



## Appendix one – Response from agency



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Margaret Crawford  
Auditor-General  
Audit Office of New South Wales

Via email: [Margaret.Crawford@audit.nsw.gov.au](mailto:Margaret.Crawford@audit.nsw.gov.au)

Dear Ms Crawford

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

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

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

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

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

##### a. The Scope of the Report

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

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

##### b. First, PNSW has not reviewed many agency portfolios ....

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

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

At 30 June 2018, the NSW government owned \$160B<sup>1</sup> of land and buildings, the vast majority of these assets are held on the Balance Sheets of agencies other than PNSW, which owns only c.\$940M or 0.6% of the total government property assets. These assets are used to support critical infrastructure including schools, hospitals, roads and rail. As PNSW has explained to the Audit Office, given the ownership and current use of the vast majority of assets, as intimated in the current policies (Premier's Memorandum 2012-20 (PM2012-20) and many other government decisions), PNSW must work collaboratively and with agencies to undertake property reviews. The Audit Office's statement also ignores the fact that over the past two years PNSW has completed organisational and portfolio reviews of almost every cluster and agency in the government as part of the implementation of the PAUT II (detailed below).

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

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

**d. Third, PNSW decisions are not documented and transparent**

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

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

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

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

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

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

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

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

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

## 2. The Key Findings of the Report

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

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

Under the DoD policy, the government has relocated 1,872 FTE from the Sydney CBD to Western Sydney and reduced office space in the CBD by approximately 72,800m<sup>2</sup> with a further 52,700m<sup>2</sup> committed space reductions over the next two years.

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

- **Service Need:** the agencies must have a clear service delivery need to remain in the CBD
- **Rent:** Rents targeted to be at or below market rent (across the portfolio)
- **Market Evidence:** Market evidence of rents must be provided
- **Utilisation:** Must be at or below target of 13m<sup>2</sup> / FTE
- **CBD Strategy:** the lease must be consistent with the CBD Accommodation Strategy
- **Term:** Lease term must be consistent with the Strategy
- **New Leases:** Generally new leases target Activity Based Working fit outs and utilisation rates of c.10m<sup>2</sup> / FTE

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

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

**b. PNSW conducted limited portfolio reviews between 2013 and 2017**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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


- **Asset Recycling:** PNSW has delivered c. \$500m of asset sales each year for the past five years and the government has delivered c. \$10B of asset sales over the past 6 years
- **Utilisation:** the utilisation of office space has improved from 16.5 m<sup>2</sup> / FTE to 14.3 m<sup>2</sup> / FTE over the 5 years;
- **CBD Office Space Reduction:** PNSW manages the reduction of CBD office space through a combination of office space reduction and relocation of public service jobs to metropolitan and regional areas of NSW. PNSW is on track to meet the reduction target of 100,000sqm by December 2019.

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

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

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

Yours sincerely

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

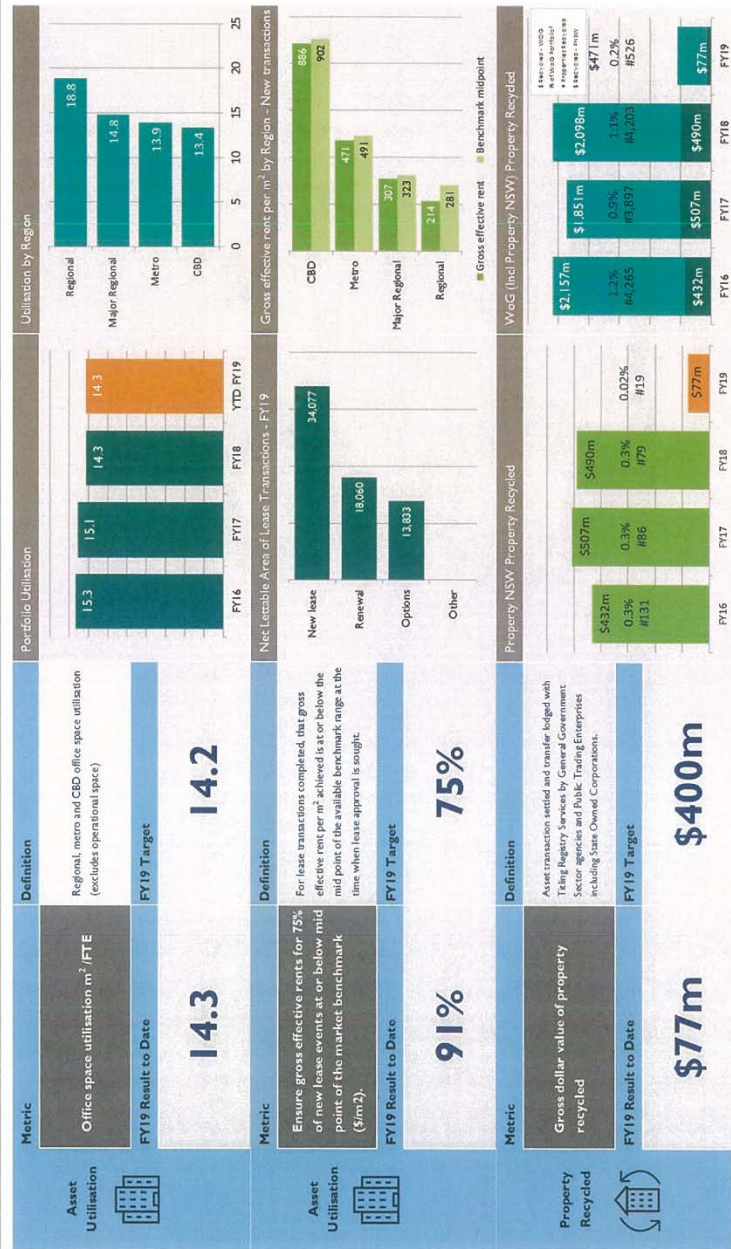
## Appendix 1

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

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

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

# Key Performance Indicators



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

## Key Performance Indicators

