Selected Commonwealth Property Sales

Portfolio Departments of Veterans' Affairs, Defence and Administrative Services

Performance Audit

Tabled 11 December 1996

Audit Report No. 20 1996-97

Abbreviations

AEM	Australian Estate Management
ANAO	Australian National Audit Office
APG	Australian Property Group
AVO	Australian Valuations Office
DAS	Department of Administrative Services
DLRP	Defence Logistics Redevelopment Project
DoD	Department of Defence
DPG	Domestic Property Group
DVA	Department of Veterans' Affairs
GBE	Government Business Enterprise
ITR	Invitation to Register Interest
OPG	Overseas Property Group
RFP	Request for Proposals
RGH	Repatriation General Hospital
RNE	Register of the National Estate
RSL	Returned Services League

Summary

Introduction

1. The Commonwealth has significant property holdings. According to the Information Kit produced by the Department of Administrative Services' Domestic Property Taskforce in May 1996, the Commonwealth's property holdings are valued at in excess of $40 billion, with more than $29 billion of the holdings by value being under the control of government business enterprises (GBEs). The ownership and management of Commonwealth departments' property holdings are concentrated in the Department of Administrative Services ($4 billion) and the Department of Defence ($8.5 billion).

2. The audit was conducted within the general theme of asset sales. The eleven selected sales involved gross proceeds of $201 million. Details of the proceeds and direct sale costs of the

sales are provided in the following table.

Summary of Proceeds and Sales Costs

Portfolio	Gross Proceeds $A	Sale Costs $A	Net Proceeds $A
Veterans' Affairs			
Hollywood RGH Sale[1]	35 606 860	10 524 884	25 081 976
Greenslopes RGH Sale[1]	46 842 819	18 412 537	28 430 282
Total	82 449 679	28 937 421	53 512 258
Defence			
Toowoomba Sales	8 348 652	635 710	7 712 942
Holsworthy Sales	5 984 926	450 574	5 534 352
Millers Point Sale	1 748 975	84 701	1 664 274
Total	16 082 553	1 170 985	14 911 568
Administrative Services			
Ford Avenue Sale	14 249 000	133 000	14 116 000
Glencaird Sale	88 225 000	547 000	87 678 000
Total	102 474 000	680 000	101 794 000
(1) The RGH sales involved the sale of a business and the privatisation of service delivery. Additional costs related to redundancy payments to staff accounted for $17.8 million and $9.6 million of the gross sale proceeds for Greenslopes and Hollywood respectively.			

3. The focus of the audit was to examine recent selected property sales within the portfolios owning the majority of Commonwealth property, i.e. those of Defence, Administrative Services and Veterans' Affairs. The particular sales selected for examination by the audit were chosen on the basis of materiality. The audit coverage did not extend to the Department of Administrative Services' Domestic Property Group (DPG) as the ANAO tabled in June 1996 a report on Australian Estate Management's (DPG's predecessor) management of a substantial component of the Commonwealth's domestic property holdings.

4. The approach taken in the audit was to select property sales from each of the three agencies and review the files and transactions related to those sales. The sales were evaluated against criteria which included establishment of sales timetables, sales methods, and completion processes such as the criteria for the selection of tenders and accountability. The property sales chosen involved:

- sales by the Repatriation Commission of the Hollywood and the Greenslopes Repatriation General Hospitals (RGHs);
- sales by the Department of Defence of two sites in Toowoomba (the stores depot and a residential site), three sites at Holsworthy, and the army drill hall at Millers Point in Sydney; and
- sales by the Department of Administrative Services' Overseas Property Group (OPG) of property attaching to the former Australian High Commissioner's residence (Glencaird) in

Singapore and a senior administrative officer's residence (41 Ford Avenue), also in Singapore.

Audit objectives

5. The objectives of the audit were to assess departments' management of the sale process associated with selected property sales with regard to:

- the extent to which the individual property sale objectives were achieved;
- how departments managed the sales to ensure that the Commonwealth received fair value;
- whether the departments' sale arrangements adequately protected the Commonwealth's interests, including minimising ongoing Commonwealth risk; and
- identifying principles of better practice employed by agencies in connection with these sales.

Repatriation hospital sales

6. It was the Commonwealth's original intention that the continuing requirement by Repatriation Commission beneficiaries for services to be delivered through Hollywood and Greenslopes RGHs would be met by the relevant States integrating these hospitals into their health systems. However, the Western Australian and Queensland Governments each declined the Commonwealth offer to transfer ownership of the hospitals to them at no cost. It was against this background that these two hospitals were each sold by a trade sale process that combined the sale of assets with the privatisation of the delivery of services for which there was an ongoing need.

7. The audit coverage was restricted to consideration of only that part of the overall transfer of RGH facilities from Commonwealth ownership which related to privatisation. The gross proceeds provided to the Commonwealth's Consolidated Revenue Fund from the sales of Hollywood and Greenslopes RGHs were $82.45 million. After deducting sale costs of $10.52 million for Hollywood and $18.41 million for Greenslopes, net Commonwealth proceeds from both sales amounted to $53.5 million. The long-term service contracts which accompanied these sales have a total estimated nominal value of $775 million (Hollywood $400 million and Greenslopes $375 million).

8. Under long-term contracts, which were an integral part of the sales of both Greenslopes and Hollywood RGHs, the Commonwealth has agreed to make minimum annual payments to the purchaser which are payable in advance each quarter during the term of the contracts. These payments are offset against actual usage of the hospitals' services by Repatriation Commission beneficiaries. The minimum payments constitute a significant ongoing commitment for the Commonwealth. However, the ANAO considers that the Commission has in place adequate mechanisms to actively monitor and manage the Commonwealth's exposure to the risk that services provided in any year would fail to offset the minimum payment.

9. The sale of these hospitals by the Repatriation Commission involved a number of sound administrative features: comprehensive planning and sale procedures; clear sale objectives established; asset valuation undertaken by an appropriate consultant; linkage between the sale of the hospitals and provision of continuing services established through service delivery contracts; transparent criteria for selection of successful bidders; tender evaluation criteria

established prior to the receipt of bids; bids evaluated by an arm's-length, Tender Evaluation Committee; bids assessed on the basis of net present value to the Commonwealth; comprehensive involvement of Ministers; incorporation of property sale clawback arrangements; briefing of unsuccessful bidders; and the preparation of a post-project evaluation report.

10. The ANAO also considers that the sales of Hollywood and Greenslopes RGHs were completed by the Commission to the highest bidder, using the net present value methodology, in a manner which adequately protects the interest of the Commission's beneficiaries requiring the delivery of services through these hospitals and ensures that the Commonwealth's responsibilities to provide quality care are met.

Department of Defence sales

11. The audit coverage was restricted to consideration of a selection of property sales undertaken by the Department of Defence at Toowoomba, Holsworthy and Millers Point that raised gross proceeds of $16.1 million. The Toowoomba and Millers Point sales were conducted as part of the Defence Logistics Redevelopment Project (DLRP) which had as its primary objective the consolidation of the warehousing function for slow-moving/bulk stores of the three services. The 7 Stores Depot at Toowoomba was one of three Royal Australian Air Force depots identified for closure and disposal to assist in funding this project. The Holsworthy sales were associated with the Royal Australian Army's desire to improve the availability of quality housing stock in the Holsworthy/Moorebank area.

12. These sales were among the first that the Department undertook itself. The sales of property formerly associated with
7 Stores Depot in Toowoomba resulted in gross proceeds of nearly $8.35 million. After deducting direct sale costs of $635 710, the net Commonwealth proceeds were $7.71 million. Sales of property at Holsworthy produced gross proceeds of nearly $6 million. Direct sale costs were $450 574, resulting in net Commonwealth proceeds of $5.53 million. The disposal of the former Drill Hall at Millers Point grossed $1.75 million. The direct sale costs were $84 701 and the net benefit to the Commonwealth was $1.66 million.

13. These sales were a mixture of priority and open tender sales. In a priority sale an organisation operating in the community's interest may be granted the opportunity to purchase a Commonwealth property without the property having been placed on the open market. However, the intention is that the Commonwealth will receive the full market value of the property. Agreement on market value posed problems with the sale of the residential site in Toowoomba.

14. The Department of Administrative Services guidelines on priority sales are very general. In the absence of more specific guidelines, the ANAO considers that agencies conducting priority sales would be assisted in ensuring that the interests of the Commonwealth are at all times adequately protected if they develop their own more detailed guidelines for the conduct of such sales.

15. The ANAO considers that records management by the Department of Defence in connection with the outsourced open tender sale of the majority of the depot site in Toowoomba was inadequate. The records available to the ANAO do not allow the Office to determine whether the tender process was fair and open and/or that the best return to the

Commonwealth was obtained from their sale processes.

16. The final selection of the successful tenderer for the Millers Point property maximised revenue to the Commonwealth. However, the ANAO considers that the absence of clear guidelines agreed prior to the expressions of interest being received lessened the integrity of the sale process in that the tender was reopened when a higher bid was received after the closing date.

Singapore property sales

17. The timing, the selection of the sites in Singapore for disposal, the tendering and subsequent disposal of both the Ford Avenue and the Glencaird sites were all very favourable to the Commonwealth. The prices received for both properties exceeded the market valuations obtained prior to the conduct of the sales. The ANAO considers that OPG successfully negotiated the sales of the Ford Avenue and Glencaird sites.

18. The sale objectives for both the Ford Avenue and Glencaird properties were to maximise the net financial returns to the Commonwealth. The sales resulted in gross proceeds to the Commonwealth of $A102.47 million ($A14.25 million and $A88.22 million respectively). The total direct sale costs of the two transactions were $A680 000 resulting in total net proceeds to the Commonwealth of $A101.79 million. The ANAO considers that the selling costs incurred in both sales were reasonable given that sale costs amounted to less than one per cent of gross sale proceeds (Ford Avenue sale 0.93 per cent and Glencaird 0.62 per cent).

19. In November 1992 the Ford Avenue site was valued at $S10.8 million. The site of some 6418 square metres was subsequently sold in February 1994 for $S16.228 million ($A14.25 million) which was some 60 per cent higher than the November 1992 valuation. The higher price received for the property compared with previous valuations, the reduced commission negotiated with the selling agents and the smooth settlement of the sale all indicate that the sale of the Ford Avenue site was satisfactorily carried out on the Commonwealth's behalf by OPG.

20. At the time of the then Government's decision to sell the Singapore properties, the OPG projected that gross receipts available from the sale of Glencaird would be $A21.57 million. However, due to rises in the Singapore property market the sale price eventually obtained was $S98.0 million ($A88.22 million), a substantial increase over the initial estimate.

21. Invitation to tender for Glencaird was issued on 8 September 1994 and closed on 5 October 1994. The ANAO considers that this process was completed in a very efficient and timely manner with the successful bidder being the highest bidder paying the 10 per cent deposit the following week.

22. The delayed settlement arrangements on Glencaird allowed continued use of the Australian Head of Mission residence until the new facilities were constructed, resulting in savings of substantial rental ($A500 000) for alternative premises while the new residence was under construction. The delayed settlement arrangements also had implications for the actual proceeds that the Commonwealth received from the sale given that the sale proceeds were denominated in Singapore dollars and during the relevant period, October 1994 to July 1996, there was considerable volatility in the Singapore and Australian exchange rates. [1]

23. The ANAO considers that it would be appropriate for exchange rate risk to be reviewed

on a case-by-case basis so that agencies such as the OPG may evaluate the potential options for transferring currency risks to other parties where appropriate. This is required in order to effectively safeguard the Commonwealth's financial position from excessive risk in relation to exchange rate exposures. Currency risk transference options include negotiating property sales in Australian dollars through to purchasing commercial cover (for example, hedging, say, through forward exchange contracts) for all or part of the risk.

Overall conclusions

Commonwealth sale objectives

24. Prices achieved appeared to be reasonable in the sales reviewed, given the objectives of the sales. The Hollywood and Greenslopes RGH sales, Glencaird and Ford Avenue sales and the major Department of Defence sales (except for parts of the Toowoomba Stores Depot) that were reviewed in this audit were found to have been performed effectively given their differing nature and conditions.

Commonwealth sale processes

25. The agencies concerned undertook the relevant assessments of the various options for the sales to enhance overall Commonwealth returns. Ministerial involvement in all sales was significant and reflected the efforts by each department to keep the Minister(s) informed of events.

26. Records management was effectively performed in respect of the sales undertaken by the Repatriation Commission and by OPG but was deficient with regard to the Department of Defence's Toowoomba Stores Depot sales.

Protecting the Commonwealth's exposure

27. The broad range of risks that agencies are generally exposed to in property sale transactions were generally effectively managed in the selected property sales considered in this audit. However, the commercial and financial risks associated with deferred settlement arrangements require ongoing evaluation and management by agencies to protect the Commonwealth's overall financial interests.

Better practice principles

28. In the absence of public sector-wide guidelines on the disposal of real property, this audit has identified some better practice principles applied by the agencies in the conduct of the selected property sales. These included: the need for comprehensive planning and sale procedures; the establishment of clear sale objectives; use of appropriate consultants for asset valuation; transparent criteria for selection of successful bidders; establishment of tender evaluation criteria prior to the receipt of bids; evaluation of bids by an arm's-length Tender Evaluation Committee; assessment of bids on the basis of net present value to the Commonwealth; appropriate involvement of Ministers; consideration of property sale clawback arrangements; consideration of imposing interest where settlement will be delayed; evaluation of other measures to protect the Commonwealth's interests where settlement is delayed; briefing of unsuccessful bidders; and the preparation of post-evaluation reports.

Key Findings

Minimum payment

1. Under the long-term service contracts which were an integral part of the sales of both Greenslopes and Hollywood Repatriation General Hospitals, the Commonwealth has agreed to make minimum annual payments to the purchaser which are payable in advance each quarter during the term of the contracts. These payments are offset against actual usage of the hospitals' services by Repatriation Commission beneficiaries. The ANAO noted that the Commission had in place adequate mechanisms to actively monitor and manage the Commonwealth's exposure to the risk that services provided in any year would fail to offset the minimum payment.

Priority sales

2. Guidelines issued by the Department of Administrative Services on priority sales are very general. In the absence of more specific guidelines, the ANAO considers that agencies conducting priority sales would be assisted in ensuring that the interests of the Commonwealth are at all times adequately protected if they develop their own more detailed guidelines and/or checklists for the conduct of such sales.

Records management

3. In respect of the sale by tender of the bulk of the 7 Stores Depot site in Toowoomba, the ANAO considers that the Department of Defence's records management was inadequate, as the records available to the ANAO were insufficient to show whether the tender process was fair and open and/or that the best return to the Commonwealth was obtained from the sale processes.

Open and effective competition

4. The ANAO found that the Government's purchasing objectives of open and effective competition were not met in the engagement of the Department of Administrative Services' Domestic Property Group by the Department of Defence for the Millers Point sale.

Tender process

5. The ANAO found that clear guidelines on the tender and sale process to be followed in the Millers Point sale were not established by the Department of Defence prior to the receipt of expressions of interest. The ANAO considers that the absence of clear guidelines, agreed at the outset, on how the sale was to proceed lessened the integrity of the sale process in that the tender process was reopened when a higher bid was received after the original closing date.

Evaluation of financial capability

6. In connection with the sale of the Ford Avenue property in Singapore, the Overseas Property Group decided that, since the successful tenderer was well known to officers of the Australian High Commission in Singapore and OPG following a number of successful

developments in Singapore, it was unnecessary to conduct an evaluation of the financial capability of the final short-listed tenderers. The ANAO considers that it would be better practice to routinely conduct such evaluations.

Exchange rate management

7. There was a prolonged period of exchange rate exposures in connection with OPG's sale of the Glencaird property in Singapore. The ANAO considers that it would be appropriate for exchange rate risk to be reviewed on a case-by-case basis so that agencies such as the OPG may evaluate the potential options for transferring currency risk in relation to exchange rate exposures. Currency risk transference options include negotiating property sales in Australian dollars through to purchasing commercial cover (for example, hedging through forward exchange contracts) for all or part of the risk.

Guidelines for the sale of real property

8. Currently, there are no published guidelines which specifically address the conduct of the sale of Commonwealth real property. The ANAO considers that agencies charged with disposing of substantial amounts of Commonwealth real property would benefit from the development and application of appropriate guidelines/model processes. The ANAO also considers that it is important that strategic disposal plans be prepared.

Value of property

9. The ANAO considers that there is a need for agencies to ensure they have the most complete information possible about the nature and value of real and intellectual property involved in sales if the returns to the Commonwealth are to be maximised.

Recommendations

Set out below are the ANAO's recommendations with Report paragraph reference and abbreviated responses from the agencies. More detailed responses are shown in the body of the report. The ANAO considers that agencies should give priority to Recommendations Nos. 1, 3, 6, 7, 8 and 9.

Recommendation No. 1 Para. 2.59	The ANAO *recommends* that the Repatriation Commission continue to monitor carefully shifts in the size and service usage profile of the beneficiary populations using Hollywood and Greenslopes hospitals to ensure that at all times the Commonwealth receives value in services provided to offset the contractual payments. Agrees: DVA. No comment: DAS and DoD.
Recommendation No. 2	The ANAO *recommends* that agencies which undertake priority sales establish specific guidelines and/or checklists for such sales to

Para. 3.13	complement the existing broad Department of Administrative Services guidelines addressing such issues as time limits and valuation processes. Agrees: DoD and DVA. Agrees in principle: DAS.
Recommendation No. 3 Para. 3.34	The ANAO *recommends* that agencies, when they outsource the negotiation and management of property sales involving competitive tenders, ensure that: adequate records of the tender process are maintained, including selection criteria, details of bids and their evaluation; and the outcome of the sale is evaluated against the stated objectives. Agrees: DAS, DoD and DVA.
Recommendation No. 4 Para. 3.51	The ANAO *recommends* that agencies undertaking property sales ensure that open and effective competition mechanisms are established for the engagement of marketing agents in connection with any such sales. Agrees: DAS, DoD and DVA.
Recommendation No. 5 Para. 3.59	The ANAO *recommends* that, for the probity of the sale process to remain high, agencies need to ensure that prospective purchasers are advised at the outset of the evaluation process to be followed in any tender and sale process. Agrees: DAS, DoD and DVA.
Recommendation No. 6 Para. 4.13	The ANAO *recommends* that agencies as normal practice undertake a formal financial capability evaluation on final short-listed tenderers prior to the selection of the successful tender on material property sales. Agrees: DAS, DoD and DVA.
Recommendation No. 7 Para. 4.26	The ANAO *recommends* that the Department of Administrative Services' Overseas Property Group, as part of the sale planning process for overseas property, formally examine the potential impact of exchange rate movements on sale proceeds, and evaluate options for the cost-effective transfer of residual financial risks from the Commonwealth to other parties. Agrees: DAS. No comment: DoD and DVA.
Recommendation No. 8	The ANAO *recommends* that: strategic disposal plans be prepared by agencies charged with the disposal

Para. 5.4	of Commonwealth property; and in the absence of public sector-wide guidelines, individual agencies responsible for a program of Commonwealth property disposals develop guidelines and/or model processes for property sales which cover issues including the relevant legislative requirements, probity and accountability factors. Agrees: DoD and DVA. Agrees in principle: DAS.
Recommendation No. 9 Para. 5.17	The ANAO *recommends* that the agencies conducting Commonwealth property sales: ensure that, where appropriate, tenders include a suitable lodgment fee as a means of reducing the possibility of receiving non-conforming or frivolous bids; evaluate the appropriateness of including provision for clawback to the Commonwealth of any future profits on the sale of Commonwealth property; and comprehensively review and assess the potential value of all the real and intellectual property involved to ensure that the net proceeds to the Commonwealth are maximised. Agrees: DoD and DVA. DAS agrees with dot points 1 and 3. Agrees in principle: DAS regarding dot point 2.

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During this period the Singapore dollar exchange rate to the Australian dollar ranged from 0.9898 in June 1995 to 1.1260 in May 1996. *Source: Reserve Bank of Australia Bulletin, October 1996, p. S 56.*

1. Introduction

This chapter outlines the rationale, objectives, scope, methodology and report outline for the efficiency audit into selected Commonwealth property sales.

Background

1.1. The Commonwealth has significant property holdings. According to the Information Kit produced by the Department of Administrative Services' Domestic Property Taskforce in May 1996, the Commonwealth's property holdings are valued at in excess of $40 billion with more than $29 billion of the holdings being under the control of Government Business Enterprises. [1] The ownership and management of Commonwealth departments' property holdings are concentrated in the Department of Administrative Services and the Department of Defence.

1.2. The Department of Administrative Services owns around $4 billion of property, with $2.5 billion worth of property owned in Australia and $1.5 billion owned overseas. The Department of Defence property holdings are valued at around $8.5 billion. [2]

1.3. The proceeds of property sales by departments are usually not retained by departments. The major exception applies to the Department of Defence, which is permitted to retain from any property sales an amount equivalent to one per cent (around $100 million) of the Department's annual expenditure and half of any excess above the one per cent threshold level. In 1994-95, the Department of Defence's property sales totalled $15.8 million which was well below the threshold level. However, the annual return the Department of Defence is managing to achieve by the disposal of excess properties is increasing and in 1996-97 the Department expects proceeds of some $70 million from such sales.

1.4. The responsibility for disposing of property owned by departments was taken up by the responsible departments in 1990, with the then Department of Finance Task Forces on Asset Sales concentrating on the larger asset sales such as major embassy sites. Until the 1996-97 Budget the Department of Administrative Services' Australian Estate Management (AEM) was responsible for managing most of the domestic property owned by departments. The exceptions were most of the Department of Defence's property and the Repatriation Commission's Repatriation General Hospitals (RGHs). Following the 1996-97 Budget, AEM has been amalgamated with the Australian Property Group to form the Domestic Property Group.

Commonwealth exposure management

1.5. As in any other commercial activity conducted by the Commonwealth, there are risks involved in sales of Commonwealth property. The broad range of exposures which can be associated with the sale of Commonwealth property include:

- **Financial risks** - such that settlement may not take place. The exposure will be greater where deferred payment arrangements have been agreed since, if settlement fails to occur at a time remote from the initial selection of the successful tender, it is likely that the whole tender process may need to be repeated, involving additional expense, delay and administrative effort for the relevant agency.
- **Commercial risks** - the major commercial risks attaching to sales of property relate to how well the interests of the Commonwealth are protected in negotiating the terms of contracts.
- **Approval risks** - the transfer of Commonwealth property to others requires that the property receive the necessary planning approvals by the relevant local government authorities. The failure to secure the necessary approvals may adversely affect the return to the Commonwealth. In addition, where property sales involve the transfer of a business, such as the RGHs, State Government approvals to continue to conduct the business are also a factor.
- **Site contamination** - is a risk associated with certain Commonwealth properties arising from hazardous substances occurring at concentrations above ambient levels. [3]
- **Foreign currency risks** - where overseas Commonwealth property is sold a risk can arise if payment is made in a foreign currency, due to movements in the value of that currency.

1.6. Aspects of these risks are discussed, where relevant, in connection with the selected property sales examined by the audit.

Audit rationale

1.7. The financial materiality associated with Commonwealth property sales, coupled with the public policy issues that may arise in the course of a property sale, are seen as important areas for audit coverage and accountability to Parliament.

1.8. In the coming years there is expected to be substantial rationalisation of Commonwealth property holdings as agencies undergo structural change and the Government pursues its stated policy of divestment. In the past ten years Commonwealth agencies have sold in excess of 1600 properties and raised revenue of $1.36 billion. The revenue raised from property sales is subject to considerable variation reflecting the type and number of Commonwealth properties for sale and the state of the overall property market. Commonwealth sale revenue last peaked in the late 1980s with the sale of major properties such as the Tokyo Embassy site.

1.9. Despite the ongoing size and scope of Commonwealth property sales there are no specific guidelines in place for the conduct of property sales. Nevertheless, there is legislation which specifically impacts on the sale of real property, including the *Land Acquisition Act 1989,* the *Australian Heritage Commission Act 1975,* the *Environment Protection (Impact of Proposals) Act 1974,* and the *Endangered Species Act 1993.*

1.10. Guidelines on general Commonwealth surplus asset disposals were issued by the Department of Administrative Services in 1992 but were more applicable to the disposal of stores and equipment. Accordingly, there are no public-sector-wide specific guidelines for property sales, which is in marked contrast to the position that exists with Commonwealth procurement practices. The Department of Defence has advised the ANAO that it is in the process of developing departmental guidelines and model processes for property sales. The Department of Administrative Services also advises that its DPG has developed internal guidelines.

1.11. The introduction of a commercial pricing framework in the late 1980s that required departments to pay market-based prices for their use of Commonwealth property has increased incentives for departments to better manage their property holdings. The policy was to levy departments the opportunity cost of the property, thereby imposing on departments the incentive to effectively manage their running cost expenditures on property. In the 1996-97 Budget, the Government has extended 'user-pays' principles to the overseas property estate, indicating that departments and agencies with overseas representation are to be charged the market cost of the property they occupy. This is to be introduced on a pilot basis in 1996-97, with full implementation in 1997-98. [4]

Audit objectives

1.12. The objectives of the audit were to assess departments' management of the sale process associated with selected property sales with regard to:

- the extent to which the individual property sale objectives were achieved;
- how departments managed the sales to ensure that the Commonwealth received fair value;
- whether the departments' sale arrangements adequately protected the Commonwealth's interests including future liabilities; and
- identifying principles of better practice employed by agencies in connection with these sales.

Audit scope, methodology and criteria

1.13. The audit was conducted within the general theme of asset sales. The eleven selected sales involved gross proceeds of $201 million. The focus of the audit was to examine recent selected property sales within the portfolios owning the majority of Commonwealth property, i.e. those of Defence, Administrative Services and Veterans' Affairs. The particular sales selected for examination by the audit were chosen on the basis of materiality. The audit coverage did not extend to DPG as the ANAO tabled a report on the management of a substantial component of the Commonwealth's domestic property holdings by AEM (DPG's predecessor) in June 1996.

1.14. The approach taken in the audit was to select property sales from each of the three agencies and review the files and transactions related to those sales. The sales were evaluated against criteria which included establishment of sales timetables, sales methods, and completion processes such as the criteria for the selection of tenders and accountability.

1.15. The property sales chosen involved:

- sales by the Repatriation Commission of the Hollywood and Greenslopes RGHs;
- sales by the Department of Defence of two sites in Toowoomba (being the stores depot and a residential site), three sites at Holsworthy, and the army drill hall at Millers Point in Sydney; and
- sales by the Department of Administrative Services' Overseas Property Group of property attaching to the former Australian High Commissioner's residence (Glencaird) in Singapore, and a senior administrative officer's residence (41 Ford Avenue) also in Singapore.

1.16. The ANAO's field work was conducted between September 1995 and August 1996. Field work was conducted in the Canberra offices of the Departments of Veterans' Affairs, Defence and Administrative Services.

1.17. The cost of the audit was approximately $125 000. The audit was conducted in accordance with ANAO Auditing Standards.

Report outline

1.18. The following three chapters of the audit report discuss, in turn, the management of the Repatriation Commission's sales of Hollywood and Greenslopes RGHs, the Department of Defence property sales at Toowoomba, Holsworthy and Millers Point, and selected property sales undertaken by OPG in Singapore. A concluding chapter then provides an overview of the issues and the overall conclusions of the audit.

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2. Veterans' Affairs Portfolio - Repatriation General Hospital Sales

This chapter discusses the Repatriation Commission's management of the sales of Hollywood and Greenslopes RGHs.

Introduction

2.1. The Repatriation Commission traditionally acted as an integrated provider and purchaser of hospital services in that it has owned and operated various hospitals. [5] In recent years, structural changes in how health services are delivered to Repatriation Commission beneficiaries have seen the implementation of programs allowing beneficiaries to access hospital services available at local hospitals rather than health services being delivered through Commission-owned facilities. Accordingly, the Commission has seen its role change from the direct provision of services to the purchase of services from third party providers.

2.2. The previous Government set as a policy objective the transfer of RGH facilities out of Commonwealth ownership by 30 June 1995. The disposal of the Repatriation Commission hospital facilities involved three disposal methods: integration into State health systems, trade sales and by closure. Hobart RGH (1 July 1992) Concord RGH (1 July 1993), Heidelberg RGH (1 January 1995) and Daw Park RGH (9 March 1995) were integrated respectively into the Tasmanian, New South Wales, Victorian and South Australian health systems. Two hospitals, namely Hollywood RGH (Perth) and Greenslopes RGH (Brisbane), were sold by a trade sale process. [6] The Macleod and Kenmore Repatriation Hospitals were decommissioned on 27 January 1993 and 30 June 1994 respectively.

2.3. It was the Commonwealth's original intention that the continuing requirement by Repatriation Commission beneficiaries for services to be delivered through Hollywood and Greenslopes RGHs would be met by the relevant States integrating these hospitals into their health systems. However, the Western Australian and Queensland Governments each declined the Commonwealth offer to transfer ownership of the hospitals to them at no cost. It was against this background that these two hospitals were each sold by a trade sale process that combined the sale of assets with the privatisation of the delivery of services for which there was a continuing need.

2.4. The audit coverage was restricted to consideration of only that part of the overall transfer of RGH facilities from Commonwealth ownership which related to privatisation. The sales of Hollywood and Greenslopes RGHs resulted in gross proceeds to the Commonwealth of $82.45 million ($35.61 million and $46.84 million respectively). The long-term contracts for the provision of health services to Repatriation Commission beneficiaries which accompanied these sales have a total estimated nominal value of $775 million (Hollywood $400 million and Greenslopes $375 million).

Sale objectives

2.5. The objectives stated in the Tender Evaluation Plan for both Hollywood and Greenslopes RGH sales were to strike a balance between seeking maximum immediate value from the sale of the assets and the purchase of quality health services for veterans which will continue to be required for many years.

The specific objectives adopted for the tendering process were for:

- choosing an effective supplier of quality health services to Veterans' Affairs Treatment Beneficiaries (beneficiaries);
- contracting with the chosen supplier to obtain both a satisfactory sale agreement and an effective health services arrangement;

- optimising the net financial benefit to the Commonwealth from the combination of the sale of the hospitals and acquisition from the purchaser of cost-effective quality health care for beneficiaries;
- achieving satisfactory employment opportunities for as many as practicable of then present hospital staff; and
- achieving a smooth transition of ownership.

Delivery of health services to beneficiaries

2.6. The effective and efficient delivery of health services to beneficiaries was a key outcome required. The principal mechanism the Repatriation Commission employed in seeking to achieve this outcome was long-term service delivery agreements it entered into with the purchaser of both Hollywood and Greenslopes RGHs, Ramsay Hospital Holdings Pty Ltd, to provide the required health services to beneficiaries. Under these Hospital Services Agreements the purchaser guarantees a continuing service to veterans over a ten-year period and the Commonwealth undertakes to pay for this service.

2.7. In the tendering process all tenderers had to meet a set of mandatory requirements in order to qualify their bid for further consideration. [7] These included the requirement for tenderers to demonstrate the capacity to sustain hospital operations at a required level, and undertake to provide inpatient and outpatient services as nominated by the Commission, as well as being able to demonstrate the ability to finance the purchase and operation of the individual hospital.

2.8. The Repatriation Commission also has in place structures at both the State and national levels to monitor the quality of the treatment provided to beneficiaries by private providers. Treatment Monitoring Committees have been established in each State. In addition, a National Treatment Monitoring Committee has also been established to monitor the implementation and operation of the Repatriation Private Patient Scheme [8] and to provide a national forum in which issues and complaints raised by client representatives at the State Treatment Monitoring Committees can be considered.

2.9. The ANAO considers that the Repatriation Commission succeeded in adequately protecting the interests of beneficiaries under the health service delivery contractual arrangements instituted for the Hollywood and Greenslopes facilities.

Financial interests

2.10. The tendering objectives for the hospital sales recognised that the optimal net financial benefit to the Commonwealth would be achieved by a combination of the return on the physical assets and the effective and efficient privatisation of health service delivery to veterans under long-term Commonwealth contracts. The successful bid for each hospital was determined on an assessment of the highest projected net present value to the Commonwealth arising from a combination of the up-front payment and the bed charges negotiated as part of the Hospital Services Agreements.

2.11. The longer the period of the contract and the higher the prices for services agreed to by the Commonwealth, the greater the up-front payment from the sale. However, any excessive ongoing commitments under the long-term contracts could adversely affect the Commonwealth's overall final net position.

2.12. The gross proceeds provided to the Commonwealth's Consolidated Revenue Fund from the sales of Hollywood and Greenslopes RGHs was $82.4 million. After deducting direct sale costs of $10.5 million for Hollywood and $18.4 million for Greenslopes, net Commonwealth proceeds from both sales amounted to $53.5 million. The direct sale costs amounted to 29 per cent of the gross sale proceeds for Hollywood RGH and 39 per cent for Greenslopes RGH. Details of the proceeds and costs of both sales are outlined in Exhibit 2.1.

Exhibit 2.1: Summary of Hollywood and Greenslopes RGHs Sale Transactions

	Hollywood RGH **$**	**Greenslopes RGH** **$**	**Total** **$**
Sale Proceeds			
Sale of Hospital	35 000 000	46 050 000	
Inventories	590 572	690 996	
Other[(1)]	16 288	101 823	
Gross proceeds	35 606 860	46 842 819	82 449 679
Sale Costs			
Sale Expenses[(2)]	859 080	572 194	
Redundancy Payments[(3)]	9 597 421	17 796 815	
Other[(4)]	68 383	43 528	
Gross Costs	10 524 884	18 412 537	28 937 421

Net Proceeds	**25,081,976**	**28,430,282**	**53,512,258**
(1) Primarily interest carried on tender deposit.			
(2) Includes cost of support services provided to staff of $121 414.			
(3) Net of recreation leave and long service payments of $6 954 702 for Hollywood and $12 201 170 for Greenslopes.			
(4) Sick leave payment made to new owner.			
Source: Department of Veterans' Affairs Annual Reports 1993-94 and 1994-95.			

Hollywood RGH valuation

2.13. The price that the Commonwealth received from the Hollywood sale was some $5 million in excess of the written-down book value. At 30 June 1993, the written-down book value of the hospital property, plant and equipment was $30.8 million.

2.14. Four market-value valuations covering various disposal options were obtained by the Commission in October 1992. These valuations ranged from around $7.3 million if the property were to be developed as a residential subdivision to nearly $29 million if it were retained for its existing purpose. Additional valuations were obtained in July 1993. These valuations ranged from $20.1 million for Hollywood based on a future earnings valuation as a private hospital to $21.5 million on a realisation of assets basis.

2.15. The Government's decision was to sell Hollywood as a private hospital contracted to continue the provision of health services to Repatriation Commission beneficiaries. In these circumstances, the market value of Hollywood is more appropriately tied to the income stream that it can be expected to generate as a private hospital rather than its written-down book value. The consultant's July 1993 valuation which employed this methodology indicated a more than one-third reduction in value of the hospital compared with its book value. The actual price received for Hollywood was nearly $15 million higher than the valuation. This reflected the value of the long-term service contract to the purchaser.

2.16. The ANAO considers that the price of $35.6 million achieved from the sale reflected market value, given the competitive tender process.

Greenslopes RGH valuation

2.17. At 30 June 1993 the written-down book value of the hospital property, plant and equipment for Greenslopes RGH was determined at $88.607 million. This book value was carried forward from a valuation carried out by the Australian Valuation Office (AVO) on 30 June 1989. As with Hollywood, in preparing for the sale the Commission sought a valuation of the hospital by a consultant, which it received on 28 June 1994. The consultant's indicative valuation of the hospital, which was derived from a review of the hospital's potential earnings as a private entity, was between $28.5 million and $33.1 million. [9]

2.18. The price that was received from the Greenslopes sale was $46.8 million, which was less than the 1993 book value (which was carried out under specific and different instructions) by some $42 million, but more than the consultant's 'indicative valuation' by $13.7 million to $18.3 million. Even allowing for the approximate 28 per cent reduction in licensed bed numbers of the hospital that occurred at sale (from 398 to 285), there remained a considerable disparity between the two valuations and the gross amount actually realised from the sale of Greenslopes. [10] However, as with Hollywood, the actual price received for Greenslopes reflects in part the value to the purchaser of the long-term Commonwealth service contract which came as part of the sale package.

2.19. The ANAO considers that the price received from the sale was reasonable given that it reflected market value as derived by a competitive tender process.

Transitional arrangements

2.20. It was an objective of both sales to achieve satisfactory employment opportunities within the hospitals, post-sale, for as many as practicable of the then current employees. The sale of both of these hospitals and the privatisation of bulk delivery of services on the Commonwealth's behalf raised significant industrial relations and service delivery issues.

2.21. The sale teams recognised the importance of industrial relations issues at the outset and embarked on negotiations with the unions at an early stage in both sales. Despite some initial difficulties, staff agreements were concluded with employees which provided them with three options, namely: continuing employment with the new owner; seeking redeployment within the Australian Public Service; or taking a voluntary redundancy package.

2.22. Continuing employment opportunities offered by the new operator in both cases exceeded the requirements of the hospitals' staff and only a small proportion of staff elected for redeployment in the Australian Public Service rather than voluntary retrenchment or employment with the private operator. The major cost of both sales related to redundancy payments to staff which comprised 38 per cent or $17.8 million and 27 per cent or $9.6 million of the gross sale proceeds for Greenslopes and Hollywood respectively.

2.23. The comprehensive nature of the Hospital Services Agreements together with the satisfactory resolution of staffing issues facilitated an effective transition of ownership for the hospitals.

Sale process

2.24. The sale of Hollywood, the first simultaneous sale of a significant asset combined with the privatisation of service delivery to the Commonwealth, presented a unique challenge to the Repatriation Commission. It was recognised that to undertake such a complex task, project oversight and management would be important considerations.

2.25. Both sales were completed by the Commission in a timely manner given the complexity of the contractual arrangements associated with the sales. The entire process for both sales, from release of the public invitation to register interest, through the tendering process to settlement, was completed within twelve months. The successful tenderer for each hospital was Ramsay Hospital Holdings Pty Ltd.

2.26. For each sale an Evaluation Committee was established comprising representatives from the Repatriation Commission; the then Department of Health, Housing, Local Government and Community Services; Purchasing Australia; Department of Finance; a consultant and the sale team manager. The Evaluation Committee provided recommendations as to the preferred bidder to the relevant Minister.

2.27. The ANAO found that there was an open tender process with several bidders in both sales. Acceptance of the highest bid is seen as reflecting as good an estimate of the actual market value of the asset as could be expected.

Sale strategy

2.28. The strategy decided on by the sale team in each sale was a two-stage tender process. An initial Request for Proposals (RFP) was used for Hollywood RGH and an Invitation to Register Interest (ITR) for Greenslopes RGH. The RFP/ITR process was designed essentially to identify and pre-qualify acceptable suppliers of the health services required.

2.29. Following an analysis of services which were then provided by the RGHs, together with consultation with relevant interest groups, some limited elements of the traditional RGH were proposed to be retained and managed on a cost-plus basis. These comprised services which were particularly important to veterans but which were not immediately amenable to commercial operation. The remainder of services formerly provided by the RGH could be continued or not on the basis of a new operator's commercial judgment.

2.30. Tenderers in both trade sales were provided with a copy of the Evaluation Committee's Evaluation Plan, which included a full set of evaluation criteria. They were required to include with their offers: a Deed of Tender and a Compliance Statement as required by the RFP/ITR; a preliminary deposit of $250 000 (to be refunded to unsuccessful tenderers); a proposal which addressed their employment intentions vis-a-vis existing hospital staff; and a comprehensive hand-over plan.

2.31. Short-listed tenderers were comprehensively informed of the conditions of the sale, following the extensive tendering and consultative process between the sale team and bidders. The unsuccessful bidders were all provided with briefings by the sale team.

Financial assurance

2.32. To complete the Hospital Services Agreement and finalise the individual hospital's sale, the financial viability of tenderers (both prospective purchasers and operators) was checked by the sale team's consultant. The failure to complete a purchase can impose considerable direct and opportunity costs on the Commonwealth. In addition, the continuing efficient and effective delivery of services to Repatriation Commission beneficiaries was a key outcome sought by the sales. Evaluation of the financial capacity of the short-listed tenderers is seen as a effective method of managing the Commonwealth's exposure to risks such as the possibility that a sale may fail due to a purchaser's inability to raise funds. It also addresses risks that the lack of financial resources would prevent the effective operation of the hospital by the purchaser/operator or the efficient delivery of the services contracted for.

Clawback arrangements

2.33. Both final tenderers in the Hollywood sale offered clawback arrangements during a specified period on any future profits from the sale of land associated with the hospital. The proposed profit-sharing arrangements from future land sales offered by both final tenderers was 50 per cent of the net profit. In the successful tender the clawback option was accepted by the Commonwealth and incorporated into the Hospital Services Agreement.

2.34. In the Greenslopes sale, all three tenderers also offered clawback arrangements on any future profits from the sale of land associated with the hospital. The proposed profit-sharing arrangements from future land sales ranged from 20 per cent to 30 per cent of profit during the first five years of the contract to 50 per cent of profit for the duration of the Hospital Services Agreement. In the successful tender the clawback option was accepted by the Commonwealth as part of the Hospitals Services Agreement which provides that for the duration of the agreement (i.e. ten years) 50 per cent of any net profits from the sale of land associated with the hospital will be returned to the Commonwealth.

2.35. The ANAO Audit Report No.14 1995-96 on the sale of CSL recommended that agencies responsible for asset sales involving substantial property assets include clawback arrangements to the Commonwealth in the sale contracts where there is the potential for significant realisable gains from future property sales. The Department of Finance did not agree with this recommendation. [11]

2.36. In this circumstance, there are currently no clear guidelines provided to agencies covering such clawback options. However, the ANAO considers that agencies should evaluate the merit of using clawback arrangements where this may enhance overall Commonwealth sale proceeds. In United Kingdom privatisations, where there are significant property holdings in the businesses sold, clawback provisions to the Government are a standard inclusion in the sale process. [12] The ANAO supports the selected application of clawback arrangements on a sale-by-sale basis where this mechanism would not interfere with the specific sale objectives of the Government and the timely completion of the sale process.

2.37. The ANAO considers that the Hollywood and Greenslopes RGH sites had the potential for future redevelopment and this was appropriately recognised by the sale teams when they included clawback provisions in contracts associated with both sales.

Other issues

2.38. A further issue arising from the sale of Greenslopes was the number of beds to be licensed by the Queensland Government. The value of the hospital as a going concern was directly affected by the number of bed licences it held. Following advice from the Repatriation Commission of the decision to sell Greenslopes RGH, the Queensland Department of Health wrote to the Commission advising that, subject to the successful tenderer for the hospital meeting the requirements of the *Health Act (1937-1988) Queensland*, the provision of a 285-bed private hospital on the Greenslopes site would maintain the status quo in the Brisbane South Region. The Queensland Department of Health's indication of a 285-bed private hospital licence represented a projected decline in bed licences at Greenslopes of 113 post-sale.

2.39. The then Minister for Veterans' Affairs wrote to the then Queensland Minister for Health shortly after the sale in February 1995 supporting an increase in bed licences to 335. In October 1995, after the sale of the hospital, the Queensland Department of Health approved an increase in the number of licensed beds at Greenslopes from 285 to 350.

2.40. The value of this increase in licences is difficult to determine, as the resulting increase in net revenue is affected by increases in variable and some fixed costs as well as the occupancy rate achieved for the new beds. However, the acknowledged sensitivity of the valuation to the bed occupancy rate suggests that the effect of this increase in bed licences could be substantial.

2.41. Commission staff advised the ANAO that, in marketing Greenslopes, they had to provide tenderers with full and accurate information regarding the stated intentions of the Queensland Department of Health concerning the number of bed licences likely to be granted. The Queensland Department of Health had indicated that at that time it was going to licence only 285 beds at the hospital.

2.42. The ANAO considers it important that, in any sale of assets, the economic potential of such assets is identified and made available to all prospective bidders. If this is not done the benefits of competitive tendering will not be fully realised. In this case, the ANAO recognises that the potential for increasing the number of bed licences was not able to be established in advance of the sale.

Intellectual property owned by Hollywood RGH

2.43. At the time of the tendering and sale process in 1993, Hollywood RGH held intellectual property rights over four items for which provisional patents were pending. [13] In the Business Sale Agreement, signed on the 6 December 1993 between the purchaser and the Repatriation Commission, all rights, title and interest in the intellectual property rights subsisting in these items were included in the purchase price of the hospital and transferred to the purchaser.

2.44. The ANAO notes that intellectual property and patents tend to have some value. However, these items and the future earning potential of these assets were transferred at no separately identified cost. The Repatriation Commission advised that the identification of these items in the tender documentation left it to tenderers to determine the commercial value of this intellectual property to them and to include this in their tender price. There was no requirement to indicate the value any tender ascribed to the intellectual property items. The Commission also advised that patents had not been finalised and that, had it retained the intellectual property rights, significant funds would have had to be invested in further development work to make possible any returns on the intellectual property.

2.45. In the absence of documented analysis of the net present value of the intellectual property rights at the time of sale, the ANAO is unable to determine whether or not the Commonwealth's interests were adequately protected in this aspect of the Hollywood sale process.

Commonwealth risk exposure

2.46. The key exposures for the Commonwealth following the sales of Hollywood and Greenslopes RGHs relate to the long-term service delivery contracts which were concluded as part of the sale packages. These risks include operational risks and commercial risks. The operational risks are associated with whether the hospitals will continue to operate and make beds available to beneficiaries throughout the contract period and whether the service range and levels will be adequately maintained for the period of the contracts. The commercial risks are associated with whether the Commonwealth receives value for the payments it makes under the service delivery contracts.

Operational risks

2.47. The financial capacity of the prospective operator and purchaser of the hospitals to maintain operations at the hospitals was investigated prior to each decision on the successful tenderer. In addition, the Hospital Services Agreements for both hospitals require the lodgment by both the operator and the purchaser of performance and financial guarantees for substantial sums as further assurance of their financial capacity and as insurance against under- or non-performance of their obligations. Arrangements are also provided under the agreements for the pre-approval of step-in and replacement operators who can be brought in at short notice should the original operator default in some way or cease to be capable of continuing to operate the hospital.

2.48. It is also a contract condition of each Hospital Services Agreement that the operator provide preferential access for the Commission's beneficiaries to 120 of each of the hospitals' beds initially. The number of beds to which beneficiaries will have preferential access is subject to renegotiation after the first few years of the agreements. This is called the Preferential Bed Assignment.

2.49. A range of measures was incorporated in the Hospital Service Agreements aimed at ensuring that the interests of the Repatriation Commission's beneficiaries and the Commonwealth were adequately protected in relation to the range and standard of health services to be delivered by the hospital operators for the terms of these contracts.

2.50. The Hospital Service Agreements provide that:

- the operators are required to provide a specified range and level of services;
- the operators are required to meet specified quality standards, including obtaining and maintaining Australian Council on Healthcare Standards accreditation;
- any failure to meet the specified quality standards may result in the imposition of liquidated damages; and
- the operators lodge performance guarantees for substantial sums for the due and proper performance and discharge of the liabilities of the operators under the agreements.

2.51. The ANAO considers that the operational risks were effectively managed to ensure that beneficiaries continue to receive access to both hospitals.

Commercial risks

2.52. The Hospital Services Agreements provide that minimum annual payments to the purchaser are payable in advance each quarter during the term of the contracts. For Greenslopes RGH these annual payments amount to $7.187 million initially, increasing by 3 per cent per annum over the life of the contract. Similarly, for Hollywood RGH they are $6.897 million initially, increasing by 3 per cent per annum over the life of the contract. The agreements provide that these payments are to be made free and clear of any deduction for tax, duty or other amounts and without any counter-claim or set-off. The Commonwealth's obligation to make these payments is absolute and unconditional and may not be terminated or suspended during the term the contract remains in force for any reason, including the occurrence of an operator default.

2.53. The minimum payments are offset by reductions in the monthly bills presented by the hospital operators to the Commission for services provided to Repatriation Commission beneficiaries. If the annual number of bed days consumed by beneficiaries in each hospital exceeds the Preferential Bed Assignment (initially 120 beds per day or 43 800 bed days per annum), then the minimum payments will be entirely offset against charges the Commonwealth would have been liable to meet in any case.

2.54. At all times when the annual cost of the services delivered by the operator to beneficiaries exceeds the minimum payment, the only additional cost to the Commonwealth is that of providing the payment quarterly in advance and this cost is offset against the increased price the purchaser was prepared to pay for the hospitals and lower charges by the operator for services provided through the hospital to beneficiaries.

2.55. When negotiating the sale of the hospitals the sale team was aware that a guaranteed income stream to a purchaser would favourably influence prospective financiers. However, the sale team was also cognisant of the risk to the Commonwealth if any guaranteed minimum payment was set at a level greater than the projected usage by beneficiaries of the hospitals' services would warrant.

2.56. Accordingly, projections of the expected beneficiary population during the life of the agreements were developed. Although some decline in numbers was expected, the Commission considered that the growing proportion of beneficiaries who would be in the 75+ age bracket would increase the per capita demand for acute-care hospital services. In the Hollywood sale the original Preferential Bed Assignment proposed by the purchaser was 145 beds per day. In order to increase the probability that actual usage would be in excess of the usage required to completely offset the minimum payment, the sale team negotiated a decrease in the Preferential Bed Assignment to 120 days. In these circumstances, and given that actual consumption at Hollywood and Greenslopes immediately prior to the sales greatly exceeded the level of consumption required to offset the minimum payments negotiated with the purchaser, the Commission agreed to a minimum payment condition in the agreements.

2.57. In each case the minimum payments are paid directly to the financier thereby effectively providing Commonwealth guarantee for the purchaser's debt. However, this remains the case only as long as the Commonwealth receives the services for which it has contracted, given that provision exists to cancel the Hospital Services Agreements in circumstances where the purchaser ceases to have the capacity to ensure that these services are delivered.

2.58. The ANAO notes that the Commission has in place mechanisms to actively monitor and manage the Commonwealth's exposure to the risk that services provided in any year would fail to offset the minimum payment. Indeed, should it become necessary because of falling beneficiary patient numbers, the Commission is able to redirect patients seeking to use other private hospitals under the Repatriation Private Patients Scheme to Hollywood and Greenslopes.

Recommendation No. 1

2.59. The ANAO *recommends* that the Repatriation Commission continue to monitor carefully shifts in the size and service usage profile of the beneficiary populations using the Hollywood and Greenslopes hospitals to ensure that at all times the Commonwealth receives value in services provided to offset the contractual payments.

2.60. Agencies responded to the recommendation as follows:

- Agrees: DVA.
- No comment: DAS and DoD.

Overview

2.61. The sound administrative features associated with the sale of these hospital facilities included:

- comprehensive planning and sale procedures;
- clear sale objectives established;
- asset valuation undertaken by an appropriate consultant;
- linkage between the sale of the hospitals and provision of continuing services established through service delivery contracts;
- transparent criteria for selection of successful bidders;
- tender evaluation criteria established prior to the receipt of bids;
- bids evaluated by an arm's-length Tender Evaluation Committee;
- bids assessed on the basis of net present value to the Commonwealth;
- comprehensive involvement of Ministers;
- incorporation of property sale clawback arrangements;
- briefing of unsuccessful bidders; and
- a post-project evaluation report was prepared.

2.62. The ANAO considers that the sales of Hollywood and Greenslopes RGHs were completed by the Commission to the highest bidder, using the net present value methodology, in a manner which adequately protects the interest of the Commission's beneficiaries requiring the delivery of services through these hospitals and ensures that the Commonwealth's responsibilities to provide quality care are met.

1

Domestic Property Taskforce: Information Kit, May 1996.

2

ibid.

3

For further information see ANAO Audit Report No.31 1995-96, *Environmental Management of Commonwealth Land.*

4

Department of Administrative Services Budget 1996-97 press release, 'Management of Commonwealth Property', 20 August 1996, p. 2.

5

The Repatriation Commission is responsible under the *Veterans' Entitlements Act 1986* for granting pensions, allowances and other benefits, providing treatment and other services through hospitals and institutions and community facilities. The Department of Veterans' Affairs' functions relate primarily to providing administration support to the Repatriation Commission.

6

Hollywood Hospital is situated 4 km west from the Perth central business district on approximately 12 hectares. Greenslopes is a hospital situated 7 km south-east of Brisbane's central business district on an area of land totalling 11.4 hectares. Each hospital, prior to its sale, catered for veterans and public patients and operated as an acute-care teaching hospital. Hollywood operated with a capacity of 330 beds and Greenslopes with 398 beds.

7

These requirements included: undertake to continue to provide at the hospitals those inpatient and outpatient services and consultative activities nominated by the Commission as Special Veterans Services to an agreed standard; demonstrate approval in principle from the relevant State Health Department for bed licences; demonstrate the capacity to sustain hospital operations at a level sufficient to cover provision of services required by the Commission and the relevant State Health Department; and demonstrate the ability to finance the purchase and operation of the hospital.

8

The Repatriation Private Patients Scheme provides a mechanism whereby veterans may seek permission in advance from the Repatriation Commission to be admitted to a private hospital.

9

The consultant's valuation was influenced by the Queensland State Government's indication that it was likely to grant a licence for only a 285-bed private hospital post the sale. Plans by the Queensland Department of Health to relocate public patients from Greenslopes to State facilities, and not to enter a contract with the new owners for servicing public patients, were also given as reasons that the consultant considered such changes would significantly reduce the potential value of Greenslopes to a private sector purchaser.

10

Department of Veterans' Affairs' 1994-95 financial accounts report extraordinary item losses incurred by the Commercial Trust Account of $57.569 million on the sale of Greenslopes RGH.

11

The Department of Finance (DoF), in its response to Recommendation 8 of Audit Report No.14 1995-96, *The Sale of CSL, Commonwealth Blood Product Funding and Regulation,* stated concerning the issue of clawback in property sales: '*DoF considers that all such potential gains should be captured at the point of sale. The option of post sale clawback arrangements would provide an additional complicating factor into an already highly complex transaction and require on-going government involvement post sale. Such on-going involvement is considered to be contrary to the overall objectives of the Government in selling major assets*' (p. 41).

12

ibid., p. 40.

13

These items were: Closure for the Cryogenic Chambers; Innovative Tissue Processing Cassettes; Multi-Functional Slide Staining Machine; and Endoscope Washing and Sterilising Machine.

3. Defence Portfolio - Selected Property Sales

This chapter discusses the Department of Defence's management of its disposal of property at Toowoomba, Holsworthy and Millers Point.

Introduction

3.1. Defence facilities are the land, buildings and installations controlled by the Department of Defence and the Australian Defence Force in support of national defence initiatives. The facilities comprise over 500 properties, excluding houses, and about 2.7 million hectares, or 85 per cent, of all Commonwealth land.

3.2. Since 1990 when the Department of Defence took over responsibility for the management and disposal of its property, major planning studies by the Department have identified surplus properties around Australia. The decision to close and dispose of these properties has come about from such projects and initiatives as: the rationalisation of supply support towards holding more stores at forward bases; the increased defence presence in the north and west of the continent; and the greater integration of defence activity among the three services.

3.3. In 1993 the Department of Defence produced the Facilities Rationalisation Study. That study brought together the property implications from some of the initiatives outlined above and developed a framework for defence estate planning to the turn of the century. The study also suggested that it was possible to reduce the number of defence properties by 20 per cent by the year 2000.

3.4. The audit coverage was restricted to consideration of a selection of property sales undertaken by the Department of Defence at Toowoomba, Holsworthy and Millers Point that raised gross proceeds of $16.1 million. These sales were among the first that the Department undertook itself. The Toowoomba and Millers Point sales were conducted as part of the Defence Logistics Redevelopment Project (DLRP) which had as its primary objective the consolidation of the warehousing function for slow-moving/bulk stores of the three services. The 7 Stores Depot at Toowoomba was one of three Royal Australian Air Force depots identified for closure and disposal to assist in funding this project. The Holsworthy sales were associated with the Royal Australian Army's desire to improve the availability of quality housing stock in the Holsworthy/Moorebank area.

3.5. The sales of property formerly associated with 7 Stores Depot in Toowoomba resulted in gross proceeds of $8.35 million. After deducting direct sale costs of $635 710, the net Commonwealth proceeds were $7.71 million. Sales of property at Holsworthy produced gross proceeds of nearly $6 million. Direct sale costs were $450 574 resulting in net Commonwealth proceeds of $5.53 million. The disposal of the former Drill Hall at Millers point grossed $1.75 million. The direct sale costs were $84 701 and the net benefit to the Commonwealth was $1.66 million. The direct sale costs amounted to 4.8 per cent of the gross proceeds for the Toowoomba sales, 7.6 per cent for the Holsworthy sales and 7.5 per cent for the Millers Point sale. Details of the proceeds and direct costs of these sales are outlined in Exhibit 3.1

Exhibit 3.1: Summary of Defence Property Sale Transactions

	Toowoomba Sales $	**Millers Point Sale $**	**Holsworthy Sales $**	**Total $**
Sale Proceeds				
Sales of Property	8 348 652	1 730 000	5 800 000	
Interest Received	-	18 975	184 926	
Gross Proceeds	8 348 652	1 748 975	5 984 926	16 082 553
Sale Costs[(1)]				
Selling Costs[(2)]	314 767	84 701	162 692	
Property Remediation[(3)]	320 943	-	287 882	
Gross Costs	635 710	84 701	450 574	1 170 985
Net Proceeds	$7 712 942	$1 664 274	$5 534 352	$14 911 568

(1) Direct sale costs only.
(2) Includes consultants, marketing, legal,.commissions and travel.
(3) The direct costs for the remediation of the property sold at Holsworthy called Options 2, 2A and 3 were $287 882. However, a further $413 118 had to spent on the remediation of a nearby portion of land, of which the Department of Defence has retained ownership, in order to make residential occupation of Options 2, 2A, and 3 safe. However, this work was also relevant to a further parcel of land called Option 1 which was not included in this sale.
Source: Department of Defence

Toowoomba Stores Depot

3.6 In 1990 the then Minister for Defence agreed that several depots would close as part of the DLRP to rationalise supply support. This project included moving stores to forward bases, including 7 Stores Depot in Toowoomba, rather than holding them on base depots. In addition, the proceeds from the disposal of bases identified for closure and disposal by the Augmented Chiefs of Staff Committee in May 1990 were to be applied to development of the new logistics complex at Moorebank in Sydney. This decision was announced by the then Minister for Defence Science and Personnel on 18 June 1990.

3.7 The 7 Stores Depot sale included the disposal of two sites: the depot site and a related residential area which had previously accommodated many of the personnel serving at 7 Stores Depot. These two areas are approximately one kilometre apart. The gross proceeds from the sale of the residential area were $1.9 million, while the sale of the depot area grossed $6.45 million.

3.8 The Department of Defence advised the ANAO that, of the properties earmarked for disposal under the DLRP, it had been the Department's original intention to market the Sydney properties first because they represented some 85 per cent of the estimated revenue from DLRP disposal properties. It was Defence's intention to gain experience in, and learn lessons from, open tendering disposal processes with the Sydney properties. The Department then intended to market the remaining properties, including the 7 Stores Depot properties in Toowoomba, having gained experience in conducting the Sydney sales.

3.9 However, the Department's plan was pre-empted by the decisions of the Returned Services League (RSL) and Darling Downs Unilink Limited (Unilink), on behalf of the University of Southern Queensland, to approach the Minister for Defence, in April and September 1991 respectively, seeking to obtain parts of the 7 Stores Depot properties. This brought the commencement of the Toowoomba sale forward ahead of the Sydney sales.

Priority sales

3.10 Both the RSL and Unilink initially sought concessional transfer of the properties in which they were interested, i.e. transfer at significantly less than market value. However, the Department of Defence negotiated priority sales instead.

3.11 The Department of Administrative Services guidelines provide that priority sales may be authorised by the Minister of the responsible department and the Minister for Administrative Services together agreeing to such a sale. In a priority sale an organisation operating in the community's interest may be granted the opportunity to purchase a Commonwealth property without the property having been placed on the open market. However, the intention is that the Commonwealth will receive the full market value of the property.

3.12 The Department of Administrative Services guidelines on priority sales are very general. In the absence of more specific guidelines, the ANAO considers that agencies conducting priority sales would be assisted in ensuring that the interests of the Commonwealth are at all times adequately protected if they develop their own more detailed guidelines and/or checklists for the conduct of such sales.

Recommendation No. 2

3.13 The ANAO *recommends* that agencies which undertake priority sales establish specific guidelines and/or checklists for such sales to complement the existing broad Department of Administrative Services guidelines addressing such issues as time limits and valuation processes.

3.14 Agencies responded to the recommendation as follows:

- *Agrees*: DoD and DVA.
- *Agrees in principle*: DAS.

3.15 Specific comments by departments are set out below.

- *DoD response*: Agrees. As part of the ongoing development of property disposal processes, Defence is formulating specific guidelines for the management of priority sales. Prospective purchasers under priority sale arrangements will be advised of the requirements of the guidelines.
- *DAS response*: Agrees in principle. DAS considers that more detailed guidelines should be developed and disseminated on a Commonwealth-wide basis to ensure consistency of approach.

Sale objectives

3.16 The 7 Stores Depot sale was undertaken as part of the DLRP. The objectives of the DLRP included securing the maximum proceeds from the sale of properties identified for disposal under the DLRP in order to fund the new logistics complex at Moorebank in Sydney. Following the approaches by the RSL and Unilink to the then Minister, the Department of Defence commissioned what is now known as the Department of Administrative Services' Domestic Property Group to undertake a planning study of the 7 Stores Depot properties. The planning study identified options for disposal of the properties and made recommendations in this regard. The planning study report was not formally adopted by the Department of Defence as a strategic disposal plan. The Department advised the ANAO that the planning study performed that function with regard to the 7 Stores Depot sales, but that it is now the Department's routine practice to prepare strategic disposal plans for each disposal of surplus property. The planning study report also underpinned the Department's recommendation to the then Minister that he should seek the then Minister for Administrative Services' agreement to priority sales to the RSL and Unilink.

Residential area

3.17 The Department of Defence received a proposal from Unilink on 5 December 1991 to purchase the residential area of 10.6 hectares, formerly used to accommodate 7 Stores Depot personnel, for the purpose of accommodating students attending the University of Southern Queensland at Toowoomba. Unilink's initial offer was considerably below Defence's estimates of the value of the property. In December 1992, AVO determined the market value of the property to be $2.3 million and Defence advised Unilink that this was the Department's asking price. In early April 1993, Unilink nearly doubled its bid to $1.811 million but also advised that it would be willing to compete in a bidding process to acquire the property.

3.18 In a further bid submitted on 29 April 1993 Unilink increased its offer to $1.9 million, proposing a 10 per cent deposit on contract signing, payment of $1.33 million on 30 November 1993, and the balance of $380 000 on 30 November 1994. This revised offer was considered by the DPG consultant as representing the market value and consistent with the Minister's approval in principle for a priority sale.

3.19 The difference between the Unilink offer and the AVO valuation was due to the different values each had placed on improvements existing on the land. Unilink advised the Department of Defence that prior to making its offer of $1.811 million it had commissioned a valuation of the property by another valuer which placed the value of the improvements at $133 000. In order to progress negotiations the Department of Defence commissioned a new valuation of the improvements by a valuer. This valuation was undertaken using two different methods, producing values of $265 000 and $375 000 respectively for building improvements. The final Unilink offer reflected acceptance of the lower of these two values for the building improvements but included provision of $88 000 for chattels.

3.20 Unilink advised the ANAO that:

While the negotiating process may have been suitable, the actual handing over of the property and the accounting for inventory left much to be desired. Inventory was removed from the site and inventory was located in buildings for which access was denied. Generally, co-operation was at a superficial level. It would have worked more smoothly if all existing personnel had been denied access to the site for a period prior to handover and that the date, of the base being closed to Defence personnel, kept classified until the very last minute. Pilfering would have then been contained more readily.

The actual transition would have been better facilitated if Defence personnel with no personal attachment to the base were placed on site for the final stocktake etc and handing over. It also should be a requirement that the currency of such information be attested to. The chain of command from those responsible for signing contracts to those responsible for handing over the physical property is too long and cumbersome for meaningful control and co-operation.

3.21 The ANAO considers that the Department of Defence needs to improve its processes for the physical handover of properties where chattels left on site are included in the sale contract. A detailed inventory of chattels included in the purchase price of a property should be prepared and agreed as part of the sale process.

Depot area

3.22 The DPG was also involved in providing a consultancy service and undertaking planning studies of the disposal options for the Department regarding the depot area. A contract was signed in September 1991 between the Department and DPG for consultancy services and DPG's involvement continued during the various phases of the sale.

3.23 DPG was not engaged by means of an open tender. The ANAO considers it prudent that the selection of marketing agents for property sales be subject to a process involving open and visible tenders.

3.24 The planning study carried out by DPG in October 1991 proposed that the depot site of around 62 hectares be subdivided into five lots to be handled as a staged disposal. The then Minister for Defence accepted DPG's proposal.

3.25 The five lots on the depot site were intended to be disposed of in the following ways:

- 5.5 hectares of the stores depot site to be sold (site 1A) to the RSL, as a priority sale, for use as a War Veterans' Homes retirement complex;
- 2.6 hectares of the total site area (site 1B) to be sold to the Toowoomba sub-branch of the RSL, as a priority sale, for the establishment of a recreational facility;
- a further 6.8 hectares of the depot area (site 4) was subject to negotiation with the Toowoomba City Council; however, the sale did not proceed; and
- the final parcel comprising the bulk of the land, a total of 44.11 hectares (sites 2, 3, and 5) was to be sold on the open market (in the end site 4 was also included in this parcel).

3.26 A site plan of the commercial area as subdivided by DPG is shown at Exhibit 3.2.

3.27 For the disposal of the remaining land and buildings in the depot site, the Department of Defence sought from real estate firms expressions of interest in, and eventually tenders for, handling the sale. This approach was considered prudent as it allowed the Department to identify the firm with the best method of selling what was a mixed site of residential and commercial land. Following a tender process, two real estate firms were selected.

Sales to the RSL

3.28 The sales to the RSL were developed following correspondence to the then Minister for Defence and to the Facilities and Property Division of the Department of Defence from the RSL seeking transfer to it of some of the 7 Stores property. The RSL sought one parcel of land, or the same land plus an adjoining parcel. The then Minister for Administrative Services agreed to allow this sale as a priority sale. The RSL's offer of $750 000 for the parcel comprising both sites 1A and 1B was made on 26 September 1991.

3.29 This offer was subsequently reduced and broken down into proposals for two priority sales:

- the proposal from the Western Branch of the Queensland RSL for $450 000 for site 1A, for the construction of a retirement complex; and
- the adjacent recreational area (site 1B) to the Toowoomba RSL sub-branch for $250 000.

3.30 The sale of site 1A to the Western Branch of the Queensland RSL progressed at $718 750 which was in excess of the valuation of $690 000 (as at 17 September 1992). This translated into a price per hectare of around $137 000. The sale of site 1B to the Toowoomba RSL Sub-Branch did not proceed. This site was eventually sold through public tender in 1996 for $180 000.

3.31 No financial assessment was carried out by the Department of Defence, or its agent DPG, of the capacity of the prospective purchasers for any of the priority sales of 7 Stores Depot property to actually complete the sale. The ANAO considers that this is a sound administrative practice in asset sales and had it been undertaken it may have reduced the settlement risks associated with these property sales.

Commercial sale

3.32 The sale of the bulk of the land (i.e. sites 2, 3, 4 & 5) raised $5.5 million, which was in excess of the AVO valuation of $5.25 million (as at 30 June 1993). The sale was carried out as a commercial tender through two real estate agents. The ANAO is unable to form an opinion on the effectiveness, efficiency and probity of this sale as there is an absence of documentation on the sale process. The only substantial item on the files is a fax from DPG passing on the advice from the marketing agent regarding the highest tender.

3.33 The ANAO considers that records management by the Department of Defence was inadequate, as the records available to the ANAO do not allow the ANAO to determine whether the tender process was fair and open and/or that the best return to the Commonwealth was obtained from the sale processes. When the carriage of a sale is outsourced, the Commonwealth agency involved remains responsible for ensuring that a successful result is achieved from the work of the contractor.

Recommendation No. 3

3.34 The ANAO *recommends* that agencies, when they out-source the negotiation and management of property sales involving competitive tenders, ensure that:

- adequate records of the tender process are maintained, including selection criteria, details of bids and their evaluation; and
- the outcome of the sale is evaluated against the stated objectives.

3.35 Agencies responded to the recommendation as follows:

- *Agrees*: DAS, DoD and DVA.

3.36 Specific comment by DoD is set out below.

- *DoD response*: Agrees. Defence considers that records of the tender process at Toowoomba were maintained and is concerned that they were not included in the relevant file record. Defence agrees that this is a clear indication that the management of records in this instance was inadequate and is ensuring that records of disposal processes are effectively managed. In relation to the Toowoomba sale it should be noted that the delegates of the Minister for Administrative Services, under the Lands Acquisition Act, in both the Australian Property Group and the Australian Government Solicitor were satisfied with the validity of the tender process and the outcome for the Commonwealth.

Holsworthy sales

3.37 The Department of Defence has sold surplus property in the Holsworthy/Moorebank area to the Defence Housing Authority (DHA) for residential development primarily to meet accommodation needs of Defence Force personnel. This audit examined the priority sale to DHA of three sites called Options 2, 2A, and 3. [1]

Valuation

3.38 The three subdivision sites, known as Options 2, 2A and 3, were valued by AVO in 1994 from direct comparisons with previous residential englobo land sales within the general locality ('englobo' land is considered to be 'undeveloped land with the potential for development, and that development can be either residential or commercial').

3.39 The total value of the three subdivision sites at that time was around $6 million, namely:

Option 2	11.035 hectares	$3.3 million
Option 2A	3.54 hectares	$1.1 million
Option 3	7.8 hectares	$1.6 million

3.40 In June 1994 at meetings between representatives of DPG, on behalf of Defence, and DHA an in-principle price of $5.8 million was agreed for the three sites. This price was subsequently agreed by the DHA Board on 2 August 1994.

3.41 Contracts for this agreed amount were exchanged on 8 March 1995, with the $5.8 million purchase price broken down as follows: Option 2 $3.215 million; Option 2A $1.025 million; and Option 3 $1.56 million.

Staggered delayed settlements

3.42 Upon contracts being exchanged there were special, but similar, conditions applied to the different sites. These are commented on as follows:

- *Option 2 Sale*: Settlement was within fourteen days of the date of registration of a plan of subdivision, and was duly completed on 5 May 1995 to DHA. An additional amount of interest of $44 745 was also received covering the period 8 March to 5 May 1995 as agreed in the contract of sale. [2]

- *Option 2A Sale*: The parcel was sold to DHA for $1.025 million. Contracts were exchanged on 8 March 1995 and provided for settlement within fourteen days of the later of the date of registration of a plan of subdivision or 28 July 1995. A 10 per cent deposit was paid on signing and the contract provided for interest to be paid on the outstanding balance from the date of the contract until the date of the actual completion of the contract, as well as special conditions covering such matters as a warranty in which the vendor would use its best endeavours to clear the property of unexploded ordnance in accordance with best commercial practices. Settlement took place on 13 September 1995 and included $45 500 in interest payments made in accordance with the terms of the contract.

- *Option 3 Sale:* The parcel was sold to DHA for $1.56 million in March 1995, with settlement within fourteen days of the later of the date of registration of a plan of subdivision or 20 January 1996. A 10 per cent deposit was paid in March 1995 and settlement duly occurred on 22 January 1996 for the balance and also included an amount of around $108 000, being the interest component on the 90 per cent balance from contract signing to settlement day.

3.43 The ANAO considers that the sale contracts protected the Commonwealth's interest in providing for an interest component to be paid. This had the effect of ensuring that the Commonwealth received the March 1995 sale price for the site and did not incur additional holding costs.

Environmental aspects

3.44 The contracts for the sale of all three sites contained special conditions relating to clearance of unexploded ordnance from the sites. In August 1994, following a select tender process, a contractor was engaged by the Department of Defence to carry out a technical and environmental survey of the three sites at Holsworthy prior to the sales. This survey was conducted during the period September to November 1994 and identified areas in sites Options 2 and 2A requiring attention because various contaminants were detected on them.

3.45 Contractors were employed in soil testing, ground water testing, and earthworks, including excavating, levelling and compaction of the identified sites. The need for remediation work was identified early in this survey period and a remediation program was agreed with the Department. This program resulted in over 5500 cubic metres of soil being screened. This remediation work involved costs of $287 882.

3.46 Additional work was also carried out in an area which is adjacent to Option 1 as well as Options 2, 2A and 3. This followed the identification of a previously unknown contaminated site. Considerable extra work was required to bring that site to an accepted standard. The work undertaken included a amount of excavating and screening similar to that initially carried out on the Option 2 and 2A sites. The additional work required on this adjacent area involved costs of $412 118.

Millers Point sale

3.47 The former drill hall at Millers Point was located in Lower Fort Street on the fringe of Sydney's Rocks area on an 0.0734 hectare site, and was acquired by the Commonwealth in 1915. At the time of sale the property was zoned residential under Sydney City Council's Central Sydney Local Environment Plan. The drill hall is listed in the Register of the National Estate (RNE) and is included in the Rocks Conservation area. It is also the subject of a Permanent Conservation Order under the *Heritage Act (NSW) 1977.*

3.48 A market valuation of $600 000 was obtained in June 1995 which indicated that the value of the property was in the land not the building. This contrasts markedly with the final purchase price of $1.73 million obtained for the property. The Department of Administrative Services advised the ANAO that this:

... can be explained by current trends in the inner Sydney residential, and the presence of an interstate purchaser anxious to enter the Sydney market and to convert part of the property to personal residential accommodation.

Selection of selling agent

3.49 In February 1995, following negotiations over a four-month period between the Department of Defence and DPG, the Department selected DPG as the sole agent for the disposal of the Millers Point property. The following justifications were put forward by the relevant area of the Department of Defence for the decision to appoint DPG:

- The heritage listing of the property meant disposal would involve requirements over and above those normally required for the sale of Commonwealth property and DPG was aware of these requirements, having previously handled disposal of RNE-listed Commonwealth properties.
- Sale by expression of interest would require assessment by the selling agent, the Australian Heritage Commission and Defence to determine the best return for Defence compatible with the heritage status of the property. DPG was also experienced in this area.
- DPG had been engaged in rezoning the property, was aware of the requirements of Sydney City Council for rezoning and had established contacts within Council.
- This area of the Department of Defence had no experience in using private agents to undertake any disposal, let alone disposal of a sensitive heritage property.
- The property was to become vacant in June 1995 and considerable time would be required to engage a private agent. Utilisation of DPG would avoid a protracted vacancy with consequential holding costs to the Department.

3.50 The ANAO considers that the Government's purchasing objectives of open and effective competition were not met by the area of the Department of Defence which engaged DPG for the Millers Point sale. The Department's records indicate that, for some months prior to the decision being taken to appoint DPG, ongoing discussions had taken place regarding the fee proposed by DPG. The sale of the property was agreed in January 1996 and completed on 20 March 1996, well after the June 1995 vacancy proposed.

Recommendation No. 4

3.51 The ANAO *recommends* that agencies undertaking property sales ensure that open and effective competition mechanisms are established for the engagement of marketing agents in connection with any such sales.

3.52 Agencies responded to the recommendation as follows:

- *Agrees*: DAS, DoD and DVA.

3.53 Specific comments by departments are set out below.

- *DAS response*: Agrees. Open and effective competition is one of several Government Purchasing objectives. The overriding objective being value for money. The key objective of maximising the return to the Commonwealth may sometimes argue for the use of mechanisms like single select based on the specialised expertise of a particular agent. For example, there are certain agents who specialise in industrial properties rather than commercial office properties. Selection of an agent from a panel should be aimed at choosing one most likely to maximise revenue, while maintaining probity and accountability.
- *DoD response*: Agrees. Such mechanisms have been put in place for new property sale activities. There may be circumstances, such as government-to-government transactions, where the Domestic Property Group (DAS) will be the property agent in view of the Minister for Administrative Services' responsibilities under the Land Acquisition Act.

The final selection

3.54 Expressions of interest for the purchase of the property were called on 30 September 1995 and closed on 1 December 1995. DPG received 23 expressions of interest with bids ranging from $45 000 to just over $1.5 million. Bidders were short-listed on the basis of price and whether DPG considered the particular development proposal was likely to gain Heritage Commission approval and also conform with other restrictions on the property.

3.55 Initial discussions between DPG and these short-listed parties resulted in significant improvements being offered in both price and conditions of the bids. Further consultation with the bidders by DPG reduced the contenders to three. Revised submissions from the three remaining parties were sought and negotiations took place during December 1995, following which one of these was selected as the successful bidder.

3.56 Two days after this selection took place, a higher bid was received from another of the final short-listed parties. It was decided to reopen the sale to all three of the final short-listed parties as a select tender, the winning tender to be largely determined on the basis of which tenderer submitted the highest bid.

3.57 The three parties involved in the select tender were invited to submit final and best prices by 5 January 1996. The highest offer was accepted for a price of $1.73 million, with an additional amount paid for interest from contract signing until settlement of $19 000. The process of informal discussions between DPG and interested parties resulted in the Department of Defence receiving a higher price for the Millers Point property than those originally offered in the initial expressions of interest.

3.58 From the viewpoint of maximising revenue to the Commonwealth the sale was successful. However, the ANAO found that clear guidelines were not established by the Department of Defence on the tender and sale process to be followed in the Millers Point sale prior to the receipt of expressions of interest. The ANAO considers that the absence of clear guidelines, agreed at the outset, on how the sale was to proceed lessened the integrity of the sale process in that the tender was reopened when a higher bid was received after the original closing date.

Recommendation No. 5

3.59 The ANAO *recommends* that, for the probity of the sale process to remain high, agencies need to ensure that prospective purchasers are advised at the outset of the evaluation process to be followed in any tender and sale process.

3.60 Agencies responded to the recommendation as follows:

- *Agrees*: DAS, DoD and DVA.

3.61 Specific comment by DoD is set out below.

- *DoD response*: Agrees. The issue of probity is uppermost in all Defence's property dealings. Defence will ensure that the evaluation process is clearly articulated to relevant parties.

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4. Administrative Services Portfolio - Singapore Sales

This chapter discusses the Department of Administrative Services' Overseas Property Group's management of the sales of two properties in Singapore.

Introduction

4.1. The Department of Administrative Services' OPG [3] reviews all overseas properties in a two-year rolling program, identifying opportunities for rationalisation to offset the cost of new works proposals and/or provide a return to the Consolidated Revenue Fund. Properties in Singapore identified for rationalisation through this process included the Head of Mission's residence known as Glencaird and a residence at 41 Ford Avenue. The disposals of these properties by OPG were selected for inclusion in this audit.

4.2. The OPG Rationalisation Report (December 1992) identified the Ford Avenue site to be the most under-utilised and least economic of the Singapore sites owned by the Commonwealth. In August 1993 the then Government agreed to a proposal to sell both the Glencaird site and the site at 41 Ford Avenue. Stage 1 of that project involved the sale of the property at 41 Ford Avenue and Stage 2 the sale of the Glencaird property.

4.3. The Singapore sales were to be linked to the purchase of three residences in Singapore, the construction of a Chancery and Head of Mission Residence in Hanoi, a new Chancery in Islamabad, refurbishment of Australia House in London, acquisition of a site for staff accommodation in Shanghai and construction of a new Head of Mission Residence in Singapore on a retained portion of the original site. It was also agreed that the existing Hanoi Chancery be converted to residential accommodation, subject to offsets being available from the sale of property in Singapore. The then Government agreed that the new proposal for Hanoi was to proceed subject to the agreement of the then Minister for Foreign Affairs and Trade on the rationalisation of property in Singapore. This decision was part of an agreement permitting the Department of Administrative Services to use a portion of the proceeds from the sale of some properties worth over $A6 million as offsets against new policy proposals. Some $A44 million was returned to Consolidated Revenue from the Singapore sales.

4.4. The sale objectives for both the Ford Avenue and Glencaird properties were to maximise the net financial returns to the Commonwealth. The sales of the Ford Avenue and Glencaird properties resulted in gross proceeds to the Commonwealth of $A102.47 million ($A14.25 million and $A88.22 million respectively). The total direct sale costs of the two transactions were $A680 000 resulting in total net proceeds to the Commonwealth of $A101.79 million. Details of the proceeds and costs of these sales are outlined in Exhibit 4.1.

Exhibit 4.1: Summary of Singapore Sale Transactions

	Ford Avenue $A	**Glencaird $A**	**Total $A**
Sale Proceeds	14 249 000	88 225 000	102 474 000
Selling Costs(1)	133 000	547 000	680 000
Net Proceeds	14 116 000	87 678 000	101 794 000
(1) Includes legal, estate agents and travel costs			

Source: Department of Administrative Services

4.5. The ANAO considers that the selling costs incurred in both sales were reasonable given that sale costs amounted to less than one per cent of gross sale proceeds (Ford Avenue sale - 0.93 per cent, and Glencaird - 0.62 per cent).

Ford Avenue sale

4.6. The Ford Avenue property was originally purchased by the Commonwealth in 1947 for the sum of $S10 352. In November 1992 the Ford Avenue site was valued at $S10.8 million. The site of some 6418 square metres was subsequently sold in February 1994 for $S16.3 million ($A14.25 million), which was some 60 per cent higher than the November 1992 valuation.

Sale process

4.7. The tender documents were provided to all parties who expressed an interest in the property. Five bids were received for the property and each was accompanied by a tender fee of $S200 000. The tender allowed for the retention of the tender fee if the winning bidder defaulted under the terms of the tender.

4.8. The Commonwealth accepted the highest bid. The sale and tender process followed was:

- Tenders closed and $S200 000 tender fee to be paid on 25 November 1993.
- The successful bidder paid the balance of the required 10 per cent deposit on 7 December 1993.
- Completion of sale by tender by payment of the balance and ownership transferred on 15 February 1994.

4.9. The tender document provided that tenders could be accepted only from persons or companies eligible under the Singapore Residential Property Act to acquire residential property. It also provided that, should the successful bidder fail to complete the purchase, the vendor could resell the property. Such provisions, as well as the substantial tender fee required, were methods used to test the bona fides and financial capability of the tenderers.

4.10. The agents selected for the sale of the site claimed expenses at 0.75 per cent of the selling price and also absorbed all printing and advertising costs. Such an option was provided for in the contract with the selling agents and this meant fees were based largely on a successful sale. Should the sale have been unsuccessful the selling agents were entitled only to reimbursement of actual survey, advertisements and brochure costs.

4.11. There is no record on file of a credit or business/financial dealing check being undertaken of the higher tenders. This contrasts with the sale of Glencaird ($S98 million) in which such investigations were performed. OPG advised that the successful bidder for the Ford Avenue property was well known to officers of the Australian High Commission and OPG following a number of successful developments in Singapore. In this circumstance, OPG did not consider it necessary to conduct a formal evaluation of the selected tenderer's capacity to undertake the purchase. OPG advised that the requirement for tenderers to lodge a $S200 000 tender fee was further evidence of the tenderer's bona fides. The ANAO was advised by OPG that its decision in this case was a well-considered risk management judgment, which has been proven so by the events which transpired.

4.12. The ANAO recognises that in this sale the Commonwealth's interests were not adversely affected by OPG's decision not to undertake a formal financial capability evaluation of the final short-listed tenderers. However, the ANAO considers that it would be better practice to routinely conduct such evaluations.

Recommendation No. 6

4.13. The ANAO *recommends* that agencies as normal practice undertake a formal financial capability evaluation on final short-listed tenderers prior to the selection of the successful tender on material property sales.

4.14. Agencies responded to the recommendation as follows:

- Agrees: DAS, DoD and DVA.

4.15. Specific comments by departments are set out below.

- *DAS response*: Agrees. But what constitutes 'material property sales' is a matter of some subjectivity.
- *DoD response*: Agrees. Defence presently carries out financial evaluation for significant property disposals. While this assessment will be considered as part of all future disposal processes, there is also a need to address the materiality of the sale and the level of financial risk involved.

4.16. The higher price received for the property compared with previous valuations, the reduced commission negotiated with the selling agents and the smooth settlement of the sale all indicate that the sale of the Ford Avenue site was satisfactorily carried out on the Commonwealth's behalf by OPG.

Glencaird sale

4.17. At the time of the then Government's decision to sell the Singapore properties, the OPG projected that gross receipts available from the sale of Glencaird would be $A21.57 million, with offsetting expenditure of $A7.0 million. That situation was expected to result in net revenue of $A14.6 million. This compares with the sale price eventually obtained of $S98.0 million ($A88.2 million), a substantial increase over the initial estimate.

4.18. Valuations of the Singapore properties were carried out in June 1992 and December 1992. The valuations indicated to some degree the rapidly changing nature of the real property market in Singapore. Glencaird was valued at $S19 million ($A16.8 million) in December 1992, having been valued in June 1992 at $S15.8 million ($A13.04 million). In late 1993 the Ford Avenue property was sold for $S16.3 million and the estimated revenue the sale of Glencaird was expected to generate was revised upwards to $S45.5 million. Glencaird was ultimately sold for $S98 million.

Sale process

4.19. Invitation to tender was issued on 8 September 1994 and closed on 5 October 1994. The Tender Evaluation Committee, which comprised two OPG officers, a representative of the Australian High Commission Singapore, a property consultant and a legal adviser, reviewed the eleven tenders received. The Tender Evaluation Committee considered legal and commercial issues associated with the completion of a sale contract. The ANAO considers that this evaluation was completed in a very efficient and timely manner, with the successful bidder being the highest bidder who paid the 10 per cent deposit the following week.

4.20. Financial vetting of the eventual successful tenderer was carried out through Purchasing Australia and the Washington Office of the OPG. The ANAO found that such action at the tender evaluation stage by the OPG indicates an awareness of the need to ensure that only tenders with a strong possibility of successfully completing the purchase would be considered.

4.21. The sale agreement of the Glencaird site provided for payment as follows:

- Acceptance of the successful tender and payment of 10 per cent deposit - due October 1994.
- Handover of the site excluding the residence of Glencaird itself and payment of a further 20 per cent - due January 1995. Title for this portion of land passed to purchaser upon payment of this sum.
- Final handover to be no later than 31 July 1996 with payment of the final instalment of 70 per cent of the purchase price. Title for the remainder of the property passing to the purchaser when the final balance was received.

Commonwealth risk exposure

4.22. The delayed settlement arrangements on Glencaird allowed continued use of the Australian Head of Mission residence until the new facilities were constructed, resulting in savings of substantial rental ($A500 000) for alternative premises while the new residence was under construction. The delayed settlement arrangements also had implications for the actual proceeds that the Commonwealth received from the sale, given that the sale proceeds were denominated in Singapore dollars.

4.23. There was a prolonged exchange rate risk in respect of some 90 per cent of the sale proceeds from 13 October 1994 to
7 January 1995, then decreasing to 70 per cent from 7 January 1995 to 31 July 1996. Over the period October 1994 to July 1996 there was considerable volatility in the Singapore and Australian exchange rates. [4]

4.24. The ANAO considers that the size and duration of the currency exposure incurred on the Singapore property transactions warranted the consideration of prudent exchange rate risk management. OPG advised the ANAO that current Commonwealth policy, in line with the Commonwealth's policy of generally not seeking to insure risk, is not to hedge such exchange rate risks but rather to be risk-averse. OPG also notes that sales of the magnitude of the Glencaird sale in Singapore are extremely rare and that in the only other similar sale undertaken in the last two decades, that of the former Australian Embassy site in Tokyo in 1988, the fluctuations in exchange rates resulted in a benefit of some millions of dollars to the Commonwealth. OPG also advise that, since a significant proportion of the sale proceeds from Glencaird are being reinvested in new property in Singapore, the Commonwealth is benefiting from the improvement in the value of the Australian dollar.

4.25. The ANAO acknowledges that fluctuations in exchange rates may in different circumstances be favourable to the Commonwealth's interests. However, the ANAO considers that it would be appropriate for exchange rate risk to be reviewed on a case-by-case basis so that agencies such as the OPG may evaluate the potential options for transferring currency risks to other parties where appropriate in order to effectively safeguard the Commonwealth's financial position from excessive risk in relation to exchange rate exposures. Currency risk transference options include negotiating property sales in Australian dollars through to purchasing commercial cover (i.e. hedging say through forward exchange contracts) for all or part of the risk.

Recommendation No. 7

4.26. The ANAO *recommends* that the Department of Administrative Services' Overseas Property Group, as part of the sale planning process for overseas property, formally examine the potential impact of exchange rate movements on sale proceeds, and evaluate options for the cost-effective transfer of residual financial risks from the Commonwealth to other parties.

4.27. Agencies responded to the recommendation as follows:

- *Agrees*: DAS.
- *No comment*: DoD and DVA.

4.28. The settlement risk was protected as the Commonwealth's interest in this property was secure. As a last resort, if the sale was not completed by the contracted date, the property reverted to the Commonwealth.

Overview

4.29. The timing, the selection of the sites in Singapore for disposal, the tendering and subsequent disposal of both Ford Avenue and the Glencaird sites were all very favourable.

The prices received for both properties exceeded the market valuations obtained prior to the conduct of the sales. The ANAO considers that OPG negotiated two successful sales.

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5. Overview

Chapter 5 presents an overview of the issues raised by the sales examined in this audit.

Introduction

5.1. The agencies which conducted the selected property sales examined by the audit broadly achieved the Commonwealth's objectives in disposing of the particular properties, employed appropriate sale processes and generally took adequate measures to protect the Commonwealth's risk exposures in connection with the sales.

5.2. Some improvements which the Department of Defence could make in relation to future property sales were identified in the ANAO's examination of the Department's conduct of the sales of the 7 Stores Depot properties at Toowoomba and the former Drill Hall at Millers Point. The Department of Defence advises that these were some of the earliest sales of Defence property undertaken by the Department itself and that since this time Department of Defence has been working to improve its process for property sales, including the development of internal guidelines/model processes and the preparation of strategic disposal plans.

5.3. Currently, there are no published guidelines which specifically address the conduct of sales of Commonwealth property. The ANAO considers that agencies charged with disposing of substantial amounts of Commonwealth property would benefit from the development and application of appropriate guidelines/model processes which take into account issues including relevant legislative requirements, probity and accountability factors. The ANAO also considers that it is important that strategic disposal plans be prepared.

Recommendation No. 8

5.4. The ANAO *recommends* that:

- strategic disposal plans be prepared by agencies charged with the disposal of Commonwealth property; and
- in the absence of public sector-wide guidelines, individual agencies responsible for a program of Commonwealth property disposals develop guidelines and/or model processes for property sales which cover issues including the relevant legislative requirements, probity and accountability factors.

5.5. Agencies responded to the recommendation as follows:

- *Agree*s: DoD and DVA.
- *Agrees* in principle: DAS.

5.6. Specific comments by departments are set out below.

- *DoD response*: Agrees. Defence disposal guidelines now require the preparation of a strategic disposal plan at the beginning of the sale process. Defence has implemented disposal process models, which are reviewed for continuous improvement.

- *DAS response*: Agrees in principle. In relation to the first dot point, the development of a sales strategy should normally be undertaken as an integral part of the sale process for any sizeable individual asset. In addition, there might be a wider need for a higher level of strategy where a significant number of assets are to be sold, as part of a wider program. In relation to the second dot point DAS agrees that more detailed guidelines are warranted but consider they should be developed and disseminated on a Commonwealth-wide basis to ensure consistency of approach. (See DAS response to Recommendation No. 2.)

Rationalisation of Commonwealth property holdings

5.7. The review and rationalisation of Commonwealth property holdings are a continuing trend. The resource implications associated with the effective management of Commonwealth property holdings led in 1992 to the then Government's decision to establish a Coordinating Council on the Release of Commonwealth Land. The role of the Council was to undertake an overall strategic coordinating role in the management of Commonwealth property disposals and it provided reports in 1994 and 1996. The Council undertook two key tasks, namely identifying what sales have occurred since 1986 and developing a medium-term disposal program for property sales up to the year 2000.

5.8. In the 1996-97 Budget, the Government announced the adoption of new Commonwealth Property Principles which lay down the circumstances in which the Commonwealth will retain and/or acquire property in the future. The Government's intention is that the Commonwealth will own property only where there is an economic benefit from public ownership or where there is a strong public-interest argument for so doing. In addition, the Government has announced that these principles will be used to conduct a review of Commonwealth properties over the next two years. This review is to be conducted by a Commonwealth Property Committee, comprising both government and private sector members. The Committee will also be responsible for providing advice on the management and coordination of divestment. [5]

Commonwealth risk exposure

5.9. In both the Hollywood and Greenslopes sales, the financial capacities of the short-listed tenderers to undertake the purchase and operation of the hospitals were evaluated by a consultant to reduce any risk that settlement might not take place or that the successful tenderer would not be capable of undertaking the long-term service contract that was an integral part of each of the Hollywood and Greenslopes RGHs sales. The potential risks to the Commonwealth associated with the ten-year contracts for services were also evaluated as to the financial risks to the Commonwealth over the duration of the contracts and measures were taken to provide ongoing protection of the Commonwealth's interests.

5.10. The question of State Government approvals for the privatised RGHs post-sale was also pursued as part of both sale processes. At the actual property sale level, the Greenslopes and Hollywood RGH sales incorporated provision for clawback of future redevelopment. This was recognised by the sale team's sound commercial practice in the inclusion of such provisions in the sale agreements.

5.11. Commonwealth financial risks were by and large effectively managed by the

Department of Defence. A positive step taken by the Department in protecting the Commonwealth's interests was to contractually provide that interest be paid in the Holsworthy and Millers Point sales where there was some delay in settlement. Site contamination was dealt with in advance of the sales. In addition, proper regard was had, in marketing the properties, to the legislative requirements and to the likely decisions of local government regarding zoning.

5.12. OPG's efforts to manage the Commonwealth's exposure in connection with the Singapore sales were effective with the exception of the long period of foreign currency exposure to variation in the value of the Singapore dollar. OPG ensured that the Commonwealth's interest in the Glencaird property was protected during the delay until final settlement.

Sale management

5.13. An area of better practice which the audit identified in connection with the Repatriation Commission's disposal of the RGHs at Greenslopes and Hollywood related to steps the Commission took to discourage nonconforming and/or frivolous bids. Given the substantial administrative burden involved in evaluating tenders it is desirable to ensure as far as possible that such effort is confined to serious bids. In connection with both RGHs, the Commission required that tenders include a preliminary deposit of $250 000 which was refundable to unsuccessful tenderers. The ANAO considers that the preliminary deposit requirement was a useful mechanism for ensuring that the Commission's tender evaluation efforts were not wasted.

5.14. A feature of the Repatriation Commission's conduct of the sales of the RGHs was the provision made in the Hospital Service Agreements for clawback to the Commonwealth of a share of any net profits derived from the sale of any land associated with the RGHs. The clawback provision recognised that when Commonwealth property is sold its value may be constrained by the purpose for which it will be used. The Commonwealth required the RGHs to continue to operate as hospitals and this affected the value of the land. However, in the future, some of the land may become surplus to the hospital operations and its sale for another use may realise a greater price than the purchaser paid for it as part of the entire RGH. The clawback provision ensures that the Commonwealth will receive some of the benefit from such a sale. The ANAO considers that clawback provisions can be useful in protecting the Commonwealth's interests after the sale of Commonwealth property.

5.15. Another issue which came to the ANAO's attention in the conduct of this audit is the importance of agencies making sure they are aware of the value of the property and/or assets which they are marketing. In the sale of Hollywood RGH four items of intellectual property were transferred in the sale process without any clear indication that the Commission had identified the net present value of the intellectual property and/or sought and obtained a reasonable return to the Commonwealth for its transfer.

5.16. The ANAO also initially had concerns as to whether the economic potential of Greenslopes RGH had been correctly identified and marketed. Soon after the sale of Greenslopes RGH the Queensland Department of Health approved an increase in the number of bed licences from 285 to 350. In this case, the ANAO recognises that the potential for increasing the number of bed licences was not able to be established in advance of the sale because at that time the Queensland Department of Health had indicated that it was going to license only 285 beds at Greenslopes RGH post the sale. Accordingly, potential for increasing the number of bed licences could not be included as a feature of the package marketed. However, the ANAO considers that the two instances outlined above highlight the need for agencies to have the most complete information possible about the nature and value of property involved in property and/or asset sales if the return to the Commonwealth is to be maximised.

Recommendation No. 9

5.17. The ANAO *recommends* that agencies conducting Commonwealth property sales:

- ensure that, where appropriate, tenders include a suitable lodgment fee as a means of reducing the possibility of receiving non-conforming or frivolous bids;
- evaluate the appropriateness of including provision for clawback to the Commonwealth of any future profits on the sale of Commonwealth property; and
- comprehensively review and assess the potential value of all the real and intellectual property involved to ensure that the net proceeds to the Commonwealth are maximised.

5.18. Agencies responded to the recommendation as follows:

- *Agrees*: DoD and DVA. DAS agrees with dot points 1 and 3.
- *Agrees* in principle: DAS regarding dot point 2.

5.19. Specific comment by DAS is set out below.

- *DAS response*: Agrees in principle. In relation to the second dot point, 'clawback' is generally relevant to certain types of sales (for example, where there is a possibility that a State/Local Government purchaser might change the future zoning of a property to achieve a better financial result for itself). The opportunity to use clawback arrangements certainly needs to be considered in the sales strategy, but cannot always be used. In many instances the future development potential is capitalised in the sale price. DAS supports the third dot point; there needs to be a comprehensive and rigorous assessment of all options prior to a major sale of property.

Overall conclusions

Commonwealth sale objectives

5.20. Prices achieved appeared to be reasonable in the sales reviewed, given the objectives of the sales. The Hollywood and Greenslopes RGH sales, Glencaird and Ford Avenue sales and the major Department of Defence sales (except in part for some of the Toowoomba Stores Depot sales) that were reviewed in this audit were found to have been performed effectively given their differing attributes.

Commonwealth sale processes

5.21. The agencies concerned undertook the relevant assessments of the various options for the sales to enhance overall Commonwealth returns. Ministerial involvement in all sales was significant and reflected the efforts by each department to keep the Minister(s) informed of events.

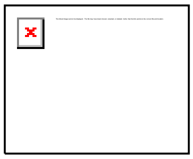
5.22. Records management was effectively performed in respect of the sales undertaken by the Department of Veterans' Affairs and by OPG but was not adequate with regard to the Department of Defence's Toowoomba Stores Depot sales.

Protecting the Commonwealth's exposure

5.23. The broad range of risks that agencies are exposed to in property sale transactions were generally effectively managed in the selected property sales considered in this audit. However, the commercial and financial risks associated with deferred settlement arrangements require ongoing evaluation and management by agencies to protect the Commonwealth's overall financial interests.

Better practice principles

5.24. In the absence of public sector-wide guidelines on the disposal of real property, this audit has identified some better practice principles applied by the departments in the conduct of the selected property sales. These included: the need for comprehensive planning and sale procedures; the establishment of clear sale objectives; use of appropriate consultants for asset valuation; transparent criteria for selection of successful bidders; establishment of tender evaluation criteria prior to the receipt of bids; evaluation of bids by an arm's-length Tender Evaluation Committee; assessment of bids on the basis of net present value to the Commonwealth; appropriate involvement of Ministers; consideration of property sale clawback arrangements; consideration of imposing interest where settlement will be delayed; evaluation of other measures to protect the Commonwealth's interests where settlement is delayed; briefing of unsuccessful bidders; and the preparation of post-evaluation reports.



Canberra ACT | P. J. Barrett

10 December 1996 | Auditor-General

1

Option 1, an area of 51 hectares at Moorebank, was sold in September 1993 to Defence Housing Authority and its joint venture partner for housing development, and was not included in this ANAO study. It is the later sales of Options 2, 2A, and 3 that were reviewed for this report.

2

Additional negotiations were undertaken by DPG with DHA regarding the different interest rates to be applied, as DHA had agreed at settlement to pay interest at the rate of 9.68%, while the interest rate applied was 9.53% - a difference of around $700 in the amount of interest received.

3

The OPG has the responsibility to provide accommodation for the Commonwealth overseas in the most cost-efficient manner consistent with its client agencies' operational needs. OPG is also tasked with ensuring that the value of the overseas estate owned by the Commonwealth is maximised through innovative property management and development practices.

4

During this period the Singapore dollar exchange rate to the Australian dollar ranged from 0.9898 in June 1995 to 1.1260 in May 1996. *Source:* Reserve Bank of Australia Bulletin, October 1996, p. S56.

5

DAS Budget 1996-97 press release, 'Management of Commonwealth Property', 20 August 1996, pp. 2-3.

Appendix 1 - Performance Audits of Commonwealth Asset Sales

Set out below are the titles of the reports of the main performance audits by the ANAO in the area of Commonwealth Asset Sales tabled in the Parliament in the past three years.

Audit Report No.10 1995-96

Sale of Moomba to Sydney Gas Pipeline

Audit Report No.14 1995-96

The Sale of CSL

Commonwealth Blood Products

Funding and Regulation