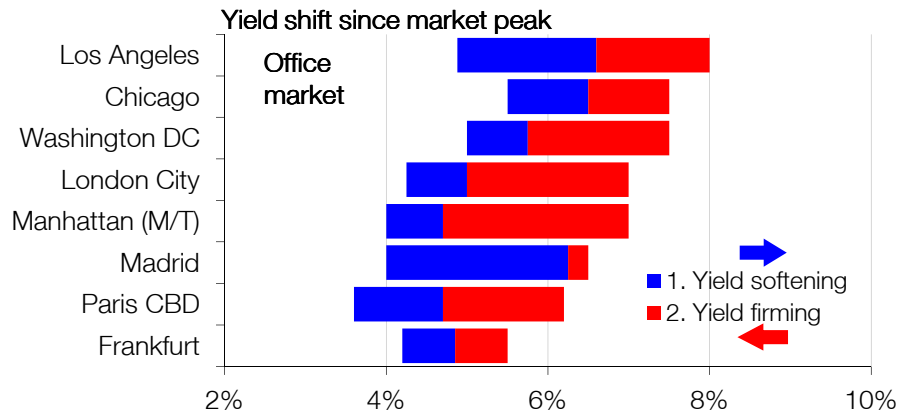
Real estate debt markets still face significant re-financing hurdles ahead, especially in the US & European commercial markets.



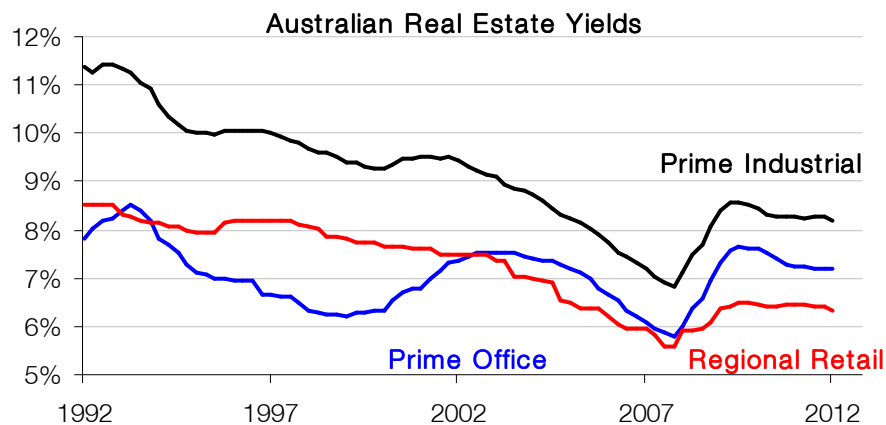
MARKET CYCLE

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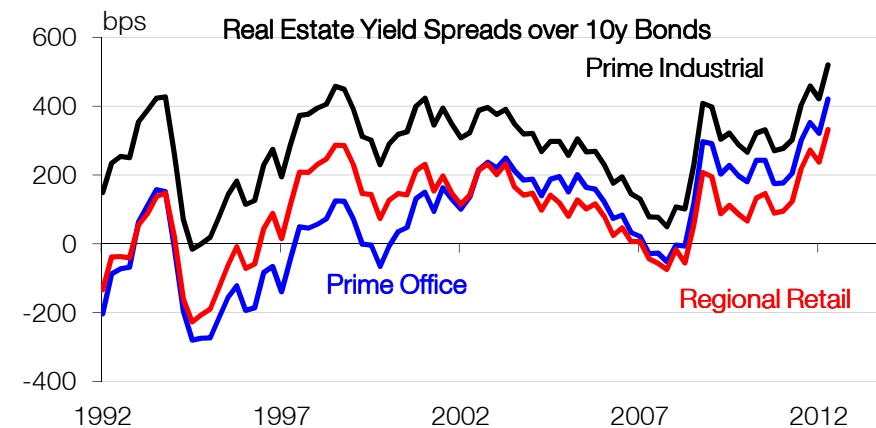
Following a synchronised global real estate market cycle, we have seen patchy recovery in cap rates since 2009. Australia remains at a relatively early stage of the recovery cycle, with only modest firming in cap rates so far, compared to the swifter compression elsewhere.



Real estate cap rates have compressed across all major sectors in Australia, more evidently in prime office and industrial



Yield spreads over 10 year bonds remain near their all-time highs due to depressed bond yields



Source: Macquarie Capital, Bloomberg, Colliers, JLL, PMA

MARKET DRIVERS

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Near-term impact of market drivers

Office drivers

Driver	6 months ago	Current
Financial market conditions	▼	►
Business conditions	►	►
Global GDP	►	►
Supply pipeline	▲	▲
Cap rates / yield spreads	▲	▲

Retail drivers

Driver	6 months ago	Current
Housing market	▼	►
Household incomes	▲	►
Mortgage interest rates	▼	▲
Consumer confidence	▼	►
Other drivers (online, \$A)	▼	▼

Residential drivers

Driver	6 months ago	Current
Housing affordability	►	▲
Mortgage interest rates	▼	▲
Household incomes	▲	►
Overseas migration	▼	►
Demand supply balance	►	▲

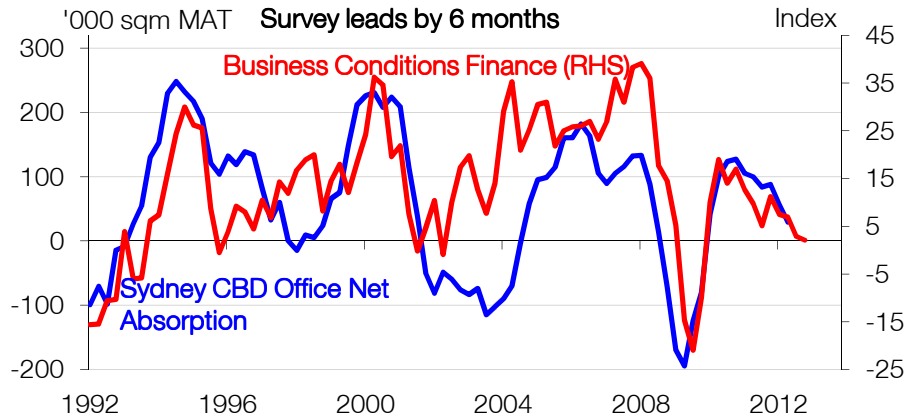
Industrial drivers

Driver	6 months ago	Current
Domestic demand	▼	►
External trade	►	►
Housing market	▼	►
Supply pipeline	▲	▲
Cap rates / yield spreads	▲	▲

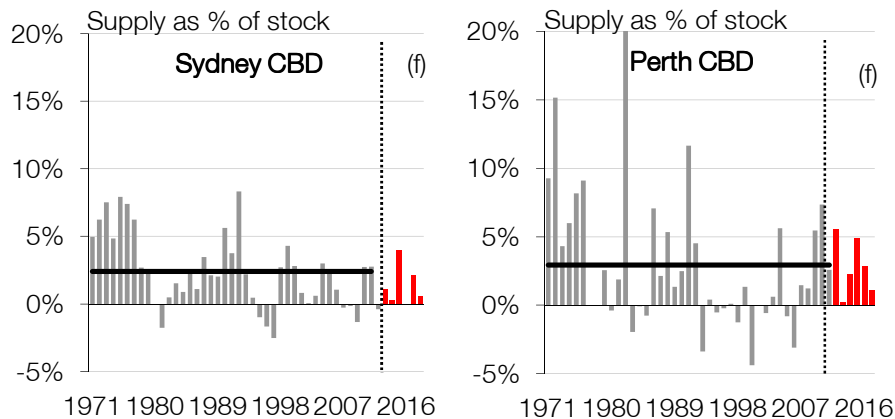
Source: Macquarie Capital

AUSTRALIAN OFFICE

Office demand cycle in line with business conditions. Recent slowing in business conditions suggest lull in near-term demand.

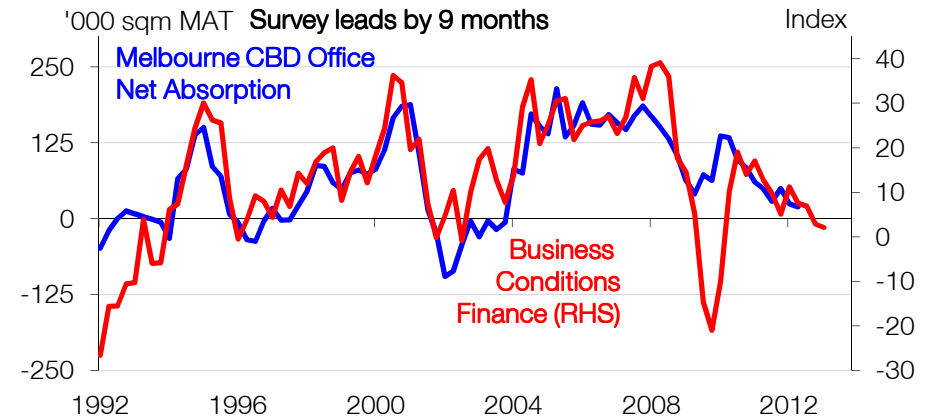


Forward office supply pipeline are generally muted, with Perth and Brisbane being the notable exceptions this cycle.

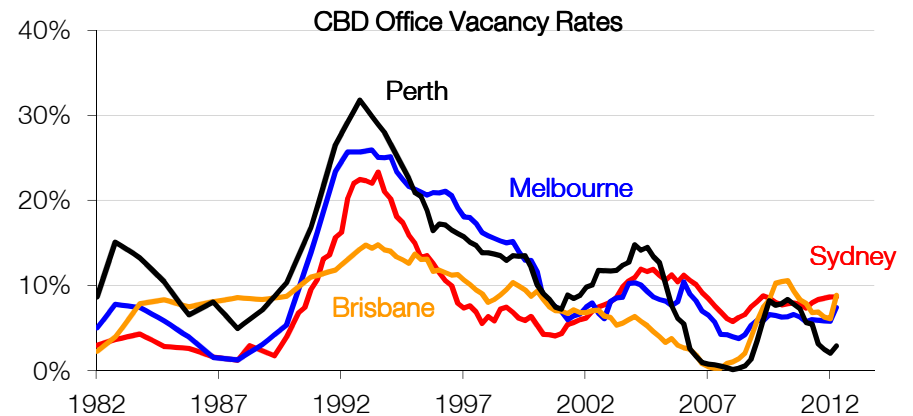


PAUT

Similar relationships persist between business conditions and office demand in most capital cities – also indicate soft patch.



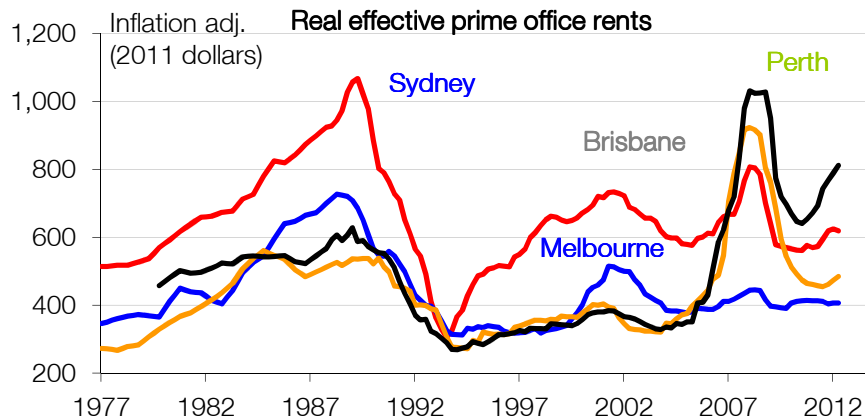
Office vacancy rates are starting this cycle from a much lower point, in the absence of the speculative supply of the early 1990s.



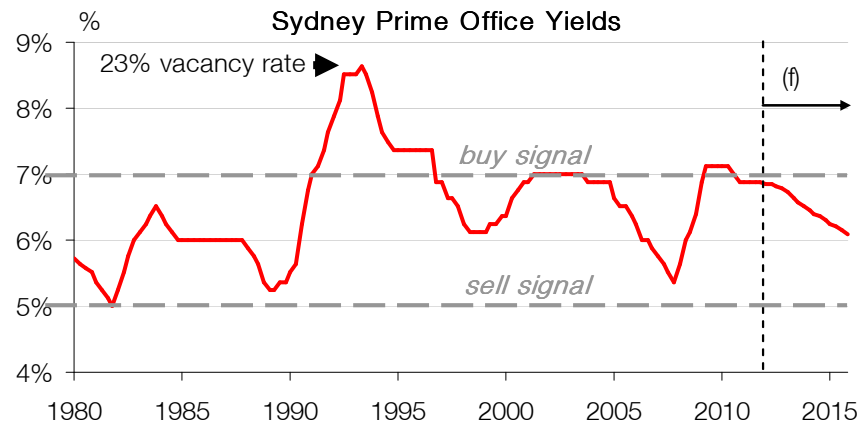
Source: Macquarie Capital, NAB, JLL

AUSTRALIAN OFFICE

Prime office rents are moving broadly back into an upswing phase, a process led by Perth and trailed by Brisbane this cycle.



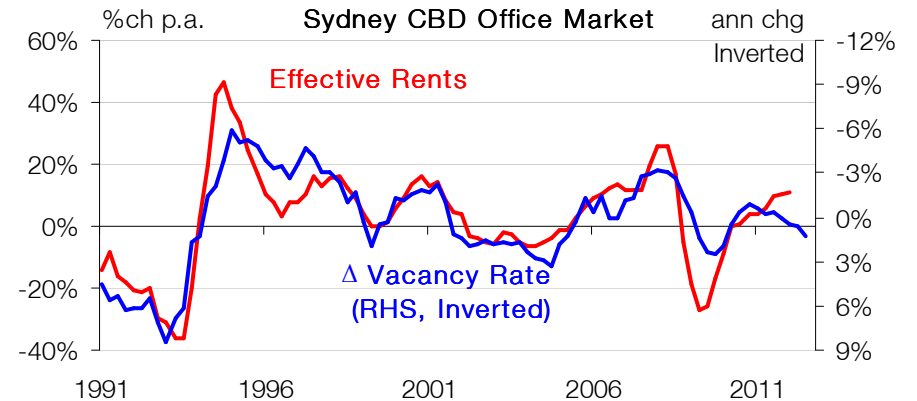
Office cap rates are historically range-bound. Australian markets are only just recovering from the high marks seen during GFC.



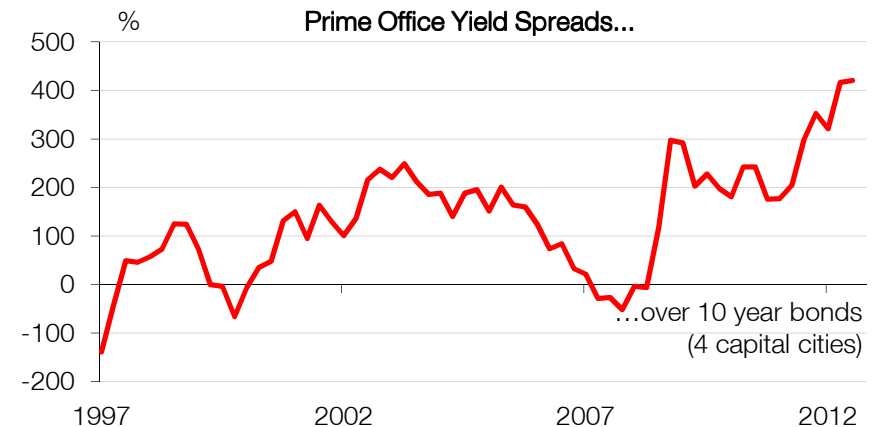
Source: Macquarie Capital, ABS, Bloomberg, JLL

PAUT

Modest near-term lull in Sydney office demand impacting modestly on vacancy rates and scope for rental gains in 2012.

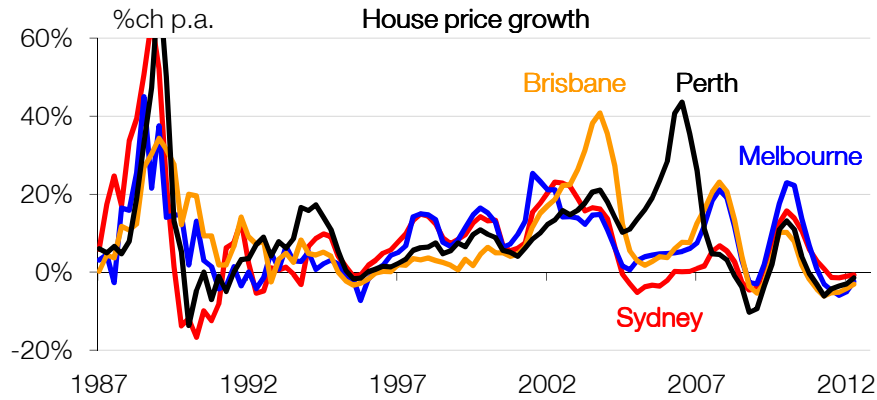


Despite modest compression in cap rates, yield spreads remain near record highs on the back of very low long bond yields.

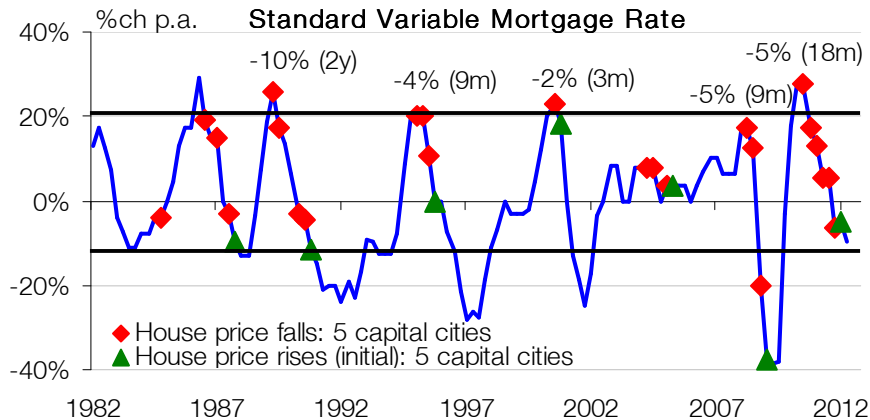


AUSTRALIAN RESIDENTIAL

Australian house prices stabilising more broadly from early 2012 after a synchronised downturn since late 2010



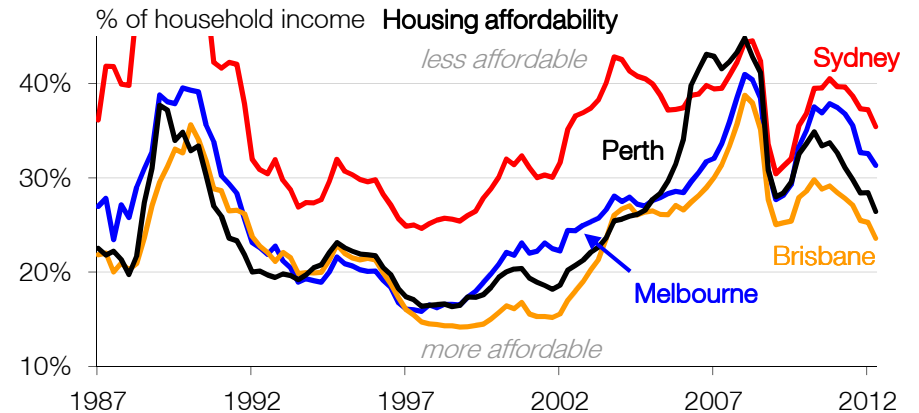
Changes in mortgage rates to key thresholds have been the key trigger for cyclical turning points in Australian housing markets.



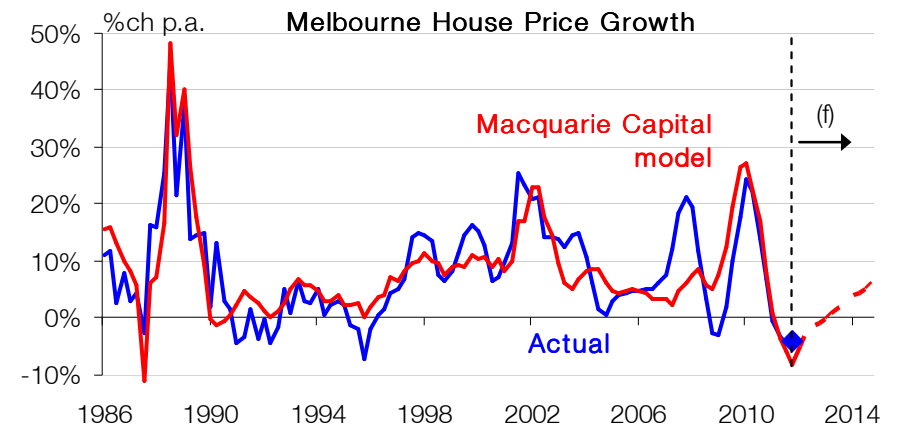
Source: Macquarie Capital, APM, RBA

PAUT

Housing affordability – a combination of prices, rates and incomes – have consistently been the key driver of the market cycle.



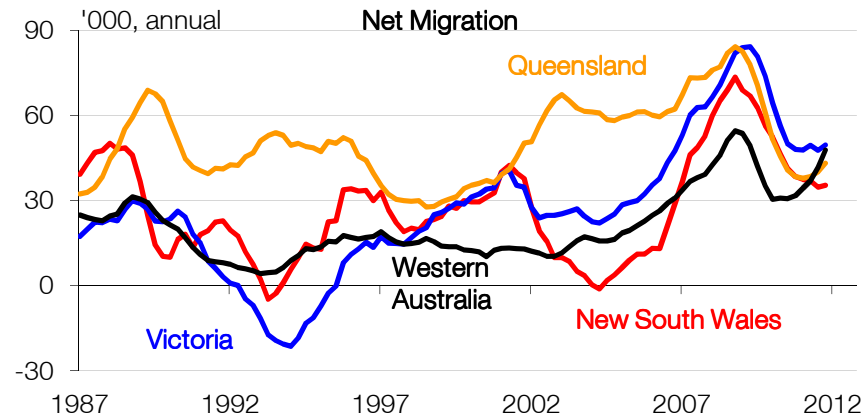
Price forecasting models based on rates, incomes and relative affordability suggests a broader recovery, but modest gains ahead.



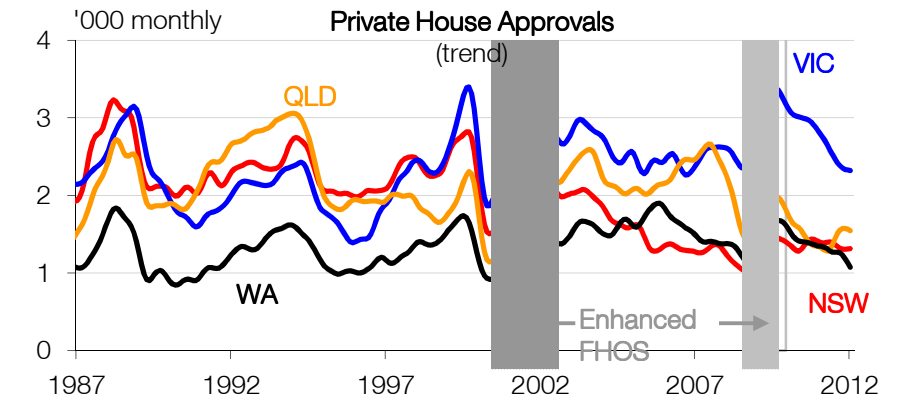
AUSTRALIAN RESIDENTIAL

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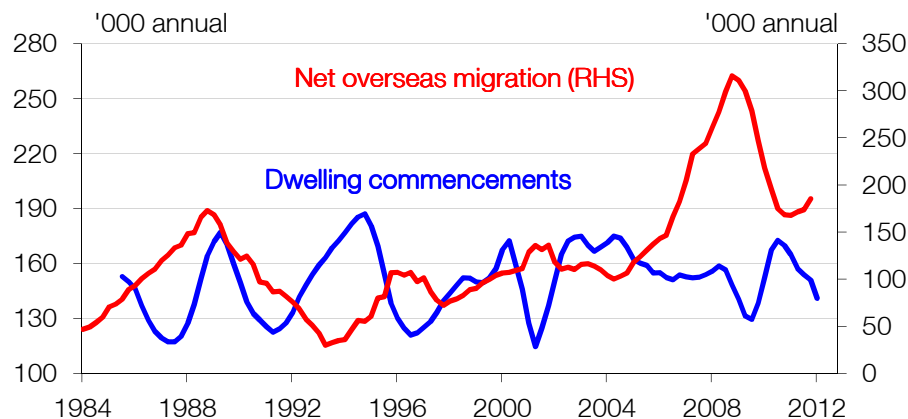
Net migration has slowed across most regions, to a level still well above historical average. WA showing signs of renewed recovery.



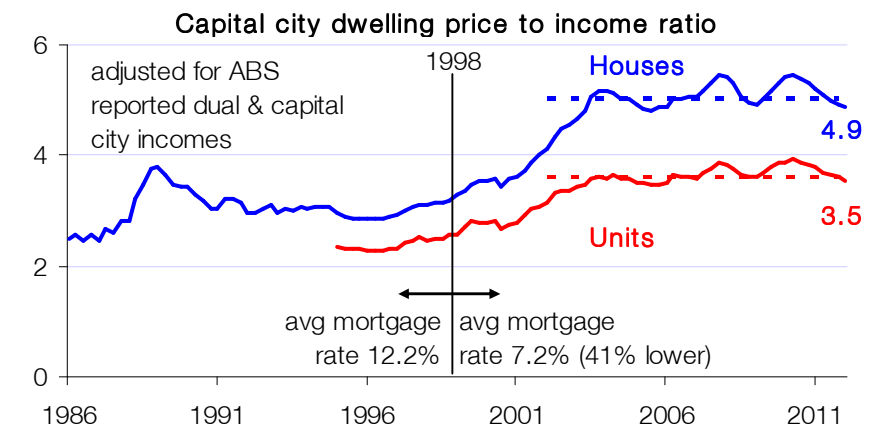
Private house approvals had been subdued across most regions. Even Victorian approvals have fallen after an outsized cycle.



The combination of slower migration-led demand, but still subdued supply gains leave the overall market with mild undersupply.



Price to income ratios ignore key driver of rates. Ratio has been stable for years, after 1990s structural falls to inflation & rates.

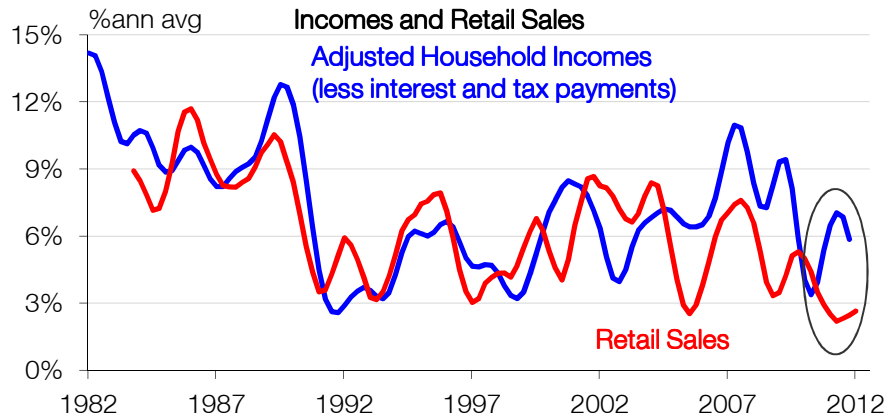


Source: Macquarie Capital, ABS, APM, RBA

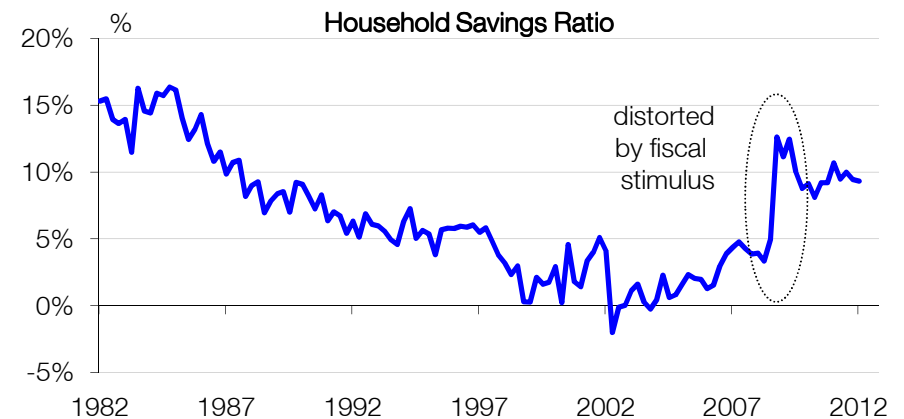
AUSTRALIAN RETAIL

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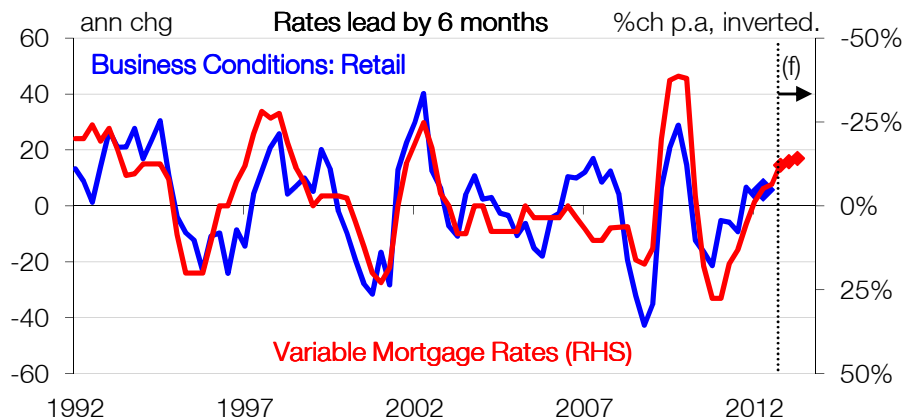
Household incomes – ex taxes and debt repayment – is a consistent driver of retail spending in history, but divergent in 2011.



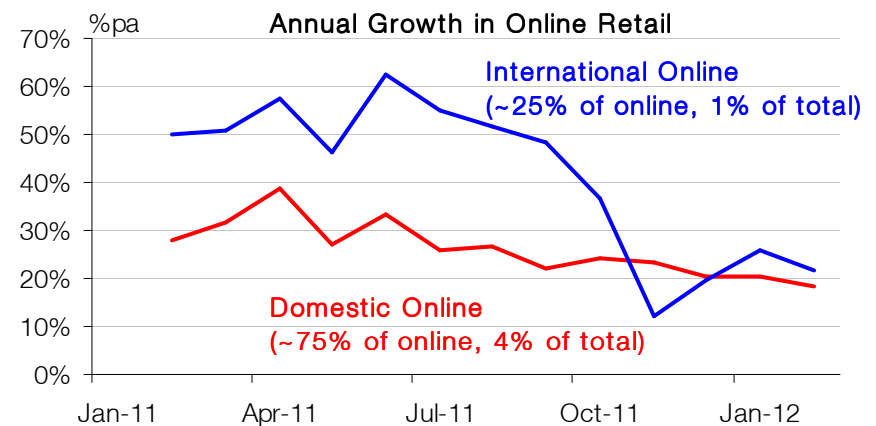
Recent divergence reflects heightened consumer risk aversion and increased pre-cautionary savings by households.



An easing cycle for mortgage interest rates has traditionally been a reliable signal for stronger retail trading conditions, with a 6m lag.



Rapid growth in retail online spending will continue to divert sales from physical stores, reducing store sales growth by ~1% pa.

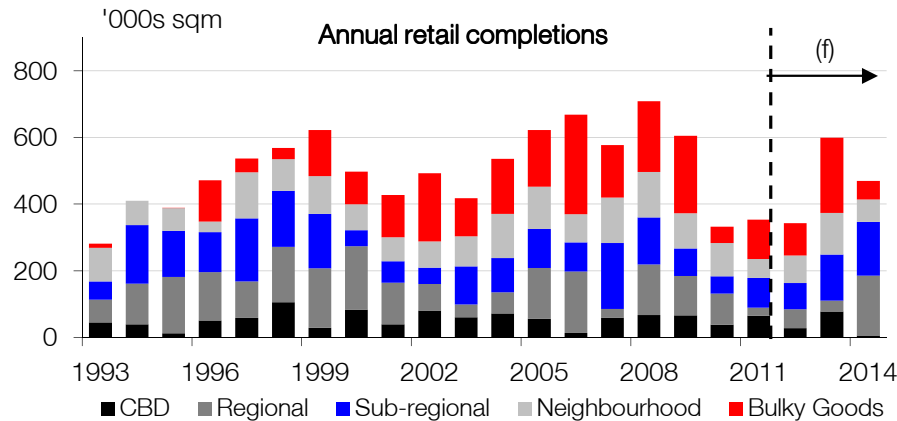


Source: Macquarie Capital, ABS, NAB, RBA

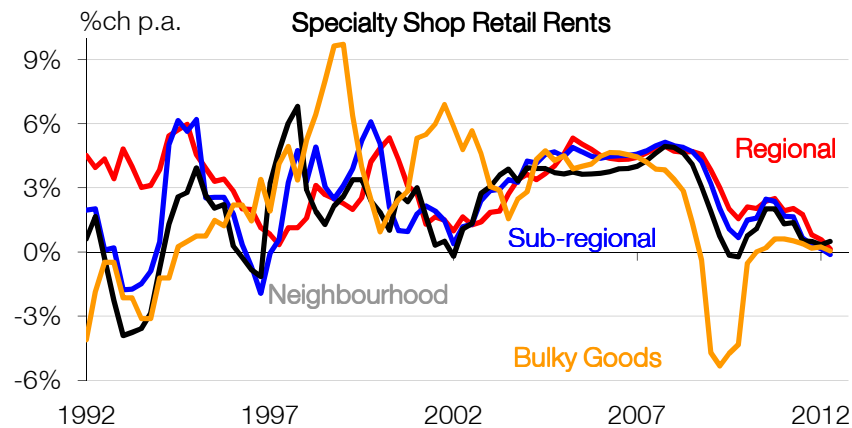
AUSTRALIAN RETAIL

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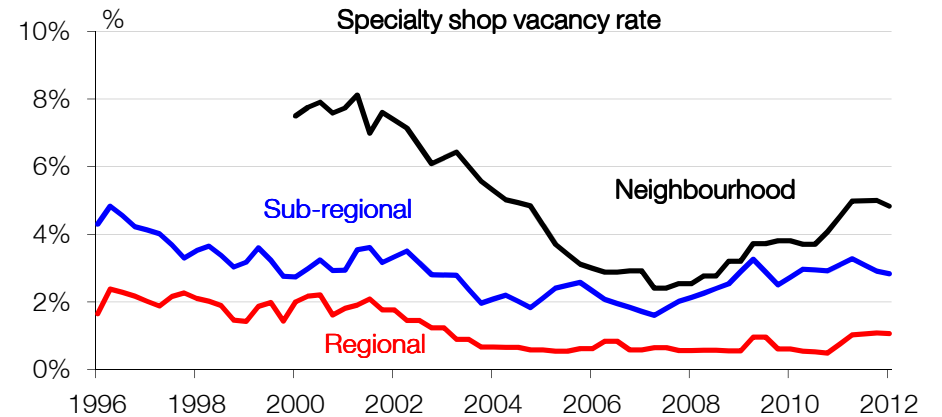
Retail supply is relatively tight, with a modest increase for smaller neighbourhood and bulky goods centres, particularly for 2013.



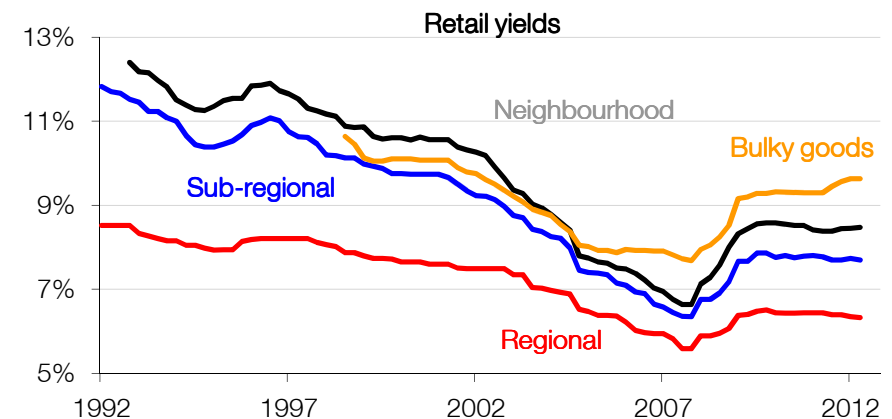
Slower market fundamentals have stalled the pace of rental growth, as softer lease renewals and increase incentives bite.



With weak sales growth, retail vacancies are starting to impact shopping centres, especially in the smaller neighbourhood class.



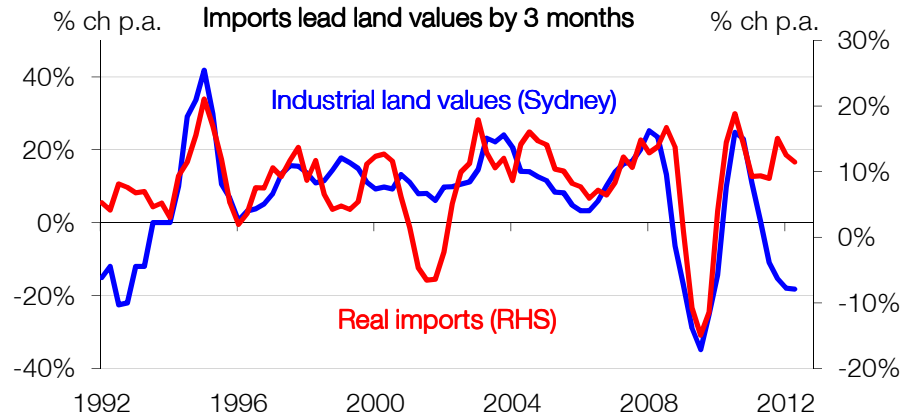
Retail cap rates have been more resilient at the prime end of the markets, with some recent softening in the bulky goods segment.



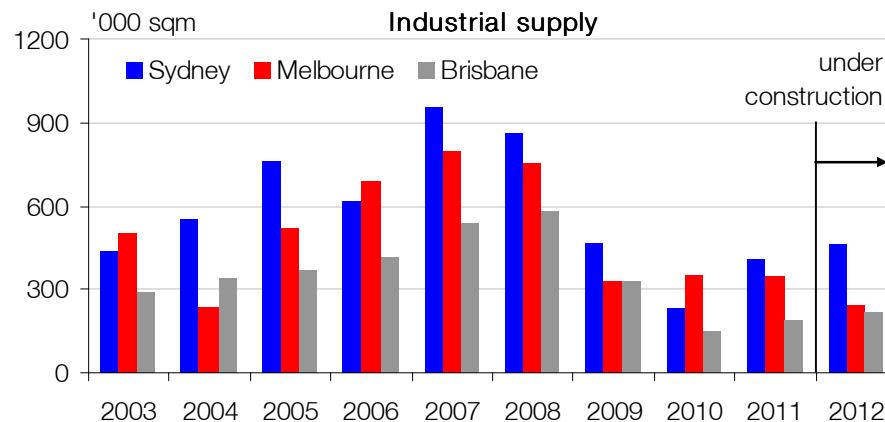
Source: Macquarie Capital, APM, JLL

AUSTRALIAN INDUSTRIAL

Australian industrial sector driven by the distribution of foreign household goods. Imports therefore a key market driver.



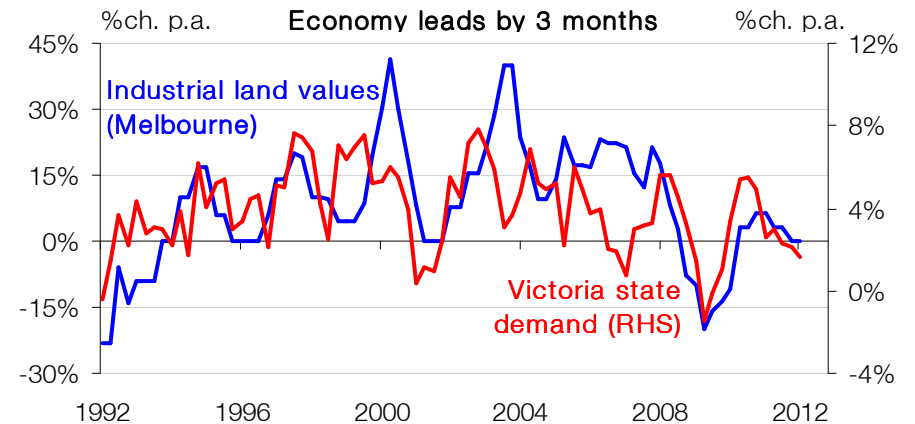
Industrial supply is relatively constrained, but new construction can be brought on very swiftly.



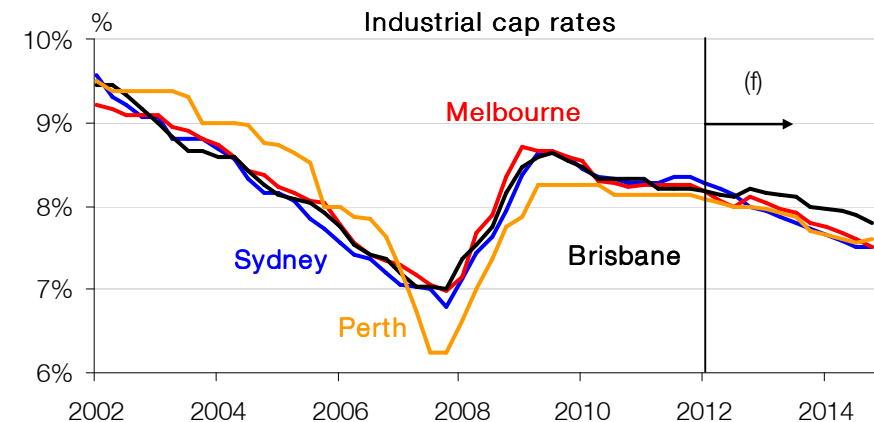
Source: Macquarie Capital, ABS, JLL

PAUT

Domestic activity also a useful leading indicator for industrial. Previous rate tightening cycle drove a near-term pause.



Industrial cap rates have tightened early this cycle, before stabilising with slower domestic activity.



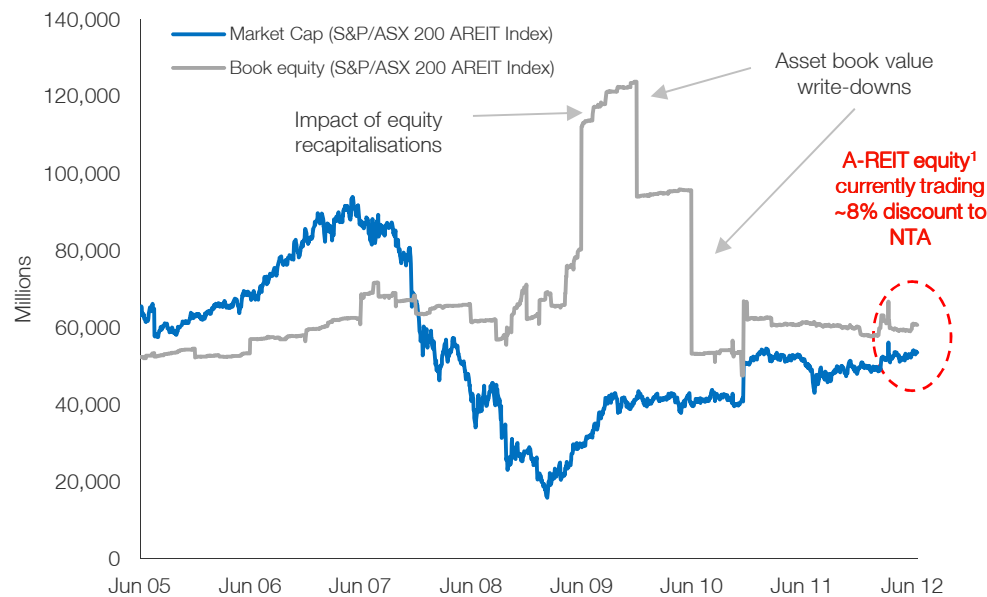
LISTED MARKET OVERVIEW

PAUT

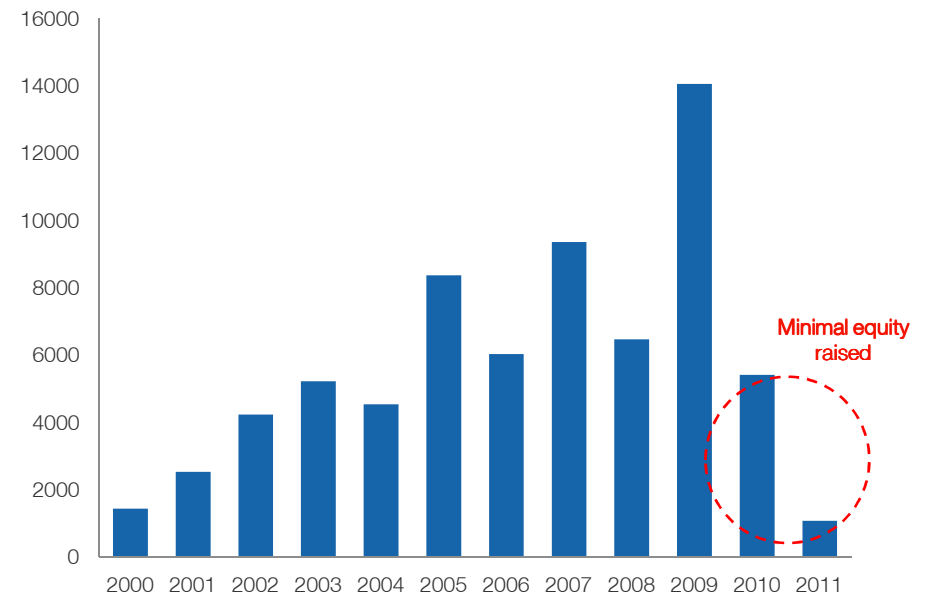
The A-REIT sector is trading at an average ~8% discount to Net Tangible Asset backing¹

- Listed market valuations plummeted following the onset of the GFC and are yet to fully recover.
- Failure of valuations to reflect underlying value, in conjunction with broader equity market volatility, has constrained ability of A-REITs to raise equity.
- Lack of willingness to raise equity has resulted in A-REITs being unable to fund direct asset purchases.
- Recent A-REIT outperformance has seen a material narrowing of the NTA discount which may facilitate an increased level of activity going forward.

A-REIT market capitalisation versus Net Tangible Assets¹



A-REIT equity raisings (A\$m, >\$20m, calendar years)



Source: Macquarie Capital, Dealogic, Bloomberg, as at 20 August 2012

1. Excludes Westfield Group

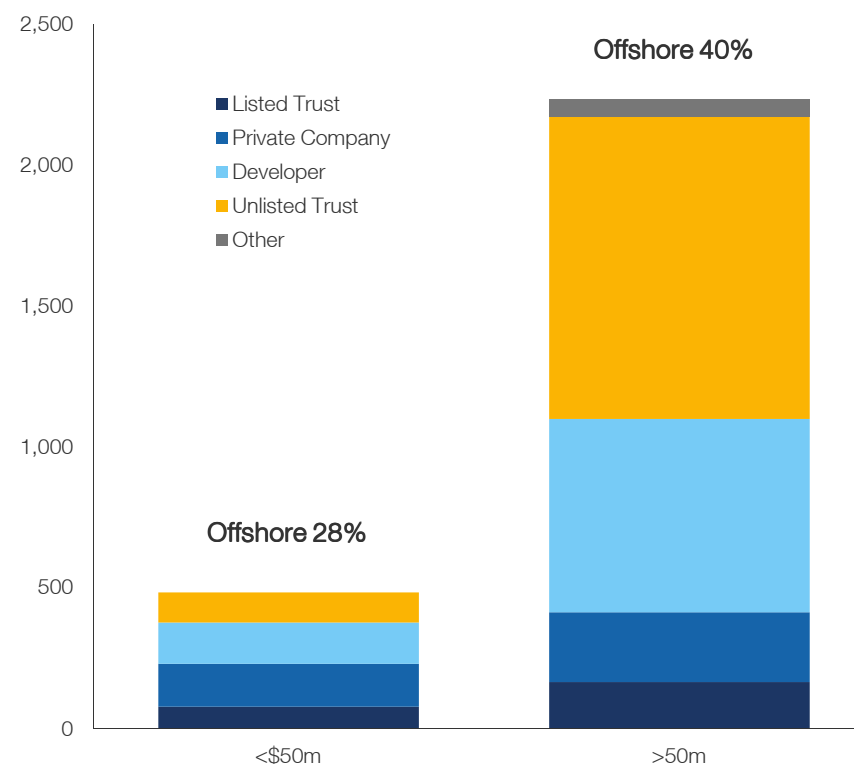
CAPITAL SOURCES

PAUT

Capital sources / potential asset purchasers differ depending on asset quality, location and size

- Buyers of 'institutional grade' real estate (>\$50m) are typically comprised of A-REITs, pension / sovereign wealth funds, and wholesale & unlisted funds, with ability of each class of investor to successfully bid largely dependent on its relative cost of, and access to, capital.
 - Post GFC, institutional grade asset purchases have been dominated by pension & unlisted funds as A-REITs have generally had a higher cost of capital due to their persistent trading discount relative to NTA.
- Buyers of 'second tier' real estate (<\$50m) are typically comprised of unlisted retail funds & syndicates, high net worth individuals, opportunistic property funds and corporates.
 - Unlisted retail fund activity was severely curtailed by GFC as investor demands for fund withdrawals could not be met by liquidity constrained managers, resulting in severely reduced equity inflows for remaining fund managers.
- Other factors influencing property transactions include:
 - Increasing appetite for conservative risk / steady yield-based returns;
 - Asset and tenancy quality;
 - Constrained access and increasing cost of debt funding; and
 - Reducing 'developer' activity.

NSW industrial and office asset acquisitions by purchaser, April 2011 – June 2012 (A\$m)



Source: Jones Lang LaSalle

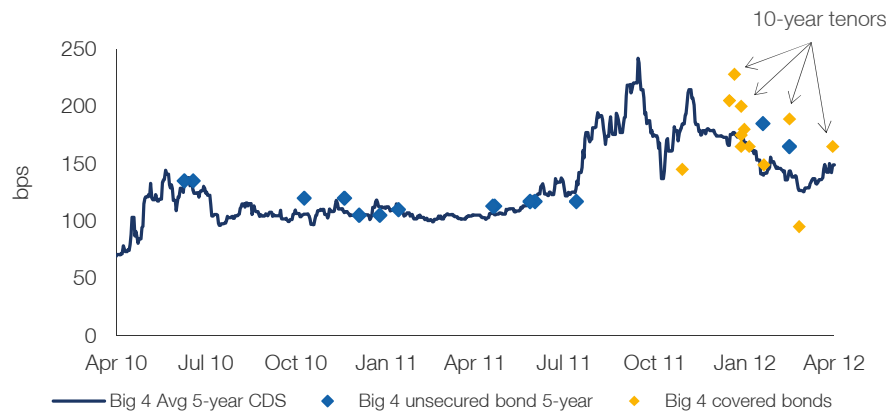
DEVELOPERS REMAIN ACTIVITY SUBDUED

PAUT

Commercial property development environment market remains difficult however larger players with access to finance continue to operate profitably

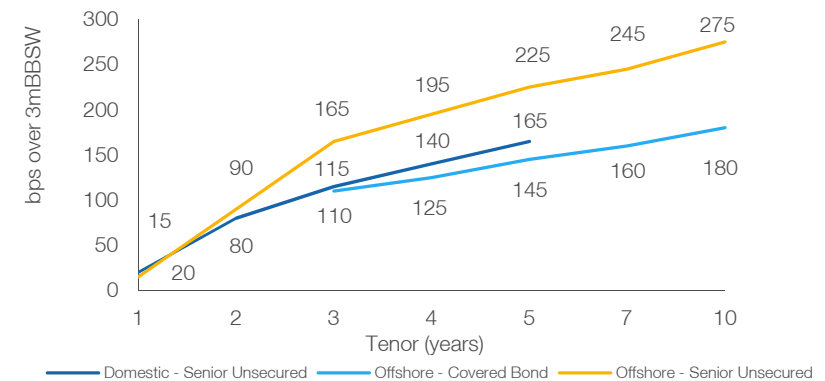
- Underlying fundamentals for quality development projects remain intact.
 - Little evidence of over-supply in either commercial or residential markets.
 - Key demand drivers (business conditions, interest rates, net migration) either stable or becoming increasingly favourable.
- Major hurdle for developers continues to be accessing debt funding on sufficiently flexible and economic terms.
 - Numerous lenders to development financing market have reduced their exposure or completely withdrawn from the market.
 - Trend towards more onerous criteria (100% presales requirement, tighter covenants, less propensity to finance 'land banking').
- Bank funding costs have increased materially since 2008, with increased funding costs in turn passed on through loan book.
 - Escalation of the European sovereign debt crisis since the first half of 2011 has further increased funding costs of all banks, including the Australian majors.

Recent issuance by big 4 Australian banks¹



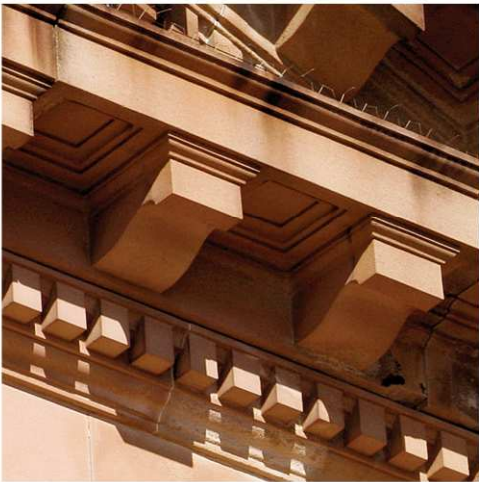
Source: Bloomberg

Indicative big 4 term funding²



Source: ANZ Media Release 8 Dec 2011.

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APPENDIX CURRENT GOVERNMENT FRAMEWORK DETAIL

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TOTAL ASSET MANAGEMENT

PAUT

- TAM is a strategic approach to real property asset planning and management, whereby an agency can align its ten-year real property asset planning with its service delivery priorities and strategies, within the limits of resources available.
 - TAM policy applies to the management of all non-current real property assets owned or controlled by an agency.
- Individual agency requirements for TAM information vary according to agency classification involving a list of Nominated agencies updated annually according to capital investment and budget risk.
- TAM submissions are made to Treasury and for most agencies, they are due in October-November (at the beginning of the budget process).
- An agency's annual TAM submission will comprise:
 - a set of TAM data tables;
 - a real property asset strategy (for nominated agencies); and
 - final business cases and Gateway Review reports (as required).
- While the real property asset strategy is a top level strategic plan for the agency to demonstrate the relationship between the performance of its real property asset portfolio and the services it delivers, the TAM Data Tables provide related data for individual real property assets.
- TAM policy is part of the overall NSW capital expenditure submission framework also comprising of the procurement policy framework – with business cases and Gateway Reviews – and of the commercial policy framework – including Statement of Business Intent and Statement of Corporate Intent.

Source: 'TAM in a page', NSW Treasury document

TAM SUBMISSION INFORMATION

PAUT

- TAM data tables include a range of information about the ongoing strategy for real property assets as follows:
 - proposed 10-year capital and maintenance expenditure;
 - detailed office accommodation and real property asset disposal data; and
 - maintenance measures (nominated agencies only).

- The real property asset strategy focuses on sequentially answering the following five questions:
 - Can service delivery be made less real property asset-dependent?
 - Are existing real property assets fully used in service delivery?
 - Are existing real property assets appropriately located for effective service delivery?
 - Is the capacity of existing real property assets sufficient to provide the required services?
 - Are real property assets suitable for the effective delivery of the services they are intended to support?

- Final business cases and Gateway Review reports (as required) to support the individual project proposals identified in the TAM data tables

Source: 'TAM in a page', NSW Treasury document, Office of Financial Management Policy & Guidelines Paper tpp 08-2

USAGE OF TAM INFORMATION

PAUT

- Supported by individual capital submissions, TAM information plays a vital role in developing the NSW Annual Budget and the Government 10-year SIS.
- TAM information is used by Treasury to:
 - assess / support agencies' Budget proposals for capital projects and real property asset disposals revenues intended to commence in the upcoming Budget year;
 - assess / support capital forward estimates;
 - assess / support out-of-budget funding proposals;
 - update and identify risks to the SIS, consistent with the State's Fiscal Strategy, and recommend 10-year Capital Planning Limits (for a limited number of agencies);
 - provide advice to Government and feedback to agencies on their capital strategy, real property asset management planning and related financial risks; and
 - to better plan and manage capital project review processes, including Gateway

Source: 'TAM in a page', NSW Treasury document

OBSERVED TAM DOCUMENTS

PAUT

	Department of Attorney General and Justice – Attorney General's Division	Department of Attorney General and Justice – Corrective Services NSW	Department of Finance & Services
General comments	<ul style="list-style-type: none"> — 64 pages; prepared internally — DAG&J currently working towards a full amalgamation of corporate services — DAG&J also in process of implementing change programs aimed at making services more accessible to customers 	<ul style="list-style-type: none"> — 104 pages; prepared internally — Outlines a comprehensive strategic framework on disposals, utilisation targets and maintenance — Addresses aims and respective strategies being undertaken toward the goals outlined in NSW 2021 and Corrective Services NSW's corporate plan 	<ul style="list-style-type: none"> — 3 files sighted in DFS TAM folder – Asset Strategies Life Cycle Management; TAM Asset Strategy; Office Accommodation Strategy — Office Accommodation Strategy most useful
Services provided / service delivery requirements	<ul style="list-style-type: none"> — Comprehensive detail given on services delivered, staff numbers and future initiatives — Outlines DAG&J's principal areas of business, recipients of DAG&J's services and key priorities — Outlines service goals as per NSW 2021 and details how the Department will achieve those goals 	<ul style="list-style-type: none"> — Lists of services provided and result priorities organised by the broad aims identified in the Corrective Services NSW Corporate Plan — Discusses standards required to meet Government objectives for critical infrastructure (e.g. security monitoring infrastructure) — Addresses funding gaps to fund key infrastructure and strategy to manage these gaps 	<ul style="list-style-type: none"> — Lists key service groups and services delivered by those groups — Outlines DFS' overall office accommodation strategy — Outlines asset-based and service-based criteria applied to determine appropriateness of its portfolio
Asset Portfolio	<ul style="list-style-type: none"> — High level geographic overview of assets — NB: Only a draft TAM was sighted by PAUT. This contained an 'Appendix 1: Asset listing' which presumably has since been completed 	<ul style="list-style-type: none"> — Links each asset type to a service delivery objective — Brief overview of assets by type and count with locations — Detailed asset information in attachments 	<ul style="list-style-type: none"> — Provides non-comprehensive list of 8 owned DFS assets — Provides comprehensive list of DFS leased portfolio – includes lease info, utilisation rate, rent etc
Asset performance, strategies and proposed actions	<ul style="list-style-type: none"> — Detailed analysis of performance of assets – this is grouped by asset type (i.e. not at the asset level) — Identifies relationship between services delivered and assets, asset utilisation metrics, projects underway to review asset utilisation, asset capacity and asset functionality — Identifies assets which are most at risk of not being able to support service delivery requirements in the future 	<ul style="list-style-type: none"> — Contains tables on utilisation metrics over time — Asset investment plan over long term with specific projects and amounts — Detailed asset disposal schedules and office accommodation strategy with planned property outcome (Attachment 4 and 5 respectively) 	<ul style="list-style-type: none"> — Contains utilisation metrics table for owned and leased portfolio by region — Lists excessive under-utilised assets (i.e. > 25sqm per person) and under-utilised assets (18sqm – 25sqm per person) — Lists owned assets identified for disposal and leased assets identified for relocation — Identifies DFS 'Battle Plan' consisting of 9 specific strategies
Data tables	<ul style="list-style-type: none"> — Capex forecasts only provided for 3 years 	<ul style="list-style-type: none"> — Has a 10 year capital investment program by broad categories of purposes or assets — Key information in the report attachments is not contained in the data tables 	<ul style="list-style-type: none"> — Provides detailed capex forecasts by project – generally for 10 years — Detailed business case data also provided

OBSERVED TAM DOCUMENTS

PAUT

	Department of Education and Communities	Fire & Rescue NSW	Department of Health
General comments	<ul style="list-style-type: none"> — 22 pages; prepared internally — Comprehensive review of aims, assets and management strategies 	<ul style="list-style-type: none"> — 22 pages; prepared internally — Provides an asset overview, risk assessment and specific asset management strategies — Has identified leasing and co-location as viable options for relevant office space 	<ul style="list-style-type: none"> — TAM Plan not sighted
Services provided / service delivery requirements	<ul style="list-style-type: none"> — Specific outline of goals and targets in accordance with NSW 2021 — Includes the forecasts in growth of service demands and respective strategies (includes funding pressures) 	<ul style="list-style-type: none"> — Broad service statement with some specific goals listed (e.g. risk assessment, natural disaster recovery) — Identifies goals as per NSW State Plan 	<ul style="list-style-type: none"> — N/a
Asset Portfolio i.e. real property or IT etc as well	<ul style="list-style-type: none"> — Brief overview of count and value of assets by physical and ICT assets — Some assets classed by state and expected replacement value 	<ul style="list-style-type: none"> — Descriptions of the categories of assets — \$494m of non-current assets identified (land & buildings forming \$294m) as being critical to service provision — Identifies asset risks, gaps and specific issues 	<ul style="list-style-type: none"> — N/a
Asset performance, strategies and proposed actions	<ul style="list-style-type: none"> — Reported space utilisation metrics with targets for the respective metrics — Includes strategies to reach these targets (e.g. reduce floor space per student) 	<ul style="list-style-type: none"> — Asset allocation, disposal or reallocation based on community risk assessments — Key medium term focuses include capital recycling, outsourcing management and capital expenditure as a means of recurring expenditure 	<ul style="list-style-type: none"> — N/a
Data tables	<ul style="list-style-type: none"> — Schools: Capex forecasts by project, however only for 4 year period — TAFEs: Capex forecasts by project, some are for 10 years but generally only 4 	<ul style="list-style-type: none"> — Not sighted 	<ul style="list-style-type: none"> — Approximately 50% of projects have capex forecasts — Forecasts range from 1 to 8 years

OBSERVED TAM DOCUMENTS

PAUT

	DTIRIS	Department of Transport
General comments	<ul style="list-style-type: none"> — TAM Plan not sighted — Note NSW Trade and Investment currently developing cluster asset strategy and TAM prioritisation / submission process 	<ul style="list-style-type: none"> — 28 pages; appears internally prepared — Provides high level summary of current organisational & planning environment — TfNSW undergoing organisational change process. Proposed TAM sighted by PAUT still subject to 'considerable ongoing internal review' as the process continues
Services provided / service delivery requirements	<ul style="list-style-type: none"> — N/a 	<ul style="list-style-type: none"> — High level overview of services provided — Identifies goals as per NSW 2021
Asset Portfolio i.e. real property or IT etc as well	<ul style="list-style-type: none"> — N/a 	<ul style="list-style-type: none"> — Overview of asset portfolio –Appendix lists assets by type for each agency — No detailed asset level info given
Asset performance, strategies and proposed actions	<ul style="list-style-type: none"> — N/a 	<ul style="list-style-type: none"> — Focuses on identification of future projects rather than performance / utilisation of current assets
Data tables	<ul style="list-style-type: none"> — Capex forecasts by project — Generally 10 year forecasts though some only include 1 – 4 year forecasts 	<ul style="list-style-type: none"> — Not sighted

PROPERTY DISPOSAL PLANS (PDP)

PAUT

- The Government, through its TAM policy, encourages agencies to retain only those real property assets that continue to support the achievement of the Government's desired service outcomes.
- The preparation of a Property Disposal Plan (**PDP**) is considered an integral component of an agency's TAM strategic planning and budgeting cycle.
- In theory, PDPs should:
 1. Demonstrate a clear linkage to an agency's real property asset strategy
 2. Separately identify properties:
 - With strategic or non-strategic values
 - Still being used for core service delivery but are underutilised and requiring further assessment
 - That are vacant or formally declared surplus to core service delivery requirements
 3. Clearly define disposal strategies for real property assets, including nominating preferred:
 - Disposal methodology
 - Disposal agency
- Agencies should nominate if they require assistance in determining their future requirements for an underutilised real property asset.

PDP FORMAT

PAUT

- The PDP can be adapted to suit individual agency needs and should identify clear linkages to an agency's overall real property asset strategy.
- The PDP should include a range of key information, including:
 - Details of how the proposed disposal program supports overall real property asset strategy
 - Any particular issues that may be relevant / applicable to the proposed disposal program
 - Preferred general disposal methodology, including details on:
 - Current and any proposed future zonings
 - Proposed subdivisions
 - Joint venture arrangements
 - Long term leases
 - Preferred disposal agency
- The PDP should also categorise properties and provide sufficient information to enable the Property Disposal Assessment Panel (function now undertaken by SPA) to make an informed decision including:
 - Categorisation of strategic and non-strategic real property assets
 - Properties identified as suitable for transfer to other government agencies
 - Consolidated list of properties underutilised / under review
 - Detailed information on particular properties
 - Additional information on proposed disposal methodology for complex proposals
 - Advice on which Government agencies have been contacted regarding possible interest in the property

Source: GAMC website

PROPERTY DISPOSAL ASSESSMENT PANEL (PDAP) PAUT

- The Property Disposal Assessment Panel (**PDAP**) was established as a sub-committee managed by Treasury to provide advice to GAMC on issues relating to agency property disposals but following the abolition of GAMC PDAP is now a function undertaken by SPA.
- The principal purpose of PDAP is to:
 - Provide feedback on agencies property disposal plans
 - Determine whether there was any ongoing need to retain the real property asset (wider than the controlling agency, i.e. advises on whole-of-government interests)
 - Agree that the proposed disposal was the right action, and the disposal strategy
 - Determine the agency to manage the disposal
 - Provides expert property advice on property disposal related issues and makes recommendations
- Normally the real property asset disposal process involves an agency including all future disposals in its TAM plan, then bringing these forward to PDAP when they actually become surplus

STATE PROPERTY AUTHORITY

PAUT

- SPA is a statutory authority formed under the State Property Authority Act 2006
- SPA provides services and advice in real property acquisition, management and disposal, to agencies (by agreement) and the Government
- SPA's principle objectives are to:
 - improve operational efficiencies in the use of properties of government agencies, particularly generic properties (such as offices, warehouses, depots and car parks);
 - manage properties of government agencies in a way that supports the service delivery functions of those agencies;
 - provide advice and support within government on property matters; and
 - operate at least as efficiently as any comparable business, consistently with the principles of ecologically sustainable development and social responsibility for the community (including the indigenous community)
- SPA's portfolio consists of the former Crown Property assets in addition to generic property vested in the Authority for management on behalf of service provider agencies
 - Over one million square metres of property assets are under ownership and management, including significant heritage properties in the Sydney CBD and regional NSW
- SPA has three key property functions:
 - Planning and strategy
 - Portfolio management
 - Divestments, acquisitions and development

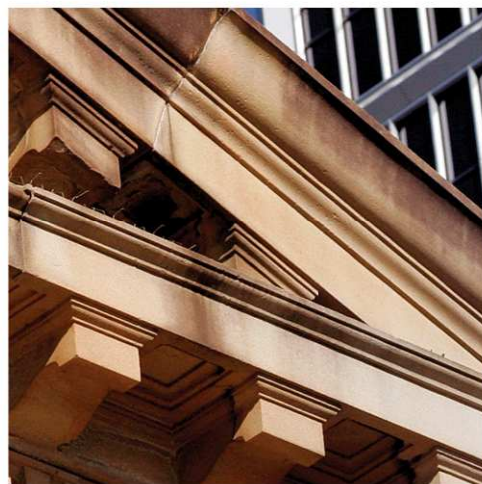
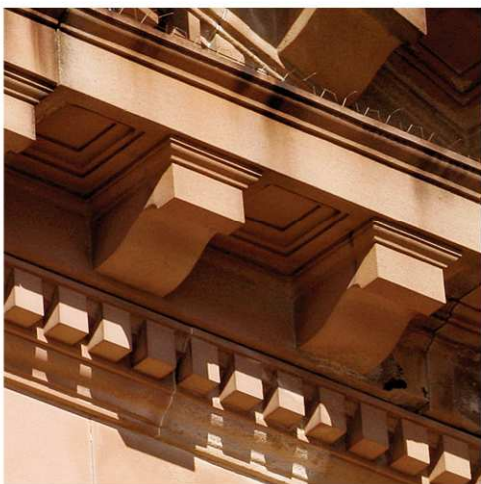
Source: SPA website

STATE PROPERTY AUTHORITY (CONT.)

PAUT

- In order to facilitate SPA performing its function, the Government implemented a new property policy framework:
 - Vesting of all Government-owned office accommodation to SPA in July 2008
 - Vesting of non-generic property assets by agreement with SPA and Treasury
 - Implementation of a commercial rental charge for all office accommodation vested into SPA
 - Agencies not compensated for the vesting of assets but receive funding for net rental costs under the new leases
 - The transfer to SPA of management responsibility of all Government leased office accommodation
 - Agencies pay a management fee to SPA in addition to rental payments
 - SPA to conduct all lease renewals and all new and existing lease negotiations for generic property in the Greater Sydney Metropolitan Area (as defined by the Department of Planning & Infrastructure)
 - SPA to function as the Government's preferred acquisition and disposal agency with no other agency to approach the market other than through SPA
 - All Government agencies to immediately advise SPA of any vacant, underutilised or no longer required office space or other property
 - SPA also to conduct regular and ongoing reviews of agency property portfolios to identify efficiencies to improve service delivery
 - Government agencies to actively pursue opportunities to share common resources or services consistent with Government policy
 - Provision of information by all agencies for the generic property database
 - SPA to be the lead agency for all multi-faceted property proposals interlinked by timing, location or use
 - DPC, SPA and Treasury to work cooperatively with Government agencies and relevant unions to address staffing and funding implications arising from implementation of the policy framework

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APPENDIX GOVERNMENT CONTEXT: KEY DOCUMENTS

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SCHOTT REPORT

PAUT

The Taskforce implements a number of recommendations around asset management of the Commission of Audit

Issue	Schott recommendation / comments	Outcome	Refer for detail	PAUT Recs	Other comments
Recycle funds for new capital projects by selling or leasing assets. The Commission recommends that the government should set up a specialised unit to investigate and restructure for the lease or sale of assets and businesses to increase funding for new infrastructure. Such a unit could be based in Treasury or DFS.	— Recycle funds for new capital projects by selling or leasing assets. The Commission recommends that the government should set up a specialised unit to investigate and restructure for the lease or sale of assets and businesses to increase funding for new infrastructure. Such a unit could be based in Treasury or DFS.	✓	Schott Report, page 41	4, 7 and 9	<ul style="list-style-type: none"> — Through the PAUT process, potential real property assets for divestment have been identified. The Divestment Steering Committee (DSC) is seeking approval for divestments to support the Housing Acceleration Fund. — Any proceeds in excess of the targeted \$300m will be a matter for Government to determine. — Property NSW will be tasked with assisting agencies to identify real property assets that are not essential for service delivery and can be divested. It is to be the means of executing the revised policy and framework which should ensure materially increased amounts of real property asset divestment net proceeds flow into the annual budget setting process. At the centre of the PAUT recommendations is the notion of recycling capital to better support service delivery and a reduced real property asset base.

SCHOTT REPORT

PAUT

The Taskforce implements a number of recommendations around asset management of the Commission of Audit

Issue	Schott recommendation / comments	Outcome	Refer for detail	PAUT Recs	Other comments
The relationship between Treasury and other Departments (e.g. Health) is not conducive to an effective management of risks to the budget	<ul style="list-style-type: none"> — The information provided by the Department of Health to Treasury is not presented at sufficient level of detail to allow Treasury to effectively identify and analyse the variances noted. — Treasury has a distrust of the accuracy of information being provided and the Department of Health considers the questioning by Treasury to be intrusive, micro-managing and not understanding of the Health portfolio. — Ultimately, both Treasury and the Department do not collaborate in order to make sure the needs of both parties are being met or to work together to help solve the financial difficulties faced by the NSW Health system. 	✓	Schott Report, pages 45 and 46	2, 3, 5, 10	<ul style="list-style-type: none"> — The PAUT recognised this issue early in its individual discussions with members and other agencies. Property NSW will assist agencies in their real property asset management planning and submission responsibilities whilst working within Treasury policy. The revised incentive framework, simplified financial assessment framework, and central role of Property NSW in real property asset related TAM approvals should break down some of the historic tensions between commitment to service delivery and associated life cycle real property asset planning versus Treasury's need to produce annual budgets and four yearly estimates in a constrained fiscal climate. This should improve communication and transparency around funding allocation decisions. — Treasury has also advised that since the Schott Report was written Treasury and Health have been working closely together to improve this relationship. Over the last 12 months both these departments have made note of their stronger relationship with each other evident through a letter from Health to Treasury this year dismissing the Commission of Audit (CoA) comments.

SCHOTT REPORT

PAUT

The Taskforce implements a number of recommendations around asset management of the Commission of Audit

Issue	Schott recommendation / comments	Outcome	Refer for detail	PAUT Recs	Other comments
Public sector assets should exist to support core service delivery	— Generally physical assets exist to support service delivery. Good asset management in the public sector starts with planning which assets are needed to meet current and future service delivery demands and asking whether the demands can be met in a better way	✓	Schott Report, page 102	1 and 8	<ul style="list-style-type: none"> — The PAUT holds as a central premise that real property assets are held to support service delivery and asset management planning and strategy should evolve consistent with this view. — Therefore, the government should own property only as a means to deliver or enhance services, now or in the future in the most efficient and effective manner. The framework for managing real property assets should support the government's priorities and objectives as set out in NSW 2021.
Mismatch between the asset management framework and its implementation	— The Commission notes that the asset-related frameworks in NSW are conceptually sound but implementation is far from assured	✓	Schott Report, page 103	2, 3 and 6	<ul style="list-style-type: none"> — The PAUT is recommending simplified, more transparent frameworks to promote implementation. — The establishment of Property NSW, as underpinned by the refreshed policy framework, is key to meeting the implementation challenges noted in the Schott report. — An incentive framework was developed to facilitate this real property asset utilisation implementation.
Absence of focus on cost-benefit analysis in asset utilisation	— Projects were not always subject to rigorous evaluation or detailed studies before they are announced publicly. This includes financial and economic cost-benefit analyses which are sometimes treated as a 'compliance' exercise, rather than being genuinely used by agencies to identify and evaluate optimal service solutions. Announced cost estimates are often much lower than actual delivery cost	✓	Schott Report, pages 103 and 104	1, 4, 7 and 11	<ul style="list-style-type: none"> — The PAUT's recommendations around a simplified framework, consistency of treatment, and a central entity to assist with strategy, planning, reviews and submissions should assist with meeting this recommendation. — The development of a framework assessment process will also ensure that real property assets are held for service delivery. Furthermore, the establishment of Property NSW will provide agencies with a central repository of expertise for asset utilisation.

SCHOTT REPORT

PAUT

The Taskforce implements a number of recommendations around asset management of the Commission of Audit

Issue	Schott recommendation / comments	Outcome	Refer for detail	PAUT Recs	Other comments
Budget and asset cycle mismatch	— There has been a failure to strategically prioritise needs within realistic future funding limits set by reference to the fiscal capacity of the State	✓	Schott Report, page 104	4 and 7	<ul style="list-style-type: none"> — The PAUT recognised that real property asset planning should work in lifelong cycles for balance sheet recognition, whereas the state budget process focuses on annual and four yearly profit and loss outcomes. This has been addressed through the recommendations regarding the improved TAM planning process and giving 10 year capital envelopes to all agencies, not just Health and Transport. — The PAUT's leading goal has been improved real property asset utilisation overall – whether through consolidation, rationalisation or other means. The PAUT has recommended that the public sector real property asset management policy be that the government should only hold real property assets when, and in the form necessary, to support core service delivery. The PAUT has also recommended improving capital planning through Property NSW's involvement in the Total Asset Management (TAM) planning process as it relates to real property assets, including maintenance and depreciation policy, with the view that under-utilised capital should be recycled into other government initiatives.
There is a need for renewed emphasis on the TAM process and asset utilisation	— There is also significant scope for agencies to improve the management of their existing assets through more focus on maintenance, increased asset utilisation, and by selectively rationalising assets which no longer have a strong connection to service delivery objectives	✓	Schott Report, pages 105, 122 and 123	1, 4, 6, 7 and 14	<ul style="list-style-type: none"> — Property NSW will have expertise, capability and capacity to help agencies improve their TAM planning and real property asset management strategy. This will include improved maintenance planning, utilisation and developing clear forward estimates of capital expenditure required. — Net proceeds retention from divested real property assets will be specified to be used for maintenance of existing capital base to be priority application of proceeds.

SCHOTT REPORT

PAUT

The Taskforce implements a number of recommendations around asset management of the Commission of Audit

Issue	Schott recommendation / comments	Outcome	Refer for detail	PAUT Recs	Other comments
Agencies' asset management roles are spread out and often duplicated	— Governance and administration of the planning and management framework, including associated information systems and policy documents and guidelines, are fragmented, being spread across a number of central agencies	✓	Schott Report, pages 107 and 108	2, 4, 6, 13	<ul style="list-style-type: none"> — Centralisation and support under Property NSW should help address this issue. The centralisation of information within Property NSW is one of its fundamental features, as is a central role for policy co-ordination, real property asset strategy setting, and TAM and other agency real property asset planning signoff. — The services provided by Property NSW will include: <ul style="list-style-type: none"> — Central information management — Agency assistance in strategy and planning — Real property asset ownership — Real property asset management — Leasing management — Development capability — The PAUT has recommended that other Government real property asset owning entities be considered by Government later this year. The proposal will assess their possible integration into Property NSW, dissolution, or maintenance in current form on a case-by-case basis.

SCHOTT REPORT

PAUT



The Taskforce implements a number of recommendations around asset management of the Commission of Audit

Issue	Schott recommendation / comments	Outcome	Refer for detail	PAUT Recs	Other comments
Clearer and broader government asset management objectives are needed	<ul style="list-style-type: none"> — The Commission recommends that the Government should release an asset management policy statement which confirms a clear set of objectives for the State's asset management. The policy statement should also explain the various asset planning and procurement frameworks and their linkages, and clarify in detail the roles and responsibilities of central agencies, clusters and agencies 	✓	Schott Report, pages 108 and 109	2, 4, 5, 10	<ul style="list-style-type: none"> — A clearer real property asset management framework and set of objectives has been a core focus of the PAUT. — The PAUT framework for this improved real property asset management involves: <ul style="list-style-type: none"> — Simple central paradigm – that government should hold real property assets only when and in the form necessary to support core service delivery; — Policy - As depicted through the PAUT's recommendations ranging from incentives to improved information and communication; — Assessment – a simpler service focused decision tree and financial assessment around real property asset utilisation (what to hold, what to divest); — Execution/Capability – Through the establishment of Property NSW; and — Establishment method – Enforced through a mix of a Premier's Memorandum, Treasurer's Direction, Treasury Policy and other non-legislative approaches.

SCHOTT REPORT

PAUT

The Taskforce implements a number of recommendations around asset management of the Commission of Audit

Issue	Schott recommendation / comments	Outcome	Refer for detail	PAUT Recs	Other comments
There is no capital charging currently in place	— The Commission recommends that Treasury should explore the implementation of capital charging or levies, recognising that preliminary work is needed to identify asset ownership and use, and that the objective is to drive more efficient capital use		Schott Report, pages 113 and 114	10, 11	<ul style="list-style-type: none"> — Capital charging was outside the scope of the PAUT since Treasury are still reviewing the policy. — Despite this the PAUT has recommended a review of the content, application and agency understanding of valuation policy and the policy regarding depreciation of government real property assets. This may help to incrementally achieve the same practical ends as capital charging over time. — The PAUT noted early on in its fact finding that one of the distinguishing challenges of NSW public sector real property asset management versus private sector is the misconception in some parts of agencies that “capital is free”.
There are currently high levels of asset underutilisation	— Where there is currently underutilisation of assets, new investment decisions may be postponed as long as utilisation of existing assets can be increased, without a diminution of service delivery		Schott Report, pages 132 and 133	1, 2, 3, 6, 8, 13, 14	<ul style="list-style-type: none"> — The PAUT Report makes the same finding. — Utilisation of existing real property assets will be a core focus of Property NSW and has been a guiding principle for the PAUT in its considerations and recommendations. The proposed policy is that real property assets will be divested if they are not intrinsically linked to service delivery. — Incentives will be put in place to ensure underutilised real property assets are identified, for example the ‘step-in’ rights of Property NSW and the 100% retention of sales net proceeds policy. Agencies also require, however, capability assessment to unlock latent value in real property assets through divestment e.g. through applying expertise to capture value uplift opportunities or through investment of time in drawing out and having addressed strategic questions by government linked to certain material opportunities. Property NSW will provide this time and expertise.

SCHOTT REPORT

PAUT

The Taskforce implements a number of recommendations around asset management of the Commission of Audit

Issue	Schott recommendation / comments	Outcome	Refer for detail	PAUT Recs	Other comments
Improving asset management at the agency and cluster level	<ul style="list-style-type: none"> — The Commission recommends that disciplined and effective cluster asset management should be promoted through the following measures: <ul style="list-style-type: none"> — capital budget submissions each year to be signed off by Coordinating Ministers and Director-General as the agreed priorities of clusters — all clusters to progressively be given 10-year capital allowances, starting with capital-intensive clusters — clusters to investigate the opportunities to rationalise and consolidate asset management functions across cluster agencies 	<p>✓</p> <p>✓</p> <p>✓</p>	Schott Report, page 119	3 and 12	<ul style="list-style-type: none"> — Prioritising and improving the real property asset management information within capital budget submissions should follow from Property NSW's compulsory involvement in agencies' TAM plans. — Furthermore, the new incentive schemes such as agencies retaining 100% of divestment net proceeds for reinvestment and maintenance should also contribute to better aligning cluster level real property asset management with improved whole-of-government real property asset management outcomes (i.e. recycling capital to alleviate the call on fresh budget capital to support). — The PAUT recognised early in the fact finding phase the inadequacy of many TAM submissions by agencies. The recommendations of the PAUT Report include a renewed focus on TAM plans and assistance from Property NSW in lifting the quality of content, relevance and planning around TAM plans such that the Director-General sign off of these plans will have significance and these plans will become key in whole-of-government strategic real property asset planning. — The PAUT makes an identical recommendation. The mismatch between real property asset lives (10 years or greater) and one to four yearly budget cycles was an issue identified early on in the fact finding and discussions phase of the PAUT. It is also one of the key challenges in real property asset management identified as particular to the public as against the private sector vis-a-vis real property asset management. — The PAUT Report has recommended that a separate Government decision be made later in the year as to the rationalisation of certain real property asset managing and real property asset owning entities. The criteria proposed for this assessment is included in the PAUT Report. The proposal would be put forward by the Minister for Finance and Services in consultation with other relevant Ministers.

SCHOTT REPORT

PAUT

The Taskforce implements a number of recommendations around asset management of the Commission of Audit

Issue	Schott recommendation / comments	Outcome	Refer for detail	PAUT Recs	Other comments
Asset and service strategy alignment by agencies	— An Asset Strategy, for nominated agencies, which should explain how the overall proposed capital and maintenance program has been prioritised. Also, how it integrates to support a cohesive service delivery strategy, within expected funding levels, to achieve efficient, effective use of all assets. Agencies are also required to include their office accommodation strategy and identify maintenance expenses and performance indicators	✓	Schott Report, page 122	1	<ul style="list-style-type: none"> — The PAUT has recommended that the government should only hold real property assets when, and in the form necessary, to support core service delivery. — Leased or owned real property assets which do not meet this test should be relinquished or realised and the rental savings or unlocked capital put to better use, with a priority given to maintaining, improving and extending real property assets that are core to current or future service delivery.
Capital spending flexibility could improve the asset management process	— Treasury has signalled reforms that allow clusters to rollover unspent appropriations for future years provided this does not increase the ongoing level of expenditure	—	Schott Report, page 126	3 and 7	<ul style="list-style-type: none"> — The findings of the Commission of Audit report in this respect have been supported in the PAUT discussions. This matter is not, however, a core matter for resolution and should be specifically considered with Treasury and other agencies. — A number of the other reforms recommended by the PAUT that tangentially address this concern include the progressive shift towards a 10 year capital envelope, the recycling of capital for re-investment, and agencies retention of 100% of net proceeds from their divested real property assets.

SCHOTT REPORT

PAUT

The Taskforce implements a number of recommendations around asset management of the Commission of Audit

Issue	Schott recommendation / comments	Outcome	Refer for detail	PAUT Recs	Other comments
Maintenance backlog	<p>— Ultimately, all maintenance is driven by the need to ensure assets continue to support service delivery and business operations. Maintenance neglected or deferred is not maintenance avoided. Deferred maintenance can increase asset degradation, leading to a drop in asset reliability and services. It also transfers greater financial burdens onto later budgets, both from a recurrent and capital expenditure perspective</p>	✓	Schott Report, pages 127 and 128	7, 9 and 11	<p>— The PAUT has made a parallel finding in this regard. The funding constraints and policy settings which give rise to maintenance deferral or avoidance (funds spent on more urgent requirements or on new capital as against maintaining existing capital) have been noted by the PAUT.</p> <p>— Traditionally the government has owned more real property assets than it is able to adequately maintain. It is envisaged that by agencies divesting some of these real property assets, and being required to reinvest that capital in their asset bases, including through maintaining real property assets, the PAUT reforms should provide a net addition to the maintenance of the government's existing asset base.</p> <p>— The roles of depreciation policy, capital rollovers, the lack of a capital charge or balance sheet of agencies, and the annual to four yearly time horizons of real property asset planning, in magnifying this problem have been noted. Some recommendations have been made in this regard</p>

SCHOTT REPORT

PAUT

The Taskforce implements a number of recommendations around asset management of the Commission of Audit

Issue	Schott recommendation / comments	Outcome	Refer for detail	PAUT Recs	Other comments
Refinance certain assets to redirect funds to other capital projects	— The government should ensure the ongoing responsible and reliable operations of assets such as the desalination plant, and maximise funds for alternative use by the NSW Government	✓	Schott Report, page 126	1 and 9	<ul style="list-style-type: none"> — A review of real property asset ownership against service delivery requirements and the ability to employ funds realised in divestment of surplus real property assets for higher and better usage has been a foundation of the PAUT review framework. Immediate divestment opportunities have already been identified in this regard and further opportunities will be explored on an ongoing basis by the Divestment Steering Committee. — The recommended policy is that all real property assets that are not essential to own to effectively provide services should be divested with the net proceeds being used to fund various other government initiatives. — Beyond a “straight sale” opportunity refinancing of some real property assets will be possible over time e.g. some real property assets currently held by place managers may present this opportunity. Property NSW will have the capability to create and execute these opportunities.

TERMS OF REFERENCE

PAUT

The Taskforce has achieved key outcomes set by the Government

Objective	Outcome	Other comments
Review of property asset disposal information collected by Treasury in TAM data tables as part of the existing annual budget process.	✓	<ul style="list-style-type: none"> — PAUT's working group reviewed a range of TAM plans from various agencies as part of its information gathering. The TAM plans were found to be limited to poor. There was little useful information to support real property asset disposals. — In lieu of this, the PAUT working group has used other information sources and agency discussions to identify real property assets for divestment through the Divestment Steering Committee led process currently underway. — The PAUT Report recommends a number of changes to planning, policy and execution around: TAM plans; Government property information; and regular testing of real property asset utilisation and divestment potential, which will lead to vastly improved real property asset information informing the annual budget process.
Analysis of existing agencies' property asset disposal plans.	✓	<ul style="list-style-type: none"> — As above, the PAUT found very limited real property asset disposal plans of agencies and hence has sought to fill the information gap in the immediate-term with its own research and consultations. In the medium to long-term disposal planning will be vastly improved and, importantly, far more transparent in the budget planning process, through a combination of the reforms recommended in the PAUT Report.
Sectoral strategy review and liaison with Treasury in relation to the property assets identified for disposal in four-year forward estimates of the budget	✓	<ul style="list-style-type: none"> — During its information gathering, the PAUT had the benefit of Treasury's real property asset management specialist's input. This has helped identify the opportunities for divestment.
Review of agency clusters' property disposal plans to achieve integrated asset support to services.	✓	<ul style="list-style-type: none"> — The lack of useful property disposal plans made it difficult to meet this Term of Reference. Instead, the PAUT working group has conducted investigations and discussions across Government to gather some immediate information in this respect and has made a number of recommendations in the PAUT Report to ensure property is held in the future by Government to support services. — The first recommendation of the PAUT Report is that Government should hold real property assets only when and in the form necessary to support core service delivery. This premise underpins the remainder of the PAUT Report recommendations and will be the guiding principle for Property NSW.

TERMS OF REFERENCE

PAUT

The Taskforce has achieved key outcomes set by the Government

Objective	Outcome	Other comments
Identification of other property disposal opportunities that have not been identified in agencies' asset disposal plans.	✓	<ul style="list-style-type: none"> Most of the property disposal opportunities referred to the Divestment Steering Committee by the PAUT Working Group had not been identified in agencies' real property asset disposal plans.
Consider the recommendations of the Commission of Audit relating to asset management.	✓	<ul style="list-style-type: none"> Throughout its process, the PAUT have had reference to the recommendations of the Commission of Audit relating to real property asset management. The PAUT Report has made a number of very similar recommendations to those made by the Commission of Audit in respect to real property asset management, albeit reached through different means of analysis and by a different group of decision makers. This gives strong weight to these recommendations. The work of the PAUT Report extends or addresses a number of the recommendations of the Commission of Audit report in respect of real property asset management including: the need for improved real property asset utilisation; the great potential to improve management of capital assets; the need to improve the maintenance of the existing real property asset base of the Government; and duplication and capability gaps across Government in the execution of real property asset management policy and functions.
Review the assets and integrity of the GPR.	✓	<ul style="list-style-type: none"> The GPR is a functionally sound system which has been populated with inadequate and inaccurate data. Real property assets of agencies range from being not recorded at all, to being recorded without useful or accurate data (including valuation estimates) through to being accurately represented. The revised register per the recommendations of the PAUT will allow Property NSW to determine: <ul style="list-style-type: none"> The size and location of the Government holdings. The conditions and performance of each real property asset as well as the strategy to maximise the return on these holdings. Regular reviews of the TAMs and the 'step-in' rights will ensure agencies are actively providing information to Property NSW. Property NSW should ensure automated integration of TAM planning data and the GPR to avoid manual data translation error and consistent information across Government.

TERMS OF REFERENCE

PAUT

The Taskforce has achieved key outcomes set by the Government

Objective	Outcome	Other comments
Review the TAM planning process to improve property asset utilisation, savings realisation and alignment of Government property asset management functions. This will include direct reporting by agencies of asset acquisition, management and disposal plans, and go to market strategies with accountability to the ERC for performance and reporting.	✓	<ul style="list-style-type: none"> — PAUT found the current TAM planning process inadequate to meet these objectives and identified early that reform was required per the PAUT Report recommendations. — Per Recommendation 5(d), all agencies should be required to work with Property NSW in preparing and submitting TAM plans as regards to real property assets. Property NSW should have a right of review of the property components of TAM plans. Important consequences of this integration include: <ul style="list-style-type: none"> — consistency and an improved and uniform standard through the resourcing assistance and expertise of the Property NSW team — Property NSW's specialist teams to work on an ongoing basis with agencies to maximise the value of their property portfolios — Property NSW will assist agencies in identifying the unfunded maintenance and depreciation costs to uphold real property asset values by considering the life cycle of the real property asset i.e. natural capital charge. This will be a key part of the property component of TAM plans and will ensure better real property asset utilisation decision making — agencies should also be given the option to use Property NSW for real property assets outside the compulsory Property NSW scope where they believe Property NSW can add value to their process. — If agencies are only allocated a portion of funding submissions, priorities and objectives will need to be revised by the agencies to reflect the allocated funds — Impacts of this change on the forward estimates will follow in the initial years — all agencies to move to 10 year capital planning envelopes to support improved quality of real property asset planning — if agencies continually fail to co-operate in accordance with these requirements then Property NSW will have a right of step-in, subject to ERC approval, to acquire and make recommendations as to TAM plans and other real property asset management information — It is envisaged that the improved TAM process will facilitate better funding allocation of limited resources amongst competing priorities. — Per the recommendations of the PAUT Report, Property NSW needs to work co-operatively and collaboratively with agencies and management should be accountable against portfolio and service quality performance measures.

TERMS OF REFERENCE

PAUT

The Taskforce has achieved key outcomes set by the Government

Objective	Outcome	Other comments
Identify how departments currently align community demands for the services over the medium to long-term and how they manage their property assets to meet on-going service needs.	✓	<ul style="list-style-type: none"> — The Government houses far more real property assets than necessary to support service delivery as an increasing and avoidable cost to the State. The reasons are complex but result in detrimental effects on real property asset maintenance and upkeep and poor utilisation of the State's scarce resources. — The PAUT Report makes its first recommendation that Government should only hold real property assets when and in the form necessary to support service delivery. The PAUT has struggled to identify how agencies currently map and limit real property asset holdings to their service delivery commitments. A range of reforms per the PAUT Report are needed as a priority.
Review and assess the effectiveness of the current suite of Government property asset management functions including skills and capabilities to manage those functions.	✓	<ul style="list-style-type: none"> — In response to this Term, the PAUT found that whilst some agencies have the capability and resources to manage their property portfolio, the majority of agencies do not have the resources to effectively undertake active real property asset management. Also, whilst agencies can address their individual needs there is a lack of a whole-of-government approach to achieve broader Government initiatives. The duplication of real property asset management functions and the lack of any comprehensive information set further dilutes the effectiveness of the current arrangements. — The recommendations of the PAUT around centralising and enhancing the property information set and consolidating real property asset management functions into Property NSW (to be run by the highest quality property professionals and assessed against portfolio and service performance criteria), address these findings.
Investigate opportunities to develop consolidated property asset management functions, across Government agencies, to improve asset management skills and capability and refocus agencies on service delivery.	✓	<ul style="list-style-type: none"> — Property NSW will be the Government's central property agency, tasked with driving the efficient use of the Government's property portfolio. It will be resourced with subject experts to co-ordinate the various agencies in resolving the individual agency needs and broader Government objectives whilst at the same time, ensure value for money is captured. It will have access to all TAMs and the central property register (to be established) to assist with developing strategic plans and coordinating the various agencies to achieve whole-of-government initiatives, e.g. decentralisation. — To promote the identification of opportunities improved utilisation incentives will be introduced, including agencies retaining 100% of net proceeds of divestment for reinvestment in maintaining, improving and extending the necessary capital base to support service delivery.

TERMS OF REFERENCE

PAUT

The Taskforce has achieved key outcomes set by the Government

Objective	Outcome	Other comments
Where consolidation is not appropriate, identify strategies for agencies to develop and demonstrate capacity to manage property assets on an ongoing basis.	✓	<ul style="list-style-type: none">— With respect to specialised and strategic real property assets which have a real property component, Property NSW will maintain a complete information set on the GPR and may require further real property asset information to be provided at a summary or detailed level for a particular agency, geographic area or class of real property assets. This information can be used to test whether agencies are maintaining their real property asset base in accordance with the principle that real property assets should be owned only when and in the form necessary to support service delivery.— With respect to place managers, the PAUT has recommended criteria and a process for assessment of these entities as to whether they should be consolidated or otherwise continue in their current form. The Minister for Finance and Services, in consultation with other affected Ministers, will prepare a further Minute in this regard.— The revised policy framework, including around the retention of net proceeds and recycling of capital into maintaining the existing real property asset base, will motivate agencies to manage even those specialised and strategic real property assets which are carved out of many of the Property NSW functions in accordance with the over-riding principles.
Review the role and function of GAMC, with the support of DPC and NSW Treasury, to strengthen executive decision making on property disposals and oversight of TAM planning.	✓	<ul style="list-style-type: none">— The Government Asset Management Committee (GAMC) has been abolished, with Property NSW proposed to assume its powers going forward. This was approved by the Government in June 2012.— Property NSW will be entrenched in the TAM process and held accountable for property deliverables. It will ensure that real property asset strategies are in-line with corporate plans. As part of this, Property NSW will assist agencies in identifying real property assets that are essential to service delivery and non-strategic real property assets will be divested with the net sales proceeds used to fund capital works that have been earmarked in order to sustain core service delivery.— Once the TAM has been endorsed, Property NSW will project manage the disposal plan outlined in the TAM to ensure the Government's liabilities are limited going forward and market values, or better, are achieved for the real property assets.

TERMS OF REFERENCE

PAUT

The Taskforce has achieved key outcomes set by the Government

Objective	Outcome	Other comments
Review mechanisms to drive property asset disposals, including a forward asset disposal plan aligned with the budget process for ERC approval based on current annual agency disposal plans, supported by quarterly reporting on agency performance.	✓	<ul style="list-style-type: none"> — The following initiatives are intended to encourage better real property asset utilisation: <ul style="list-style-type: none"> — A revised financial assessment framework to assess whether ownership is warranted for service delivery. — Agencies to retain 100% of net sales proceeds, unless determined otherwise by Government. — An increase in the funding envelope from four to 10 years to ensure better real property asset management decisions are made. — Increased transparency in the treatment of net proceeds as part of the budget allocation process. — Property NSW step-in rights. — The Divestment Steering Committee has an immediate program of identified real property asset sales. Other opportunities for divestment across the next three years will be presented to Government once Property NSW is in place to manage these more complex opportunities.
Assess the need for a review of the current asset management policy including assessment of roles within this of INSW, Treasury and DFS in property asset acquisition, management and disposal to avoid duplications.	✓	<ul style="list-style-type: none"> — The significant net property accumulation position of the Government, the absence of any complete property portfolio register and confusion uncovered in consultations as to the current policy framework demonstrated to the PAUT the immediate need for a review of the current real property asset management policy. Based on its findings, the PAUT has made a number of recommendations as to how real property asset management policy should be reformed to redress the issues identified in the findings. — Property NSW will be the Government's central property agency, tasked with managing the Government's extensive property portfolio. Agencies with real property assets and performing similar roles to Property NSW will need to be reviewed and assessed on their relevance and existence going forward to prevent duplication, which has been a focus of the PAUT. — Property NSW will need to develop working relationships with agencies that have property functions that are outside of its area of expertise or jurisdiction. This will eliminate any potential duplication and ensure a seamless process to capture value add. — The amended policy framework will be Treasury policy whilst ultimate TAM sign off will remain a Treasury function, although Property NSW will have a right of review and involvement in the development of TAM plans.

TERMS OF REFERENCE

PAUT

The Taskforce has achieved key outcomes set by the Government

Objective	Outcome	Other comments
Review of interstate and contemporary public and private sector models for asset acquisition, management and disposals.	✓	<ul style="list-style-type: none">— A comprehensive review of other public sector real property asset management models, such as VIC and SA, has been undertaken as part of the working group's fact finding task. Each had their limitations and in one case the jurisdiction was waiting for the PAUT review as a guide to where it might take its real property asset management framework.— Private sector models were also assessed, with Macquarie Capital and the independent Chair very important in this assessment. The key distinctions between private and NSW public sector real property asset management were identified as: the "capital is free" misconception in the public sector; the limitations of the relative absence of a balance sheet in the public sector; the narrower approach to reserving for maintenance and depreciation in the public sector; the more relaxed approach to valuation of real property assets in the public sector; the reduced positive and negative incentives in the public sector around active real property asset management; the simpler "chain of command" and decision making structure in the private sector; and the conflicting motivations between the two sectors where capital assets are held and used to generate profit in the private sector and to support core service delivery in the public sector.— The recommendations made in the PAUT Report seek to draw on some advantages identified in the private sector model. There was less to be drawn from the public sector comparisons as a number of other jurisdictions are in similar states of flux as to real property asset management policy direction.— The experiences of depreciation treatment and capital charging in other jurisdictions were noted.
Propose an integrated property asset management framework and implementation model for all property asset management functions across Government.	✓	<ul style="list-style-type: none">— The 15 recommendations made by the PAUT Report, and the supporting findings and details, if accepted, will establish a reformed real property asset management framework for the Government, with a number of recommendations, including around Property NSW, designed to promote smooth and predictable implementation of the reforms.

TERMS OF REFERENCE

PAUT

The Taskforce has achieved key outcomes set by the Government

Objective	Outcome	Other comments
Considerations of strategies to maximize public value, and to identify opportunities to develop policies and strategies to use Government property assets to stimulate the economy and to deliver broad economic benefits to the State.	✓	<ul style="list-style-type: none"> — The following initiatives are intended to encourage a whole-of-government approach and the engagement with Property NSW as the central property agency: <ul style="list-style-type: none"> — The improved TAM process will enable Property NSW and respective agencies to identify strategic plans to maximise their property holdings. — The Government's property portfolio is significant. However, a large proportion of the portfolio is made up of real property assets with a value of less than \$5 million. A new paradigm to deal with real property assets owned by the Government with a current value of <\$5 million (smaller assets) has been developed to incentivise agencies to actively manage these real property assets. Whilst individually they are small, they become large once the values are aggregated. — The financial process tool has been developed to assess whether real property asset ownership is needed for service delivery or whether capital can be recycled and developed to fund other Government initiatives.
Identify long-term disposal plans by undertaking an audit and capability assessment of existing property assets and the level of their support to services.	✓	<ul style="list-style-type: none"> — The initial fact finding work by the PAUT working group found very limited existing long-term disposal plans. Per the comments above, the initial audit of existing capability and framework found reform is critically needed. — A revised framework is proposed by the recommendations; this framework has as its central paradigm the view that real property assets should only be owned when and in the form necessary to support service delivery. The revised framework and implementation channels should promote this policy goal across the longer-term. — In recent consultations and discussions with agencies and Ministers, the PAUT working group has already identified a list of between \$400 million and \$500 million of property which could be unlocked co-operatively between agencies and Property NSW should the new framework come into place, and should the Government, support some strategic decisions which go to value creation in the particular sites and real property assets. Given a short round of discussions by the Divestment Steering Committee has identified this amount of latent value, it is anticipated that once Property NSW itself is established to focus on the task there could be materially more value earmarked in long-term disposal plans.

TERMS OF REFERENCE

PAUT

The Taskforce has achieved key outcomes set by the Government

Objective	Outcome	Other comments
Conduct analysis of property disposal plans including demand management solutions which better utilise existing property assets.	✓	— Property NSW will assist agencies with the property section of the TAM plans to ensure it is in-line with their corporate plans. This will include identifying strategic and non-strategic real property assets. Non-strategic real property assets will be earmarked for sale with the net sales proceeds to be reinvested back into delivering service objectives. With the increased funding envelope from 4 to 10 years, demand for new services will be adequately budgeted for and managed through either a combination of existing and/or new real property assets.
Property disposal plans will be developed on a cluster basis to promote integrated asset support to services.	✓	— The creation of the central property register will provide the ability to manage real property assets on a whole-of-Government scale. Crucial to its effectiveness will be the revision of the TAM process where Property NSW will assist agencies with the property components in identifying and prioritising projects.
The four year property disposal plan approved by the Government will be incorporated into the State Budget through the existing annual budget process.	✓	<ul style="list-style-type: none">— In the immediate-term, the Divestment Steering Committee has identified real property assets to the value of \$300 million to be brought to market before end 2013 to fund the Housing Acceleration Fund in accordance with the budget commitment.— In the medium-term, the Divestment Steering Committee has identified of \$400 million to \$500 million of real property assets which might be brought to market by the Divestment Steering Committee or Property NSW when it commences, should Cabinet support some associated strategic decisions. Net proceeds of these divestments would be realised in the annual budget allocations to the relevant agencies.— In the longer-term, the revised policy framework and execution through Property NSW should lead to improved capital recycling across Government which will materially improve the annual budget positions on a whole-of-government basis.

ASSET MANAGEMENT

PAUT

Real property asset management analysis is particularly relevant to Government real property assets

Overview

- Broader framework conceptually sound, but in practice its components appear to be implemented either inconsistently or often not all.
- This has implications for the manner in which infrastructure commitments are considered, with a lack of visibility in the decision making process causing oversights in meeting Government objectives.
- Proposed capital investments that comply with the appropriate business case requirements and Procurement Policy may still not represent a meaningful or robust deployment of capital.
- There is significant scope for agencies to improve the management of their existing real property assets through a focus on maintenance, increased real property asset utilisation, and by selectively rationalising real property assets which no longer have a strong connection to the objectives of the cluster.

Key recommendations

- The establishment of an accurate real property asset register for each cluster.
- The development of a real property asset management policy statement with guidelines around the procurement and maintenance of real property assets, in addition to the roles and responsibilities of clusters with respect to their real property assets.
- A more rigorous testing of the business case supporting each capital investment including a thorough interrogation of the whole-of-life costs of capital submissions and how these are to be funded.
- The implementation of capital charging levies in driving more efficient capital use, in line the model adopted by NZ Budget Sector Agencies.
- The periodic evaluation of the real property assets of each cluster, particularly with respect to capital intensive and large capital spend agencies.
- The establishment of maintenance related KPIs for capital intensive and large capital spend clusters.
- The establishment and continued investment in a new real property asset management support system for each cluster.

Source: NSW Commission of Audit

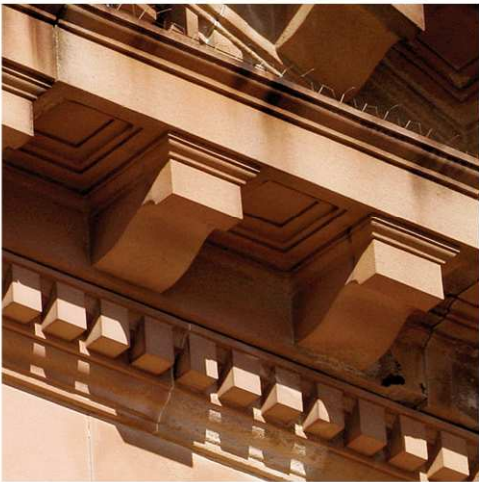
NSW 2021: 'A PLAN TO MAKE US NUMBER ONE'

PAUT

'A Plan to make NSW Number One' sets the government's agenda for change in NSW...

- 'A Plan to make NSW Number One' was established in April 2010, and sets the following objectives over a 10 year period:
 - rebuild the economy;
 - return quality services;
 - renovate infrastructure;
 - restore accountability to government; and
 - strengthen local environment and communities
- It replaces the State Plan as the Government's strategic business plan.
- Formulated on the basis of input from all clusters.
- Sets immediate priorities for action in guiding Government resource allocation with respect to the NSW Budget.
- Agencies to be charged with identifying cost-effective initiatives in achieving goals and targets within the plan
- Represents the start of the process to deliver change to NSW and features:
 - 32 Goals and 180 targets
 - priority actions to support the achievement of each target
 - an annual community and business leader's forum to discuss progress and identify new initiatives
 - consultation with the community to identify local priorities and develop Local and Regional Action Plans
 - verification of data prior to the release of an annual performance report, by independent experts
- Progress is to be reported regularly online and through an annual report tabled in NSW Parliament

Source: <http://2021.nsw.gov.au/about-nsw-2021>



APPENDIX OTHER JURISDICTION EXPERIENCES

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VICTRACK

PAUT

VicTrack is a Government Rail Agency designed to support public transport and government priorities by acting commercially

Overview of VicTrack

- Key features of VicTrack include:
 - Founded in 1997
 - State Owned Enterprise
 - Independent Board reporting to the Minister for Public Transport and Treasurer
- VicTrack provides core services in the following four areas:
 - Telecommunications
 - Rail
 - Capital Projects
 - **Property**
- **Funded through** both the delivery of services and by **leasing land and buildings within its large property portfolio**
- VicTrack **provides hundreds of community leases at nominal rates** with a look to benefit communities
- VicTrack is the legal owner of Victoria's railway and land infrastructure, leasing these assets to Victoria's rail and tram franchisees while retaining control and maintenance responsibilities over the infrastructure land leased
- Second largest land owner in the State with over **1,800 leases**

Source: Victrack website

VicTrack Property

- Business Leasing Unit
 - Manages over 1,000 leases and supports a rent roll of over \$24 million per annum
 - Objective to grow a commercially sustainable asset portfolio
 - Properties in metropolitan Melbourne managed by Brookfield Multiplex Services
 - Properties in rural Victoria managed by VicTrack Property
- Community Leasing Unit
 - Responsible for the delivery and management of over 800 'community leases'
 - Makes available land parcels for use as neighbourhood open space parkland or other community amenities

STATE OWNED ENTERPRISES

PAUT

VicTrack operates under the guidance of the State Owned Enterprises Act, the Rail Corporations Act and the Transport Integration Act

State Owned Enterprises Act 1992

- As a State Owned Enterprise, VicTrack is required to act in accordance with the State Owned Enterprises Act 1992 (**SOE Act**)
- The SOE Act looks to replicate conditions under which private entities operate and is similar in much of its content to the **Corporations Act 2001**
- In particular, the SOE Act imposes upon directors the following duties:
 - Directors must **exercise a reasonable degree of care and diligence** at all times
 - Directors must **not make improper use of information or of their position**
- The SOE Act also imposes upon VicTrack the following conditions:
 - VicTrack may also be required to **pay a dividend to the State** at the Treasurer's discretion
 - The VicTrack Board of Directors is to be **appointed** by the **Governor-in-Council**; and
 - The VicTrack Board of Directors is **accountable** to the **Minister for Public Transport** and the **Treasurer**

Rail Corporations Act 1996

- Establishes VicTrack and sets out its objectives
- Provides for the **transfer of property, rights and liabilities** from the State **to VicTrack**
- Permits the Minister for Transport to make any of the following directions:
 - Transfer of property from any Public Transport Corporation (**PTC**) to VicTrack
 - Transfer property from VicTrack to any PTC
 - Order the lease of any land held by a PTC to VicTrack

Transport Integration Act 2010

- VicTrack is **required to act in accordance with vision statement and transport system objectives** of the Transport Integration Act 2010
- Under the Transport Integration Act, VicTrack's is required to:
 - First and foremost, to support public transport; and
 - Secondly, support broader government priorities;by acting in a commercial manner

Source: State Owned Enterprises Act 1992 (90/1992); Rail Corporations Act 1996 (79/1996)

COMMONWEALTH PROPERTY COMMITTEE (CPC)

PAUT

Established in 1996 as a joint public / private sector taskforce to report on the efficient delivery of office accommodation

- Initiative of the Howard Government.
- Oversaw the **division of the office estate into three regions**, with the **management of these property groups subsequently outsourced**.
- Development and establishment of the Commonwealth Property Principles in July 1996. This was the key metric by which properties were gauged by. The overarching criteria read as follows:
 - 'The Commonwealth should own property where the long-term yield rate exceeds the social opportunity cost of capital or where it is otherwise in the public interest to do so'
 - It was determined that a **hurdle rate of 14 to 15 per cent** (nominal) would apply to decisions about retention or divestment of property
- The task force **identified 59 major properties for disposal** with a **market value of A\$1.05 billion**.
- Properties were **disposed over a period of three years** between late 1996 and 2000.
- The disposal program lead to a A\$140 million write down in book values of the assets disposed of.
- On 14 May 2002, it was announced that the Commonwealth Property Principles hurdle rate would be lowered to 11 per cent, with the change to take effect as of 1 July 2002.
 - A falling cost of capital to the Commonwealth was cited as motivating the change in the Commonwealth Property Principles hurdle rate.

Source: http://www.prrs.net/Papers/Warren_Corporate_Property_Strategies_in_the_Federal_Public_Sector.pdf

COMMONWEALTH ESTATE PROPERTY SALES

PAUT

Department of Finance and Administration's Office Estate Sales (July 1997 - April 2001)

State	Property	Sale Price (A\$m)
ACT	R.G. Casey Building, Barton	197.0
	Edmund Barton Building, Barton	59.2
	Discovery House, Woden	30.6
	Robert Garran Offices, Parkes	22.1
	3 - 5 National Circuit, Barton	21.4
	Deakin Offices, Deakin	17.3
	Alexander Building, Woden	7.8
	Albermarle Building, Woden	7.5
	Sirius Building, Woden	7.3
	Fishburn House, Woden	1.7
	Borrowdale House, Woden	1.6
	Naval Combat Systems Centre, Fyshwick	1.0
NSW	Sydney Central, Sydney	137.6
	Jessie Street Centre, Parramatta	113.0
	Commonwealth Government Offices, Wollongong	9.8
	Commonwealth Government Centre, Dubbo	3.4
	Darlinghurst Comm Offices, Darlinghurst	3.2
	5 - 7 Short Street, Port Macquarie	2.6
	Commonwealth Offices, Wagga Wagga	2.5

State	Property	Sale Price (A\$m)
NSW	36 - 38 Raymond Street, Bankstown	2.0
	Commonwealth Offices, Tweed Heads	1.6
	Commonwealth Offices, Orange	1.5
QLD	Commonwealth Government Centre, Brisbane	96.0
	Stanley Place, Townsville	15.7
	Commonwealth Centre, Mackay	2.5
	Commonwealth Centre, Rockhampton	2.0
	West End Offices, Brisbane	2.2
	Commonwealth Offices, Bundaberg	0.8
NT	Jock Nelson Building, Alice Springs	1.8
SA	Commonwealth Government Centre, Adelaide	20.0
	Commonwealth Offices, Sailsbury	0.9
	Commonwealth Offices, Berri	0.9
	Commonwealth Offices, Murray Bridge	0.9
	Commonwealth Offices, Port Augusta	0.8
	Commonwealth Offices, Port Lincoln	0.7
TAS	Commonwealth Government Centre, Hobart	8.3
	Commonwealth Offices, Devonport	0.8
	Commonwealth Offices, Glenorchy	0.5

Source: The Auditor General - Audit Report No. 4 2001 - 2002 Performance Audit

COMMONWEALTH ESTATE PROPERTY SALES

PAUT

Department of Finance and Administration's Office Estate Sales (July 1997 - April 2001)

State	Property	Sale Price (A\$m)
VIC	Casselden Place, Melbourne	142.1
	231 - 235 Lyttleton Terrace, Bendigo	3.2
	Commonwealth Government Offices, Frankston	2.9
	300 Queen Street, Melbourne	2.7
	Commonwealth Offices, Oakleigh	2.7
	Clarke Street, South Melbourne	2.5
	DSS Cheque Issuing, South Melbourne	2.3
	DSS Office, Newmarket	1.9
	Commonwealth Offices, Sunshine	1.6
	6 - 14 Andrews Avenue, Bendigo	1.1
	265 Lyttleton Terrace, Bendigo	0.2
WA	ATSIC Regional Offices, East Perth	3.8
	Commonwealth Offices, Fremantle	3.6
	619 Murray Street, Perth	2.9
	Yaworroong Wunan Building, Kununurra	1.3
	Commonwealth Offices, Burswood	1.3
	Commonwealth Offices, South Headland	1.0
	Commonwealth Offices, Kalgoorlie	0.7
Total Proceeds		983.2

Source: The Auditor General - Audit Report No. 4 2001 - 2002 Performance Audit

GOVERNMENT REAL PROPERTY MANAGEMENT

PAUT

The Government Real Property Management provides guidance to South Australian government agencies on the disposal of assets and property held

- Came into operation as of 11 October 2010.
- Describes the SA Government **policy on the utilisation, purchase and disposal of government real property** (including Crown lands).
- Requires government agencies to **regularly evaluate ownership of and/or occupation of real property**.
- Surplus or underutilised assets to be made available to:
 - Other agencies; or
 - To generate funds for the state government.
- Provides mechanisms to ensure the retention of sites of strategic significance by agencies. These tests or 'Strategic Land Use Assessments' include:
 1. An Initial Test for Strategic Significance;
 2. A Site Strategic Land Use Assessment (**SSLUA**); and
 3. A Geographical Area Land Use Assessment (**GALUA**).
- If an asset collectively fails these tests, the circular prescribes the process by which the disposal may occur.
 - This includes the ability of other government agencies to register an interest prior to sale to the open market.
- Proceeds from assets sales are required to be paid directly to the Treasurer for application to the Consolidated Account however, provided that certain conditions are met, relinquishing agencies will be eligible to receive an increase in their investing expenditure equal to:
 - 50 per cent of the proceeds if the property is valued at less than \$4.4 million; or
 - A nominal amount as determined Cabinet if the property is valued at equal to or greater than \$4.4 million.

Source: SA Government Premier and Cabinet Circular 114 - Government Real Property Management (October 2010)

STRATEGIC LAND USE ASSESSMENTS

PAUT

The initial test for 'strategic significance' seeks to determine the appropriateness of an independent disposal process

- The Initial Test for Strategic Significance looks to ask the following four questions:
 1. Is the market value (or fair value) of the property in excess of the 'threshold of value'?
 2. Does the land adjoin or does it have the potential to be amalgamated with other land in government ownership?
 3. Is there a project in the Capital Investment Program for which the property may be suited?
 4. Are there any other factors that exist giving the property strategic significance in relation to the implementation of state or local government policy?
- If one of the above factors indicates that there is a likely opportunity for government to benefit, the Department of Planning and Local Government (DPLG) will initiate an SSLUA of the property.
 - Otherwise, the owner agency may proceed with the disposal process independently.

STRATEGIC LAND USE ASSESSMENTS

PAUT

The Site Strategic Land Use Assessment employs the Principles of Ownership of Real Property to assess the strategic significance of a property

- The SSLUA assesses a government owned property against the Principles of Ownership of Real Property. These principles broadly stipulate the following:
 - Property should only be held where it **contributes directly to an agency's existing core business** or identified future core business. Otherwise, ownership of property should be dependent on **satisfying one of the following tests**:
 - Where a property is held for commercial purposes, property **financial performance should meet or exceed industry measures** such as the long-term yield on property investment compared with the benchmark rate; or
 - Where **public interest considerations for retention** can be demonstrated.
 - Where property is **not fully utilised but retention is essential**, spare capacity should be **shared with other government agencies or leased**.
 - If none of the above points apply, then the **property should be considered for disposal**.
- DPLG will circulate their **initial assessment of the property within 30 days of initial referral** to government agencies and relevant local councils, **inviting comments** and/or registrations of interest in the property. If **no response is received within 7 working days**, DPLG will consider that the agency does not wish to comment.
- If the SSLUA determines the property to be **not of strategic significance**, the owning agency will be advised to **proceed with the disposal process**. Where a property is **deemed to be of strategic significance** and:
 - Another agency has registered interest in acquiring the property:
 - The property should be transferred at current market value to the agency with the primary interest.
 - Another agency has not registered interest in acquiring the property:
 - DPLG will prepare advice to the Government Planning and Contribution Committee (**GPCC**) to recommend which agency should hold the property.

Source: SA Government Premier and Cabinet Circular 114 - Government Real Property Management (October 2010)

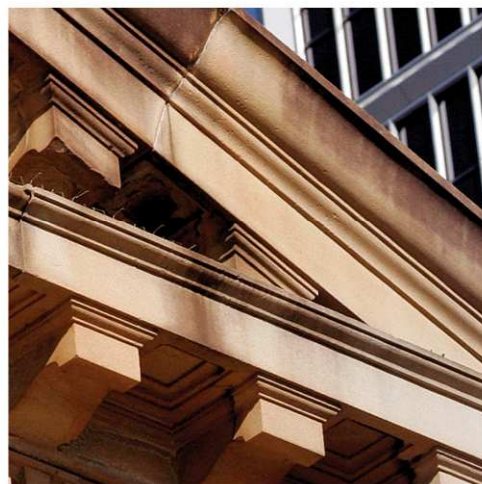
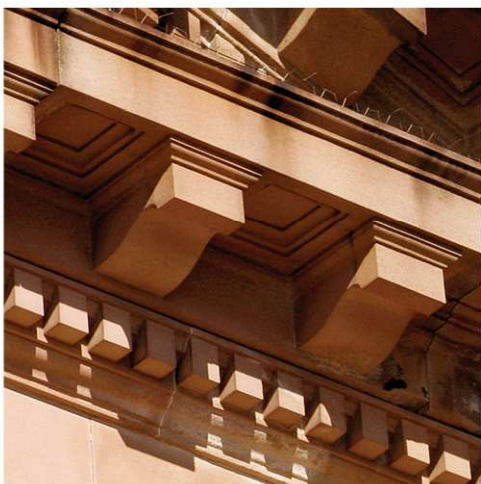
STRATEGIC LAND USE ASSESSMENTS

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The Geographical Area Land Use Assessment is employed only under certain conditions and is broader in its scope than the SSLUA

- DPLG may initiate a Geographical Area Land Use Assessment (GALUA) where available information indicates the likelihood that significant **government land and built assets may be underutilized** and potentially disposed of or used for other government purposes. Strategic drivers and specific triggers include:
 - A major infrastructure project
 - Revising or implementing the *Planning Strategy* and associated structure plans
 - A government initiative that will result in substantial change in utilisation of Government real property
 - A DPLG review of agency property utilization status data
- A GALUA is a process where **all government properties in a geographic area are assessed** against the Principles of Ownership of Real Property.
- DPLG will within 6 months of initiation provide the final report to the GPCC. The report will:
 - Determine **cross-government actions and/or advice to Cabinet**; and
 - Note **land identified for disposal or further investigation** by individual agencies.
- In accordance with GPCC decisions **individual agencies will proceed with disposal of land** identified as surplus.

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APPENDIX HOUSING

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LAND AND HOUSING CORP

DEPARTMENT OVERVIEW

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Land and Housing Corp is one of the largest social housing providers in the world

Land and Housing Corp overview

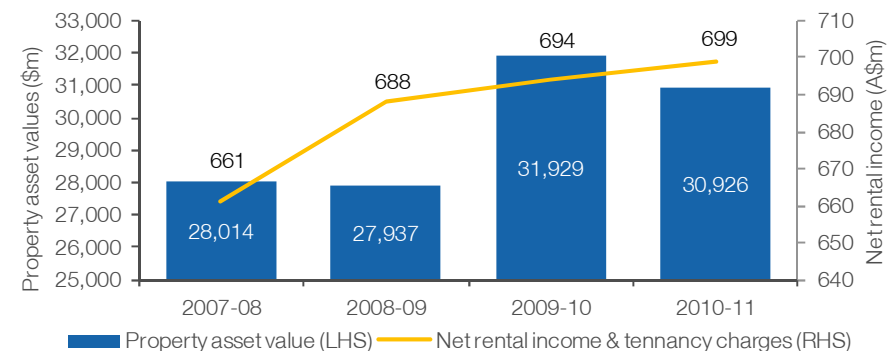
- Land and Housing Corp is an agency of the NSW Department of Family and Community Services (FACS)
- One of the largest providers of social housing in the world, providing a range of housing solutions for those with the greatest needs
- Land and Housing Corp encompasses Public Housing, the Community Housing Division, the Home Purchase Advisory Service and the Centre for Affordable Housing
- Land and Housing Corp operates under the Housing Act 2001 to manage the Government's housing portfolio and develop broader housing strategies
 - It is also responsible for administering the various Commonwealth and State Housing Agreement Acts
- Land and Housing Corp provides long-term subsidised rental housing through three sectors, commonly known as social housing:
 - **Public Housing:** directly manages ~122,000 properties
 - **Community Housing:** provides more than 19,000 properties through community housing providers
 - **Aboriginal Housing:** manages more than 4,300 properties on behalf of the Aboriginal Housing Office
- The total Housing NSW budget pre asset split in 2010-11 was A\$2,525.2 million, comprising:¹
 - A\$1,426.1 million in recurrent expenditure
 - A\$1,099.1 million capital expenditure

¹. State Budget 2010-11, Housing NSW Budget Commentary, June 2010

Application of Funds 2010-11¹

Application of Funds (2010-11)	A\$m
Repairs & maintenance	174
Residential & tenancy expenses	32
Other property expenses	249
Rental & other assistance	209
Personnel services - DHS	213
Other operating expenses	91
Interest on loans	89
Depreciation & other non-cash items	369
Capex	1,069
Other capital (admin assets)	30
Total	2,525

Tenancies by type¹



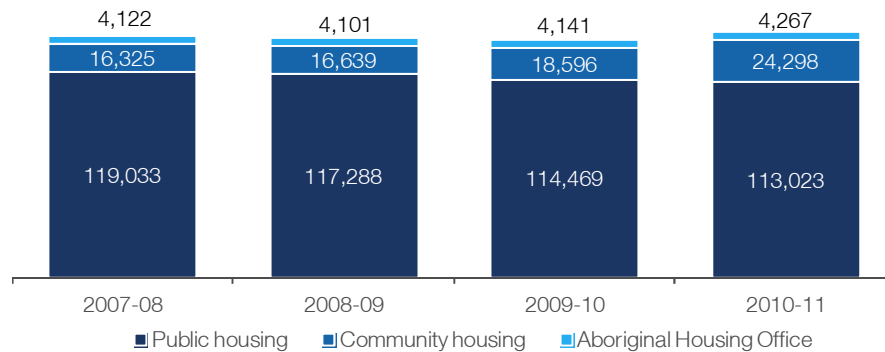
LAND AND HOUSING CORP

PORTFOLIO OVERVIEW

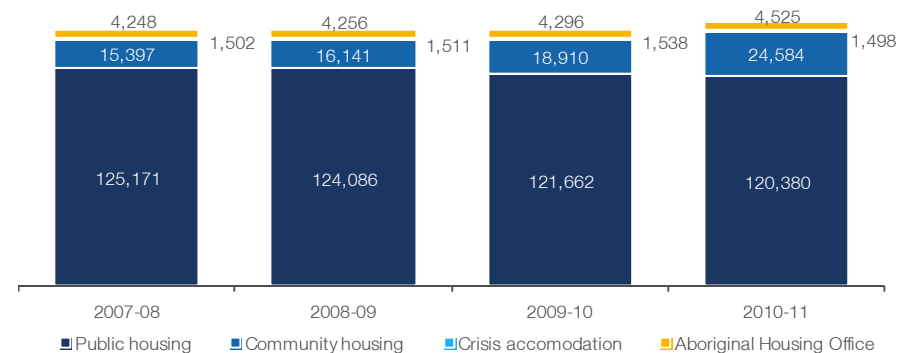
PAUT

Land and Housing Corp's portfolio is currently comprised of 150,987 properties¹

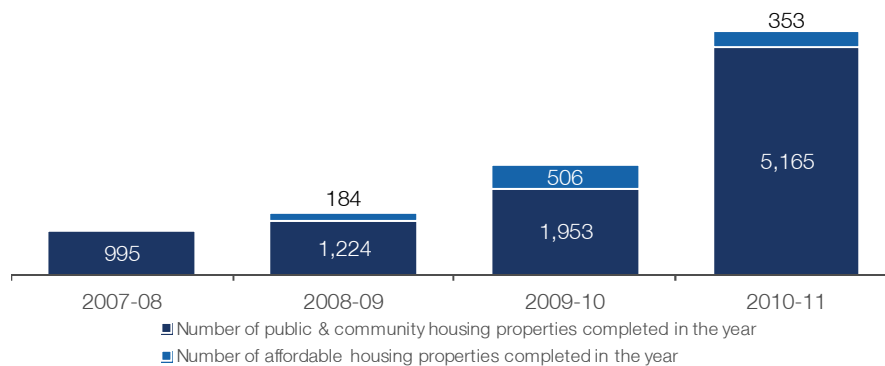
Tenancies by type^{1,2}



Properties under management by type^{1,2}



New properties completed by type^{1,2}



1. Government
2. GPR Database Land and Housing Corp Annual Report 2010-11



APPENDIX SHORTER TERM INITIATIVES: ASSET DISPOSALS

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CRITERIA FOR PRIORITY ASSET DISPOSALS

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- A Divestment Steering Committee has been established to deal with real property assets identified for priority disposal with proceeds earmarked for the Housing Acceleration Fund per the Budget commitment.
- The real property assets identified for priority disposal have been considered against a number of key criteria, specifically:
 1. Ability to divest the real property assets quickly
 - Assets divestible within a 12-month time period
 2. Materiality
 - Investment grade real property assets or portfolios (generally greater than \$5 million), albeit some smaller divestments are being coordinated by SPA
 3. Value creation
 - Assessment of the risk-weighted budgetary impact of any disposal
 4. Other financial impacts
 - Assessment of the impact of a divestment on other factors such as the balance sheet and credit ratings
 5. Government objectives
 - A divestment facilitates a use of capital consistent with the Government's strategic objectives
- The priority divestment opportunities and related Government decisions will be the subject of further decisions

SEGMENTATION CATEGORIES

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Real property assets across the Government's real estate portfolio can be divided into broad categories

- Real property assets within the Government's real estate fall into three broad categories:
 1. Unutilised / underutilised real property assets
 2. Revenue generating real property assets
 3. Government occupied real property assets
- Revenue generating real property assets and material unutilised real property assets appear most likely to represent 'quick wins' from the State's perspective, and should therefore be the focus of any near-term disposal process.
 - However, there is a significant quantum of real property assets that are occupied by Government agencies which may provide additional value to the Government if structured appropriately.

Asset category	Asset characteristics	Example asset types
1. Unutilised / underutilised	<ul style="list-style-type: none">■ Owned by the Government■ Entirely or partially unutilised	Vacant land, untenanted accommodation (commercial or residential)
2. Revenue generating	<ul style="list-style-type: none">■ Owned by the Government■ Leased by or available to be leased by the private sector■ Capable of generating a third party revenue stream	Car parks, private hospitals, shopping centres, commercial offices, taverns
3. Government occupied	<ul style="list-style-type: none">■ Owned by the Government■ Occupied by Government agencies■ Government may require ongoing use to facilitate service delivery	Public hospitals, police stations, commercial offices

POTENTIAL DISPOSAL STRUCTURES

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Appropriate disposal structure tailored to meet the State's key requirements

Overview

- Four broad types of disposal structure
 - Direct sale
 - Operating concession
 - Sale-and-leaseback
 - Lease-and-leaseback

- Recommended disposal structure will vary for each real property asset category
 - Unutilised real property assets lend themselves to direct sale
 - Revenue generating real property assets lend themselves to direct sale or operating concession
 - Government occupied real property assets lend themselves to sale-and-leaseback or lease-and-leaseback

- Ultimately, the recommended disposal structure will need to satisfy the State's three key requirements:
 - Value for money
 - Positive budget impact (surplus / off-balance sheet treatment)
 - Positive / neutral credit rating impact

- The following pages illustrate examples of these disposal structures for each of the three real property asset categories

Relevant considerations

Disposal structure	Considerations	Applicable categories
Direct sale	<ul style="list-style-type: none"> ✓ No adverse balance sheet impact ✓ Releases capital to fund other initiatives ✓ No adverse balance sheet or credit rating impact for unutilised real property assets ? Credit rating outcome for other real property assets reflects impact of any revenue foregone versus impact of any upfront capital received 	Unutilised real property assets, Revenue generating real property assets
Operating concession	<ul style="list-style-type: none"> ✓ No adverse balance sheet impact ✓ Releases capital to fund other initiatives ? Credit rating outcome reflects impact of any revenue foregone versus impact of any upfront capital received 	Revenue generating real property assets
Sale-and-leaseback	<ul style="list-style-type: none"> ✓ Releases capital to fund other initiatives ? May be on balance sheet from a cost perspective depending on characteristics of lease – subject to new accounting standards ? Potential adverse credit rating impact due to rental expense versus impact of any upfront capital received ✗ Ultimate control of real property asset transfers to third party 	Government occupied real property assets
Lease-and-leaseback	<ul style="list-style-type: none"> ✓ Releases capital to fund other initiatives ✓ Ultimate control of real property asset retained by Government ? Potential adverse credit rating impact due to rental expense versus impact of any upfront capital received ✗ On-balance sheet from a cost perspective 	Government occupied real property assets

1. UNUTILISED ASSETS

Direct real property asset sales may also be appropriate for unutilised State-owned real property assets

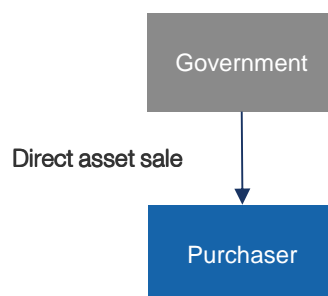
Overview and potential impacts

- A preliminary review appears to suggest that some of the real property assets on Government's balance sheet are unutilised or underutilised
- Unutilised real property assets lend themselves to a direct asset sale as they are surplus to requirements and so do not involve establishment of formal government occupancy arrangements
- Allows Government to release capital to fund other initiatives
- No adverse balance sheet or credit rating impact:
 - Real property assets are currently not earning a return so no loss of revenue
 - No lease liability will be crystallised pursuant to the sale structure
- The indicative metrics on the right are based on a hypothetical unutilised real property asset

Indicative transaction metrics

	Pre	Post
Leasable area	5,000 sqm	5,000 sqm
Rent received / sqm	-	-
Rent paid / sqm	-	-
Total rent received p.a.	-	-
Market rental p.a.	\$1.5 million	\$1.5 million
Assumed rental growth	-	3.00%
Cap rate	-	9.50%
Sale value	-	\$16 million
Sale IRR	-	13.2% ¹
Lease liability on balance sheet	-	-
NPV	-	\$16 million

Direct sale structure



Source: GPR

¹ Represents 10-year IRR assuming 5.0% stamp duty paid on sale; passing rental equal to market rental; purchaser holding period of 15 years; and 50bps cap rate expansion.

2. REVENUE GENERATING ASSETS

Overview

- Where a real property asset is leased by the private sector and thereby generating a third-party revenue stream, suggested disposal structures include:
 - Direct asset sale; or
 - Granting of operating concessions
- The following types of real property assets may be revenue generating assets:

Asset type	Number of assets ¹
Commercial office	530 ²
Industrial / warehouses	384
Car parks	142
Retail / shopping centres	92
Child care centres	59
Medical centres	46
Hotels and motels	17
Pubs and taverns	14

Potential impacts

- Real property asset ownership / right to collect third party revenue transferred to private sector, releasing capital for Government to fund other initiatives.
- Financial merits of sale depend on whether capital can be deployed more effectively than ownership of a particular real property asset.
- State may benefit from sale of:
 - Capital-intensive real property assets where capital can be better allocated elsewhere
 - Management-intensive real property assets where management efforts can be better focused elsewhere
- No adverse balance sheet impact – no lease liability will be crystallised pursuant to the sales structure (although revenues will be reduced) and real property asset realised for cash.
- Credit rating outcome reflects impact of any revenue foregone versus impact of any upfront capital received.

1. Represents total number of assets owned by Government in each category, whether leased by the private sector (revenue generating) or tenanted by the State (non-revenue generating). Source: GPR.
 2. Includes CBD, suburban and regional local and State Government administrative sites.

3. GOVERNMENT OCCUPIED ASSETS

Sale-and-leaseback method will allow the State to release capital up-front

Overview

- Government occupied real property assets may not be amenable to direct sale
 - May be purpose-built real property assets with limited potential to replace Government tenants with private sector tenants
 - Government occupancy may be necessary for service delivery
- Suggested disposal structures include sale-and-leaseback or lease-and-leaseback (L&L)
 - Preserves Government's use of the real property asset
 - S&L versus L&L depends on strategic nature of real property asset and/or whether the Government ultimately wants to retain control
- The following types of real property assets may be occupied by the Government:

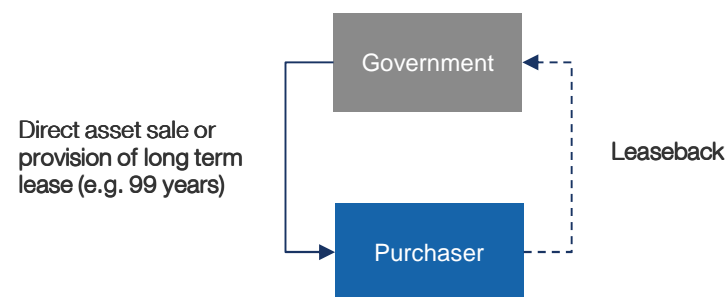
Asset type	Number of assets ¹
Police stations	668
Fire stations	612
Commercial office	530 ²
Hospitals	394
Courthouses	192
TAFEs	145
Prisons and correctional facilities	66

1. Represents total number of assets owned by Government in each category, whether tenanted by the State and/or private sector. Source: GPR.
2. Includes CBD, suburban and regional local and State Government administrative sites.

Potential impacts

- Real property asset ownership or long term lease transferred to private sector, releasing capital for Government to fund other initiatives
- S&L may be on balance sheet from a cost perspective depending on characteristics of lease (subject to new accounting standards); L&L will be on-balance sheet
- Credit rating outcome reflects impact of rental expense versus impact of any upfront capital received
- Ultimate control of real property asset retained by Government under a L&L versus transferred to third party under S&L
- Need to consider revision / establishment of appropriate lease structures
 - E.g. triple net lease structure relatively less attractive for government than corporates because do not get the benefit of tax deductibility

Sample sale-and-leaseback or lease-and-leaseback structure



GOVERNMENT ACCOUNTING OF LEASES

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Potential adverse changes to balance sheet treatment of leases

- Operating leases are currently off-balance sheet, whereas finance leases are on-balance sheet

Criteria	Requirement for operating lease treatment	Relevant accounting standard
Tenor	<ul style="list-style-type: none">■ Lease term cannot extend over the 'majority' of the economic life of the real property assets■ 10-15 year lease with a useful life of 30+ years would typically satisfy this	AASB 117
Extension options	<ul style="list-style-type: none">■ Treatment not clear, need to understand how rating agencies will treat these■ Example: 15 year lease with with 5 + 5 options	AASB 117
Purchase options	<ul style="list-style-type: none">■ If below fair market value, likely to be on balance sheet	AASB 117

- Going forward, two new standards may impact the accounting treatment of leases
 - **IPSASB 32** (international application from 2014, although Australia may differ)
 - Operating lease treated like a concession → on-balance sheet treatment
 - Further discussion required with Government
 - **IASB Lease Project** (implementation 2016/17)
 - All leases on balance sheet, except for operating leases which are for less than 12 months