

The Auditor-General  
Audit Report No.19 2003-04  
Business Support Process Audit

## **Property Management**

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of Australia 2003

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Canberra ACT  
17 December 2003

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken a business support process audit across agencies in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Property Management*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. J. Barrett'.

P. J. Barrett  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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# Abbreviations/Glossary

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ANAO	Australian National Audit Office
APS	Australian Public Sector
CAC	<i>Commonwealth Authorities and Companies Act 1997</i>
CPP	Commonwealth Property Principles
DPWS	Department of Public Works and Services
FSM	Facilities Sustainment Model
Finance	Department of Finance and Administration
FMA	<i>Financial Management and Accountability Act 1997</i>
FMIS	Financial Management Information System
GAMC	Government Assets Management Committee (NSW)
GOAC	Government Office Accommodation Committee (SA)
GREG	Government Real Estate Group
KPIs	Key Performance Indicators
NSW	New South Wales
OHS	Occupational Health and Safety
PMIS	Property Management Information System
R&M	Repairs and Maintenance
SA	South Australia
VGPG	Victorian Government Property Group



# **Summary and Recommendations**



# Summary

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## Background

1. For the purposes of this audit, property management has been defined as those functions necessary for the effective conduct and coordination of an organisation's workplace and infrastructure with its business/services, employees and other people involved in the delivery of its services. The range of property management services in each organisation will depend on its individual circumstances and policies, but will generally encompass some or all of the following; lease management, energy management, cleaning, and repairs and maintenance tasks.
2. All organisations require access to physical property for the purposes of carrying out business or delivering services and most, if not all, organisations require office space for the purposes of undertaking general administrative and related activities. Office accommodation should be appropriate to the size, and be designed to suit the nature, of the organisation's business and its staff. As well as ensuring that office accommodation has the functionality to meet its business objectives, organisations should consider a range of more contemporary issues, when designing their office accommodation, including; safety and health issues, security and catering for the needs of people with disabilities. Further, a number of recent trends and changes to work practices has also underlined the need for organisations to better manage their facilities and explore alternative approaches to their office accommodation environments.

## Audit objectives and scope

3. The objective of the audit was to assess whether the property management function, including the management of leases, was being performed efficiently and was providing an effective level of support for the delivery of the organisation's services (outputs). The audit evaluated property management policies and practices across the following dimensions:
  - planning and control;
  - business processes and practices; and
  - information and performance management.
4. Within each of these areas, a series of desirable processes and controls (described as the evaluation criteria) were developed.

5. The audit assessed the delivery of property management functions in a selection of organisations that occupy, or reside in, properties (whether they are the owner or the lessee), or part of properties used primarily as office accommodation. For the purposes of the audit, office accommodation was taken to include offices used for general administrative activities and customer/client service functions but excluded specialised operational accommodation.

## Audit conclusion

6. Overall, ANAO found that the property management services in the organisations audited were operating efficiently and were generally providing an adequate level of support for the delivery of the organisation's business or services. The audit did observe, however, a number of shortcomings in management and service-delivery practices that detracted from the capacity of the organisations to provide high-quality, and fully effective, property management services.

7. The audit identified a number of opportunities to ensure property-related activity continues to meet user requirements and demands, and in some cases, to further enhance the efficiency of related processes. Principally, these opportunities relate to the need to:

- enhance the level of planning to better identify longer-term property requirements and to better manage the identified priorities and available resources;
- improve the application of risk management principles and approaches to the delivery of property management activities, including the identification, assessment, treatment and mitigation of the risks inherent in the functions performed;
- adopt more formal processes for measuring and reporting on a range of both financial and non-financial property management performance issues; including the establishment of appropriate targets and performance indicators;
- adopt more formal and structured processes to monitor and manage the performance of contracted property-related services in order to ensure the required services are delivered to an acceptable standard with any problems being identified in a timely manner;
- improve the form and content of property-related service contracts by, for example, including a comprehensive description of the services to be delivered; establishing a performance management process; and providing details of acceptable standards of performance;

- improve the management of the property-related information, including record-keeping practices; and
- periodically assess the ongoing appropriateness of property management services, particularly those specified in contracts, to ensure they continue to be relevant and sufficient and meet current circumstances and user requirements.

8. Property management activities generally represent a significant component of an organisation's operating budget. Based on the relative proportions identified in the organisations covered by the audit, property-operating costs, including the cost of the staff and contractors with property management responsibilities for the whole of the General Government Sector, are estimated to be in the order of \$4.5 billion per annum.<sup>1</sup> Given the potential quantum of property management expenditure in the Commonwealth, the differences identified in this report, between the average data metrics for the organisations in the audit and a series of best practice industry benchmarks indicate there are considerable opportunities for savings through improved management of property-related costs and building space.

## Audit findings

9. The main findings discussed in this report are as follows.

### Planning and control

10. Four of the organisations covered by the audit had formal planning processes to assist with the identification and management of the delivery of the key elements of their property management functions, including:

- identification of key activities or result areas;
- allocation of resources; and
- establishment of performance measures.

11. In most organisations, these planning processes were considered to be useful in guiding the delivery of the property management function over shorter time periods (for example, a year). However, they were considered to be insufficient to identify longer-term property-related requirements, and the broader and longer-term property-related activities objectives, issues and priorities.

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<sup>1</sup> Based on the amount of 'expenses from ordinary activities' disclosed in the Consolidated Financial Statements of the Australian Government for the year ended 30 June 2003.

12. The audit observed the need for improvement in the application of risk management principles in the delivery of property management activities. For example, only two of the organisations had formally identified the risks involved in the delivery of their property management functions and identified strategies to address these risks.

13. Amongst the organisations there was a lack of formal policy and procedural documentation covering property management functions. Although at the time of the audit, two of the organisations were developing guidelines to assist with the planning and management of their accommodation. Policy and procedural documentation can play an important role in the communication of the organisation's critical property-related objectives, strategies and key activities. It can support staff in the performance of their duties and reduce the need for reliance on the skills, knowledge and experience of other staff.

14. Each of the organisations had a range of strategies for raising the awareness of property-related issues and ensuring proper clarity and understanding of property management roles and responsibilities. Among the most common processes were: regular staff meetings to confirm progress against roles and responsibilities; describing key tasks in individual staff performance agreements; and the inclusion of property-related business planning and service delivery documentation on the organisation's intranet.

## **Business processes and practices**

15. Each of the organisations in the audit had some part of their property management function provided under contract. Most commonly, organisations had contracts for the delivery of cleaning services, repairs and maintenance work, and financial administration services, including the processing of property-related payments. Two of the organisations had contracted external property management organisations to provide a suite of property-related (often described as real estate) services.

16. Most of the organisations in the audit did not actively manage their contracted service providers and lacked processes to monitor and measure/ assess contractor's performance regularly. Rather, they relied on a series of informal and unstructured processes, including exception-based reporting. These findings were consistent with the results of Audit Report No.12, 1999–2000, *Management of Contracted Business Support Processes* and highlights that managing the performance of contracted service providers remains a significant challenge.

17. Among the better practices observed in the assessment of the performance levels were:

- regular communication with contactors, including monthly meetings;
- regular inspections of the work performed;
- monitoring feedback through the fault reporting system; and
- monitoring issues identified by Occupational Health and Safety (OHS) inspections.

18. The three organisations that leased their office accommodation, demonstrated generally sound and effective lease management practices. However, record-keeping was generally poor. The most significant area of concern was the lack of ready access to accurate documentation on critical lease issues and records detailing the organisation's rights and responsibilities.

19. Only two of the organisations had recently assessed their repairs and maintenance (R&M) approach in light of their current circumstances and requirements, and developed formal plans or programs to assist in the efficient management of the delivery of work. By regularly assessing R&M requirements, organisations are better placed to:

- identify the optimal balance between planned or programmed R&M work and ad-hoc maintenance activities; that is, work driven by users' complaints;
- overcome reliance on other functions, including OHS inspections, to identify and report R&M issues;
- more effectively target R&M activity towards areas of greatest risk and need; and
- clarify instances of uncertainty concerning the responsibility for maintenance works.

20. Most of the organisations needed to improve the management of cleaning services. For example, only one was able to demonstrate to ANAO that its schedule of cleaning specifications was sufficient and appropriate in light of its current requirements and circumstances. Another organisation was in the process of compiling an updated specification schedule at the time of the audit.

21. The property management function played an important part in the promotion (and maintenance) of health and safety issues in each of the organisations audited. There were sound processes to ensure that the property management function was well informed of relevant property-related health and safety issues.

## Information and performance management

22. Processes for the management of property-related information were, in the main, sound and effective. Some organisations needed to improve record-keeping and data-storage practices in order to reduce inefficiencies in the management of information. In particular, scope for the following improvements was identified:

- adopting more-formal and structured filing systems for recording hard-copy property-related information; and
- as far as possible, maintaining electronic property-related information in one system.

23. Each of the organisations had sound processes for managing the financial performance of their property-related activities, including the identification, analysis and reporting of variations from financial targets. However, most did not have ready access to non-financial information. Further, there were few formal processes to regularly measure and assess broader (non-financial) performance issues.

24. By failing to analyse non-financial performance information, organisations were not readily able to address issues such as: how effectively the property was being used; whether it was meeting user requirements; the satisfaction of staff; and the timeliness, quality and effectiveness of critical property-related activities.

25. None of the organisations had established or regularly used, key performance indicators to assist in the measurement of the performance of their property management services. Only two organisations had identified performance indicators in their property management business plans. However, in neither case, were actual results against these indicators being measured and/or assessed.

26. Most of the organisations needed to adopt more formal processes for comparing the relative performance, including the costs, of their property-related functions against that of other organisations or accepted relevant external standards. As an example, none of the organisations in the audit had market-tested the delivery of their property management services recently, as required by the Commonwealth Property Principles. Further, only two of the organisations had participated in formal benchmarking studies recently, albeit, often informally.

## Responses from organisations

27. Each of the organisations participating in the audit was provided with a management report detailing the conclusions, audit findings and recommendations for improvement (where necessary) arising from the fieldwork specific to them. Each agency has responded to these individual reports and advised of remedial action taken, or proposed, to address identified weaknesses.

28. In addition, the organisations provided comments on the proposed audit report. These responses are included in *Appendix 3* of this report.

## Sound and better practices

29. A number of examples of sound and better property management practices were identified in the organisations audited. These are summarised in Table 1.

**Table 1**  
**Sound and better practices**

<b>Planning and control</b>
One organisation prepared a property-related strategic plan every three years. That plan played a key role in determining the priorities and activities of its property management function and was extensively used in the management of its property management program and resources.
Two of the organisations had formally identified the risks involved in the delivery of their property management functions and identified strategies to address these risks.
One organisation had developed a floor space management system to provide the capacity to produce a range of property occupancy and utilisation reports, including costs. The information in the system is kept up-to-date by monthly review with the relevant operational areas.
Two of the organisations had recently developed guidelines for the planning, management and use of their accommodation. These guidelines were designed to lead to improved integration and effectiveness of property management activities and also improved integrity and efficiency in accommodation planning.
<b>Business processes and practices</b>
One organisation had developed a comprehensive list of specifications to assist in the assessment of the suitability of properties against its business requirements and standards.
Two of the organisations used specialised computer software to support the delivery of repairs and maintenance activities, in particular by, scheduling work, producing work orders, identifying and reporting on work backlogs, including work that is allocated but not completed in accordance with the approved works program.
Two of the organisations regularly conducted formal inspections of cleaning activities. These inspections were based on a mix of formal monitoring, for example, using a checklist, and informal processes, such as observation of work areas.
<b>Information and performance management</b>
In three organisations, the progress of property-related activity against approved plans or programs was regularly discussed with senior management or with an accommodation committee (or equivalent).
One organisation regularly compared its property management processes and performance against those of external sources.

# Recommendations

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*The nature of the matters raised in this report are considered to have general application across the Commonwealth Public Sector. Accordingly, the following recommendations should be addressed by all Commonwealth organisations in the context of their own property management arrangements.*

*In particular, organisations should assess the benefits of implementing each recommendation in light of their own circumstances, including the extent to which each recommendation, or part, is addressed by processes and controls already in place.*

**Recommendation  
No.1  
Para 2.56**

The ANAO *recommends* that organisations develop robust planning and control procedures to support their property management functions. In particular, organisations should:

- identify and plan for the strategies and activities needed to address their longer-term property requirements and related issues;
- develop business plans to facilitate the management of key property-related tasks, resources and performance issues, including the identification of any property-related risks, such as inadequate or inefficient use of space or the failure of critical infrastructure assets; and
- routinely, but consistently, assess and report on the condition, functionality and sufficiency of their properties.

**Recommendation  
No.2  
Para 3.78**

ANAO *recommends* that organisations critically assess their property-related business processes and practices on a regular basis, to identify whether they are, and are likely to remain, effective in meeting their short and longer-term property-related requirements.

**Recommendation  
No.3  
Para 3.80**

ANAO *recommends* that organisations develop formal processes that will enable the consistent and timely management of the performance of all contractors providing property-related services.

**Recommendation  
No.4  
Para 4.51**

The ANAO *recommends* that organisations regularly review the performance of their property-related activity across a range of performance measures, incorporating both financial and non-financial dimensions.



# **Audit Findings and Conclusions**



# 1. Introduction

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## Background

**1.1** Property management has been defined as those functions necessary for the effective conduct and coordination of an organisation's workplace and infrastructure with its business/services, employees and other people involved in the delivery of its services for the purposes of this audit. The range of property management responsibilities in each organisation will depend on its individual policies and circumstances. However, they generally will encompass some or all of the following:

- acquisition (including leasing);
- repairs and maintenance;
- refurbishment (fit-out) and capital improvements;
- lease management;
- health and safety;
- energy management;
- cleaning;
- security; and
- disposals.

**1.2** Property management activities generally represent a significant component of an organisation's operating budget. For example, amongst the organisations audited, property-operating costs, including the cost of the staff and contractors with property management responsibilities, averaged 6.95 per cent of total departmental or operating expenditure. Based on this relative proportion, property management costs, including the cost of the staff and contractors with property management responsibilities for the whole of the General Government Sector, are estimated to be in the order of \$4.5 billion per annum.<sup>2</sup>

**1.3** This is the second cross-agency audit into property management functions in the Commonwealth since the introduction of the *Financial Management and Accountability (FMA)* and *Commonwealth Authorities and Companies (CAC) Acts* in 1997. The first, Audit Report No.53, 2000–2001, titled *Commonwealth Management of Leased Office Property*, developed a series of benchmarks to assist

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<sup>2</sup> Based on the amount of 'expenses from ordinary activities' disclosed in the Consolidated Financial Statements of the Australian Government for the year ended 30 June 2003.

in the measurement of the property management performance of FMA agencies and also assessed whether selected agencies were managing their leased office property effectively.

1.4 In addition, the ANAO has recently conducted a series of audits into property management arrangements in the Department of Defence. The results of these audits have been reported as:

- Audit Report No.37, 1999–2000, *Defence Estate Project Delivery*;
- Audit Report No.26, 2000–2001, *Defence Estate Facilities Operations*; and
- Audit Report No.58, 2001–2002, *Defence Property Management*.

1.5 This is also the second cross-agency audit to examine issues associated with the management of contracted property-related services. The first audit, reported as Audit Report No.12, 1999–2000, *Management of Contracted Business Support Processes*, examined a number of property-related contracts as part of a general review of business support processes that were contracted-out.

## Audit objectives and approach

1.6 The objective of the audit was to assess whether the property management function, including the management of leases, was being performed efficiently and was providing an effective level of support for the delivery of the organisation's services (outputs). The audit evaluated property management policies and practices across the following dimensions:

- planning and control;
- business processes and practices; and
- information and performance management.

1.7 Within each of these areas, a series of desirable processes and controls (described as the evaluation criteria) were developed. The evaluation criteria related to each area of the audit are further defined in chapters 2, 3 and 4 of this report.

1.8 The audit assessed the delivery of property management functions in a selection of organisations that occupy, or reside in, properties (whether they are the owner or the lessee), or part of properties used primarily as office accommodation. For the purposes of the audit, office accommodation was taken to include offices used for general administrative activities and customer/client service functions but excluded specialised operational accommodation.

1.9 The audit did not attempt to address all potential property management business processes, rather it focused on those processes considered to be the

most common amongst organisations in the Australian Public Sector (APS). As an example, the audit did not extend to an examination of decisions relating to the acquisition or disposal of property. In addition, the following processes were excluded from the scope of the audit due to recent audit activity:

- security—addressed in Audit Report No.23, 2002–2003, *Physical Security Arrangements in Commonwealth Agencies*; and
- energy management—addressed in Audit Report No.24, 2002–2003, *Energy Efficiency in Commonwealth Operations—Follow-up Audit*.

## The need for an effective Property Management function

**1.10** All organisations require access to physical property for the purposes of carrying out business or delivering services. Most, if not all, require office space for the purposes of undertaking general administrative and related activities.

**1.11** Office accommodation should be appropriate to the size and nature of the organisation’s business, and be designed to suit the nature of the work undertaken. When designing office accommodation, organisations should consider a range of more contemporary issues, including: safety and health issues; security; technological capacity; catering for the needs of people with disabilities; environmental issues; and facilitating energy efficient work practices.

**1.12** A number of recent trends and changes to work practices have also underlined the need for organisations to manage their facilities better and to explore alternative approaches to their office accommodation. Some of these trends include for example: work practices becoming more information and technology dependent; employers increasingly looking for ways to achieve more productivity; greater use of consultants and contractors; and staff increasingly working from home or away from their office.

**1.13** Organisations will not only meet a range of legislative requirements but also enhance the well-being of staff and increase productivity potential, by properly addressing these issues. Some of the positive benefits from more effective management of property include:

- better alignment of accommodation needs with service delivery objectives;
- more equitable and efficient distribution of work-space;
- greater levels of employee satisfaction;
- greater flexibility and ability to respond to change;

- greater levels of communication;
- improved efficiencies and productivity; and
- minimised or reduced accommodation costs, including the costs of refurbishments.

**1.14** Poor property management practices can have a detrimental impact on service delivery by resulting in unproductive and inefficient work-practices. Furthermore, a lack of processes to ensure an organisation's office accommodation properly reflects the nature of its workforce and their activities, will detract from the ability of that workforce to deliver its services or outputs.

## Property Management arrangements in the APS

**1.15** Within Australia, the Commonwealth Government owned, at 30 June 2003, 113 properties with a Fair Value of \$768 million.<sup>3</sup> Collectively these assets, which do not include properties owned by the Department of Defence and other individual Commonwealth organisations, are known as the non-Defence Domestic Property Portfolio.

**1.16** The Property Management Branch in the Department of Finance and Administration (Finance) is responsible for the management of this portfolio, including the leasing of these properties in the commercial market. Commonwealth organisations may, but are not required to, lease their office accommodation from Finance. None of the organisations in this audit leased any office accommodation from the domestic property portfolio. This audit did not extend to an examination of Finance's management of the portfolio.

**1.17** Apart from Finance's role in relation to the non-Defence Domestic Property Portfolio, there is no coordinating authority for property management activity within the APS. Rather, the delivery of property management services is the responsibility of individual organisations.

**1.18** This approach varies with current practices in other public sector jurisdictions in Australia. These jurisdictions have established structures to aid the coordinated management of their property requirements, both owned and leased. Three examples of current practices in other Government jurisdictions are outlined in *Appendix 1*.

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<sup>3</sup> Department of Finance and Administration, Annual Report 2002–2003, p.43. Available from <[www.finance.gov.au](http://www.finance.gov.au)>.

## Conduct of the audit

**1.19** The audit was conducted at a cost of \$275 000, and took 14 months from the commencement of planning to complete.

**1.20** The following organisations participated in the audit:

- Australian Communications Authority;
- Australian Film, Television and Radio School;
- Civil Aviation Safety Authority;
- Department of Employment and Workplace Relations; and
- National Library of Australia.

**1.21** These organisations provided the ANAO with a good cross-section of property management issues and arrangements. Three of these organisations leased (or primarily leased) their office accommodation, while the remaining two were effectively the owners of the buildings that they occupied.

**1.22** While the matters discussed in this report are based on the fieldwork in these organisations, this report does not attribute the audit findings to individual organisations.

**1.23** Each of these organisations was provided with a management report detailing the conclusions, audit findings and recommendations for improvement (where necessary) arising from the fieldwork specific to them. Each organisation has responded to these individual reports and advised of remedial action taken, or proposed, to address identified weaknesses.

**1.24** In addition, pursuant to section 19 of the *Auditor-General Act 1997* these organisations provided comments on the proposed report prior to its finalisation. These responses are included in *Appendix 3* of this report.

## Commonwealth Property Principles

**1.25** In 1996, the Commonwealth Government issued the Commonwealth Property Principles (CPP) to outline the basis for the continued ownership and development of property. The principles include a number of requirements relating to general property management issues. The application of these requirements was canvassed with each of the organisations included in this audit.

## Reporting the costs of property use

**1.26** Clause 4a of the CPP provides that the costs of property use (whether owned or leased, domestic or overseas) should be fully reported by the using agency or programme in order to encourage efficient, effective and transparent decision-making and accountability.

**1.27** None of the organisations audited reported the costs of property use externally. The two organisations that owned their buildings included a commentary in their annual report on their respective buildings, disclosing information such as the value of the building and the floor space occupied.

**1.28** At the time of the audit, only one organisation apportioned the costs of using property amongst its operating areas in its internal financial management reports. From the start of the 2003–2004 financial year, another was planning to separately identify, in its internal management reports, the cost of the floor space occupied by its operational groups.

**1.29** Currently, there is no approved form or mechanism for organisations to report the cost of property use externally, as required by clause 4a of the CPP. As discussed in Audit Report No.58, 2001–2002,<sup>4</sup> the Government's *Requirements for Departmental Annual Reports* specified, for several years, that certain information on the use of property, including the cost of office space should be disclosed in annual reports. However, the requirement to report property usage information was removed from these guidelines in May 1999.

**1.30** The current version of these guidelines<sup>5</sup> does not include the requirement to report property operating information, although it does require a commentary on the effectiveness of asset management strategies, where this is a significant part of the organisation's business.

**1.31** The latest version of the equivalent authority for CAC bodies, the *Commonwealth Authorities and Companies (Report of Operations) Orders 2002*, issued under section 48 of the CAC Act, also does not specifically require the disclosure of property-related information.

## Leasing accommodation from the Commonwealth

**1.32** Clause 7 of the CPP requires that Commonwealth agencies occupying property owned by another part of the Commonwealth should have formal occupancy agreements in place and that conditions and rentals should be market-based.

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<sup>4</sup> Australian National Audit Office, Defence Property Management, Audit Report No.58 2001–2002, Canberra, June 2002, p.51.

<sup>5</sup> Which were updated in June 2003, and are available from <[www.dpmc.gov.au/publications.cfm](http://www.dpmc.gov.au/publications.cfm)>.

**1.33** Only one of the organisations in the audit leased office space from another Commonwealth organisation. In this case, the arrangement was supported by a formal lease agreement. The ANAO concluded that the lease conditions were market-based.

### **Market testing property services**

**1.34** Clause 8 of the CPP requires that property management services provided within Commonwealth bodies should be fully market tested, including consideration of in-house bids, consistent with the principles established in the Commonwealth's Competitive Neutrality Principle.

**1.35** The audit found that, while a number of the property-related services provided under contract had recently been through an open-market tender process, none of the organisations had recently market-tested the delivery of those property management services provided internally. At the time of the audit, one organisation advised the ANAO that it had decided not to market test its property management functions until it had completed an internal review of its property management activities.

**1.36** Another organisation was assessing tenders for the provision of selected property management services and proposed, as part of ongoing management of the contract, to regularly assess the providers' ability to provide those services currently done in-house.

### **Conclusion—Commonwealth Property Principles**

**1.37** Overall, the level of compliance with the requirements of the CPP considered in the audit was sub-standard amongst the organisations audited. Addressing the requirements of the CPP, relating to the reporting the costs of property use and the market testing of those functions provided internally, would complement the performance measurement improvements recommended in this report (Recommendation No.4).

## 2. Planning and Control

### Introduction

**2.1** A formal and coordinated planning and control structure improves the capacity of organisations to deliver property management services more efficiently and effectively. In particular, it provides organisations with the ability to better determine and guide the direction and priorities of property management functions and to better align the delivery of those functions with service delivery objectives.

**2.2** In considering the value of property management planning and control structures, the audit assessed each of the organisations in the audit against the evaluation criteria shown in Table 2.1.

**Table 2.1**  
**Planning and control evaluation criteria**

Evaluation criteria	Principle
Strategic and operational planning	Property Management activity is driven by a strategic planning process demonstrating a clear relationship to the organisation's Corporate Plan (or equivalent). This plan is fully informed by risk management processes and a program to monitor whether property is being effectively utilised and meeting the needs of the organisation.  The strategic plan is underpinned by an operational planning process, which directs the management and delivery of individual property management functions on a day-to-day basis.
Policy and procedures	Policy and procedural documentation, providing clear linkages between operational responsibilities and approved property management strategies, has been developed and is readily available.
Responsibility and accountability	Roles, responsibilities and accountabilities are clearly defined and understood throughout the organisation, and staff have access to tools (including learning tools) enabling them to meet their responsibilities and accountabilities.

Source: ANAO

### Strategic and operational planning

#### Introduction

**2.3** Sound planning facilitates the active management of the property portfolio; enhances the organisation's ability to identify and address property management responsibilities; and increases the capacity to provide structured and cost-

effective solutions to support the efficient and effective delivery of services or outputs.

**2.4** A structured approach, or plan, is also important to establish targets and indicators of performance and to ensure property-related activities and resources are properly aligned to business or service imperatives. It assists in better responding to the organisation's property-related requirements, including meeting changes in demand resulting from organisational change. It also increases the likelihood of more informed, cost-effective and timely solutions. Periodic evaluation is also a useful tool in all these respects.

**2.5** The audit considered two types of property management-related planning responsibilities: longer-term or strategic planning; and shorter-term or operational planning.

**2.6** Strategic property planning is fundamental to gaining a better understanding of the organisation's property needs, particularly in light of its business or service priorities and critical success factors. It is also important that, in the longer-term, property-related activity is correctly focused on, and aligned with, property requirements. Strategic planning decisions should be fully informed by knowledge obtained through periodic assessment of the organisation's property, an assessment of the risks involved in property-related activity, and a program to monitor whether property continues to meet the needs of the organisation.

**2.7** Operational or business planning is the translation of the strategies and priorities identified in the strategic plan into supporting activities. It is a key process in the effective management and delivery of property management resources and activities over shorter time periods; for example a year. Formal and structured operational planning, which may be performed for the property management function as a whole or for each property in the portfolio, permits the better alignment of day-to-day activities (and the resources required to deliver them) with the organisation's longer-term priorities.

**2.8** The extent of strategic and operational planning appropriate for each organisation, needs to be objectively assessed in light of factors, such as:

- amount of property-related expenditure;
- significance of the property in meeting service delivery requirements; and
- dynamics of the organisation's operating environment, including the impact on clients or customers.

## **Audit results**

**2.9** Four of the organisations covered by the audit had formal planning processes to assist with the identification and management of the delivery of the key elements of their property management functions. There was, however, considerable variation in the level and form of planning, including the extent and the content of planning documentation.

**2.10** Only two of the organisations audited had recently completed a separate strategic planning exercise to identify the broader and longer-term objectives, direction and priorities for their property-related activities. In one of these organisations, the plan played a key role in determining the focus of the organisation's property management processes and was extensively used in the development and management of the organisation's property management program and related resources. In the other organisation, the plan, although providing a useful source of relevant information, was not kept current and was found to play no tangible role in the delivery of the organisation's property management function.

**2.11** In the absence of proper strategic planning processes, property management functions tended to be more reactive in nature and driven by shorter-term considerations, including responding to the demands of the organisation as they arose. Generally, the lack of forward planning detracted from the ability of the organisations to effectively and efficiently identify, plan and work towards satisfying future property requirements by, for example:

- not assessing the alignment of property management activities with key organisational objectives and priorities;
- reducing the level of input to, and the objectivity of, decision-making;
- failing to identify opportunities for better control over, or integration of, services;
- reducing the ability to react in a coordinated way to changes in the organisation's business; and
- limiting opportunities for the optimisation of office accommodation levels, particularly in terms of location, functionality, quality, size and costs.

**2.12** Three of the organisations audited developed annual operational or business plans to support the management of property management activities and projects. Although the exact form and content of these plans varied, collectively, they contained details of: property-related priorities, key activities, budgets (both operational and capital), resource levels, milestones, and performance measures. One organisation also included details of the risks involved in the delivery of each of its key activities. With the inclusion of this type of information, operational

plans will be more likely to be: relevant, effective, and efficient in supporting delivery against the priorities in the strategic property management plan; and in directing the management of day-to-day property management activities.

**2.13** None of the organisations prepared separate plans for the management of each property in their respective portfolios. Such plans, which are then consolidated into the overall property management business plan, might contain: building condition assessments, maintenance programs, a schedule of critical dates, schedules of operational costs, details of the program to monitor and reduce vacant space, a schedule of the property's service contracts, and performance targets.

## **Developing a Property Management strategic plan**

**2.14** As mentioned in paragraph 2.8, the form and content of any property-related strategic planning should depend on the significance of the property in meeting service delivery requirements and the nature of the organisation's operating environment. However, there are a number of critical pieces of information to consider in the formulation of such a plan. The NSW Government outlined a seven-step method for the development of office accommodation strategic plans in its publication, 'Office Accommodation Strategy'.<sup>6</sup> These stages are further described in the following paragraphs.

### *Step 1—Understand the organisation's service delivery strategy*

**2.15** Property management strategies should be developed against the background and with a full understanding of the organisation's service delivery or business strategies and priorities. The identification and integration of details such as: the organisation's business practices, service delivery methods, organisational structure, stakeholder relationships, and resource requirements, will enable the key accommodation issues and potential strategies to be identified.

### *Step 2—Assess dependency on accommodation*

**2.16** Organisations should critically examine ways in which they can make the delivery of their services less dependent on their existing accommodation facilities. This will not always be possible and strategies that pose a risk of negative impacts on service delivery standards should be avoided. Nevertheless, some potential strategies might include:

- sharing office spaces with other agencies;

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<sup>6</sup> NSW Government Asset Management Committee, Office Accommodation Strategy, Sydney, January 2001, pp.7–12.

- hotelling; and
- greater levels of access to telecommuting or working away from the office.

### *Step 3—Utilisation levels*

**2.17** Organisations need to regularly assess their requirements for floor space and consider whether rates of utilisation are consistent with targets or benchmarks. Regular assessments are also useful to identify the existence of vacant, or inefficiently used, space and to enable an analysis of storage practices.

### *Step 4—Location of accommodation*

**2.18** Organisations should assess the criticality of their location(s) to the delivery of their business, including access by their clients and staff. Current developments in technology can reduce the sensitivity of being in a particular location.

### *Step 5—Accommodation capacity*

**2.19** Organisations need to assess whether their accommodation is sufficient to enable it to deliver its services effectively, taking into account, peaks and troughs in demand for services.

### *Step 6—Accommodation functionality*

**2.20** Organisations should assess the degree to which its accommodation is suitable to support the delivery of its services. For example, organisations should consider whether services and amenities in the accommodation (including access areas, lighting and ventilation) are appropriate for the staff and clients of the organisation.

### *Step 7—Evaluating potential strategies*

**2.21** Potential strategies must be evaluated as a whole, in order to identify any conflicts between them and to minimise inconsistencies between say, capacity and utilisation issues. Potential issues to be considered in the evaluation of strategies might include:

- decisions should not compromise Occupational Health and Safety (OHS) matters, including legislative compliance;
- the degree of risk or threat to service delivery performance or standards;
- whether floor space utilisation rates are consistent with industry targets or better practices; and

- whether the costs of accommodation are consistent with industry trends and/or with the market.

## **Risk management**

**2.22** As well as the intelligence gathered through the processes outlined above, strategic planning activity should be undertaken with the full knowledge of the risks inherent in the delivery of the organisation's property management activities.

**2.23** Only two of the organisations audited (both of which had strong risk management cultures) had formally identified the risks involved in the delivery of their property management functions, and identified strategies to address these risks. Among the property-related risks identified in risk assessment work were:

- poor space usage;
- inadequate lease documentation;
- failure of fire detection and suppression equipment;
- failure of critical plant and infrastructure equipment; and
- flooding (both internal water leaks and external water intrusion).

**2.24** Amongst the other organisations audited, risk identification and analysis work was less robust and was observed to be either:

- at too high levels, that is, the risks identified were relatively broad or generic and were not measurable or quantifiable; or
- only undertaken on individual aspects of property-related activity, rather than as a general assessment of the risks involved in the delivery of the property management function as a whole.

**2.25** Less robust risk assessments increase the potential that mitigation treatments and likely outcomes may be uncoordinated or poorly directed.

## **Assessments of office accommodation**

**2.26** Full information about the ongoing condition, use and functionality of a property is not only an important consideration in the development of property-related plans, but is also an important component in the effective management of that property. A formal program of inspections also facilitates the identification of issues that may impact on the organisation's repairs and maintenance and capital works programs.

2.27 While each of the organisations relied on a series of processes to identify issues related to the condition of their property, only two had formal property inspection programs in-place. Amongst the other organisations, some of the practices observed included:

- conduct of periodic ‘walkthrough’ checks by property staff;
- reviewing preventative maintenance activities; and
- seeking feedback from OHS inspections.

2.28 However, these practices were not always uniformly implemented across the property portfolios of the organisations. The informal nature of some of the checks indicated that a comprehensive assessment of building condition was unlikely. Given this, there is a significant risk that the knowledge gained from such informal processes may result in any associated activity or property related initiatives failing to address important items.

2.29 Two of the organisations audited had formal processes to assess, regularly, the ongoing functionality, sufficiency and appropriateness of their accommodation. One of these had developed a floor space management system which, through a combination of floor-plan drawings and a suite of standing data, has the capacity to produce a range of reports showing occupancy and utilisation information, including costs. The information in the system is subject to monthly review with the relevant operational areas.

2.30 Another organisation had established a forum (representing a cross-section of its various business units) to coordinate the identification and development of opportunities for improvements in its building’s functionality and productive use.

2.31 The other organisations advised ANAO that they generally rely on the various processes highlighted in paragraph 2.27 to identify any issues in this regard. At the time of the audit, one organisation had developed an *Office Accommodation and Building Services Hazard Identification* checklist. The checklist is a means of identifying and assessing hazards and risks associated with the use of office accommodation, including issues associated with the layout and condition of the premises and the characteristics of the work environment.

## **Property committees**

2.32 Because office accommodation impacts on the whole of the organisation, a key element in the delivery of integrated property management services is support and commitment from the organisation’s management. Ongoing management support provides the means for a more informed, coordinated and respected service. It is also important in promoting the relative significance of

property management functions and in facilitating more attention and support from operationally areas.

**2.33** Three of the organisations audited had established committees to deal with property-related matters. Across these organisations, the functions of these groups included, for example:

- approval of budgets, including refurbishment projects and other capital works;
- coordination and consideration of accommodation requirements and issues, including space utilisation matters; and
- development of accommodation standards and policies.

**2.34** In each of these organisations, these committees represented cross-sections of the entire organisation allowing the relative views of the key stakeholders to be obtained. ANAO observed that the existence of a formal and structured accommodation committee (or equivalent) facilitated greater understanding of property-related activities and, as a result, a stronger support base.

## Policy and procedures

### Introduction

**2.35** Staff require access to a range of information to support the performance of their functions. In this regard, formal written policies and procedures are important tools to assist in the capture and retention of corporate knowledge in the delivery of property management services.

**2.36** The existence of approved policy and procedural documentation is a key source of information, guidance, instruction or reference for staff in meeting their operational responsibilities. It is also an important means of ensuring that approved strategies and objectives are understood and are properly implemented.

### Audit results

**2.37** None of the organisations audited had issued a formal set of policy and procedural documentation covering the delivery of the property management function. However, property staff in three of the organisations audited had access to a variety of useful and informative references, including technical manuals to assist them in the conduct of their roles and functions.

**2.38** One organisation advised that, rather than rely on procedures, it considered its property-related service contracts and its Risk Management and Business

Continuity Plans were sufficiently detailed to be useful documentation sources and to provide clarity regarding expected outcomes and outputs.

**2.39** Two of the organisations audited generally lacked any formal procedures relating to the delivery of property management activities. ANAO considers that these two organisations were both over-reliant on the skills, knowledge and experience of key property management staff.

**2.40** The availability of formal procedures reduces reliance on ‘word of mouth’ practices and consequently, reduces the exposure to the loss of corporate knowledge when key staff turnover. The absence of formal procedures also increases the risks that activities are not undertaken in a systematic, consistent and cost-effective manner, potentially leading to inefficient practices.

### *Accommodation guidelines*

**2.41** Two of the organisations audited had recently developed formal guidelines to underpin the planning, management and occupancy of their accommodation. These guidelines were considered likely to be of real benefit in leading to improved integration and effectiveness of property management activities. They were also likely to lead to improved integrity and efficiency in accommodation planning.

**2.42** These guidelines were expected to assist in the following ways:

- providing a framework of principles and requirements for future refurbishment projects;
- establishing a consistent approach to the planning and design of accommodation;
- assisting in delivering a functional and flexible environment to meet service delivery goals and the needs of the workforce;
- providing office environments that are accessible, healthy, safe and comfortable for staff and clients (including those with disabilities); and
- consolidating and maintaining property standards.

## **Responsibility and accountability**

### **Introduction**

**2.43** A key element in the effective delivery of property management services is the clear definition and understanding of roles, responsibilities and accountabilities throughout the organisation. As well as facilitating the commitment of staff and managers, the proper alignment of responsibility and accountability is an integral part of an effective feedback system.

## Audit results

**2.44** Overall the audit found a generally sound level of clarity and understanding of property management responsibilities and accountabilities amongst the organisations audited.

**2.45** Each of the organisations had a range of strategies for raising the awareness of property-related issues and ensuring proper clarity and understanding of property management roles and responsibilities. Among the most common processes were: regular staff meetings or similar forums to confirm progress against roles and responsibilities, description of key tasks, responsibilities and accountabilities in individual staff performance agreements, and the inclusion of property-related business planning and service delivery documentation on the organisation's intranet.

**2.46** Rigid and inflexible arrangements are not often an effective approach. One organisation advised that it deliberately maintained flexible work processes to cope with the fluctuating demands of its current operating environment. In this case, accountabilities and responsibilities were not formally defined, but were allocated in accordance with demand, priorities and the nature of the work to be undertaken.

**2.47** None of the organisations used formal mechanisms, such as service level agreements or an internal rental arrangement, in the administration of property management services, including the identification of critical or key service areas. As well as formalising lines of responsibility and service-delivery expectations, an internal leasing or rental scheme can provide the following benefits:

- increased visibility of property-operating costs to the users;
- greater incentive to use space effectively;
- greater commitment to maintain consistent standards;
- better management of demand for space; and
- a structured internal funding mechanism.

**2.48** Feedback on levels of satisfaction with property-related services or on areas for improvement tended to come from a variety of more informal sources, including:

- participation in internal client surveys;
- maintenance of a property management help-desk;
- fault reporting facilities; and
- discussions and meetings with senior management and the accommodation committee (or equivalent).

**2.49** Three of the organisations audited operated with a national and regional office structure. Although property management responsibilities tended to be concentrated in the respective national office locations, regional staff assumed some minor and residual responsibilities.

**2.50** Two of these organisations had formally documented the property-related roles and responsibilities of staff in regional offices. However, ANAO found that some of this documentation was not up-to-date, thus reducing its accuracy and its value. The other organisation had not clearly established the roles and responsibilities of its regional office staff in relation to property matters.

**2.51** None of the organisations maintained any formal system of accountability over the performance of regional office staff in relation to their property-related responsibilities. ANAO observed that contact between the property management staff in the central office and the relevant regional office staff tended to be the result of ad-hoc enquiries or issues, rather than the product of a framework of regular communication.

**2.52** The lack of formal mechanisms to define and promote accountability and responsibility for the property management function, including the management of functions performed in regional offices can adversely impact on the effective management of property management activity.

## Conclusion

**2.53** Overall, the audit identified a number of shortcomings in the planning and control processes of the organisations audited. Most significantly, amongst the organisations there was a need to:

- enhance planning processes to identify longer term property-related requirements and to facilitate the more-effective identification of strategies and priorities for the property management function;
- improve the application of risk management principles and approaches in the delivery of property management activities, including the identification, assessment, treatment and mitigation of the risks inherent in the functions performed;
- develop more-formal programs to assess regularly, the condition, ongoing use, functionality, sufficiency and continued appropriateness of their office accommodation; and
- develop and promulgate structured policy and procedures to communicate the organisation's critical property-related objectives, strategies and key activities.

2.54 By having a strong planning and control framework in place, organisations can lay the foundation for the more-effective delivery of services. Sound planning and control arrangements facilitate the expansion of knowledge and understanding of property-related requirements, and the better use and management of resources.

2.55 Among the strengths observed during the audit were robust annual planning processes to identify key activities, allocate resources and to establish performance measures. In addition, amongst the organisations, processes were generally in place to enable staff to be clear about, and understand responsibility arrangements.

## Recommendation No.1

2.56 The ANAO *recommends* that organisations develop robust planning and control procedures to support their property management functions. In particular, organisations should:

- identify and plan for the strategies and activities needed to address their longer-term property requirements and related issues;
- develop business plans to facilitate the management of key property-related tasks, resources and performance issues, including the identification of any property-related risks, such as inadequate or inefficient use of space or the failure of critical infrastructure assets; and
- routinely, but consistently, assess and report on the condition, functionality and sufficiency of their properties.

## 3. Business Processes and Practices

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### Introduction

**3.1** As mentioned earlier in this report, organisations may have to deal with a wide-range of property-related business processes. These processes should be designed, as far as possible, to maintain the organisation's property in an appropriate condition and to ensure its effective and efficient utilisation.

**3.2** This audit examined the delivery of a selected number of property-related business processes to determine if they were being provided efficiently and to assess how effectively they contribute to the organisation's core business, approved policies, strategies and plans. In particular, the audit evaluated delivery of the following processes:

- lease management;
- repairs and maintenance;
- cleaning; and
- health and safety.

**3.3** As many of these services were provided through a range of contracts with external service providers, the audit also considered contract management arrangements.

**3.4** The principles used to evaluate performance for each of these processes are outlined in Table 3.1.

**Table 3.1**  
**Business processes evaluation criteria**

Evaluation criteria	Principle
Contract management	The organisation actively manages the provision of services by contracted service providers; has processes to ensure that contractual terms and conditions are clearly understood; and ensures that services are delivered in accordance with contractual requirements and to an acceptable level of performance.
Lease management	Organisations are familiar with their responsibilities under property leases and do not unnecessarily assume those responsibilities or costs which relate to the duties of the other party.
Repairs and maintenance	Repairs and maintenance activity is aligned to the achievement of strategic objectives, is undertaken in accordance with a predefined plan and its continued effectiveness is actively monitored.
Cleaning	Cleaning activities are aligned with approved strategies and compliance with approved performance standards is actively monitored.
Health and safety	Policies and procedures associated with the creation of a safe and healthy workplace and the management of associated health and safety issues are closely integrated with property management functions.

Source: ANAO

## Contract management

### Introduction

**3.5** The ability of organisations in the APS to manage and monitor the delivery of services provided under contract is coming under increasing scrutiny, as stakeholders, including the Government, consider value for money issues and the relationships between outputs, outcomes and performance requirements. As these contracts often deal with the delivery of key business support processes, they require careful and structured management to address the risks that could impact directly on the delivery of goods or services to the public.<sup>7</sup>

**3.6** Each of the audited organisations had some part of their property management function provided under contract. Most commonly, organisations had a range of individual contracts for the delivery of lease management, cleaning services, repairs and maintenance work and financial administration services. Two of the organisations had contracted external property management

<sup>7</sup> Australian National Audit Office, Management of Contracted Business Support Processes, Audit Report No.12, 1999–2000, Canberra, October 1999, p.11.

organisations to provide a suite of property-related (often described as real estate) services.

**3.7** A key aspect of contract management is monitoring the contractor's performance to ensure that the required services are delivered to an acceptable standard. A contractor's performance should be objectively assessed against a set of predetermined factors or targets to ensure that corrective action is taken, risks are managed, and required outcomes achieved.<sup>8</sup>

## **Audit results**

**3.8** Most of the organisations in the audit did not have appropriate processes to monitor and measure/assess the contractor's performance regularly and consistently over the duration of the contract. Rather, they relied on a series of informal processes, including exception-based reporting, to provide feedback and information on the performance of their contractors. At times, these processes were not considered sufficiently robust to facilitate consistent and objective assessments of performance across the organisation. In these situations, ANAO considered the organisations were not in a reasonable position to accurately assess the quality of the services delivered.

**3.9** Although service specifications contained in individual contracts tended to provide clarity as to acceptable standards of work, the contracts reviewed during the audit were largely ineffective in the management of the quality of the services to be provided. This was because there were very few formal processes to assess the level of satisfaction with the work of contractors. In particular, there was often no formal monitoring that services were delivered and no formal assessment of performance against indicators contained in contracts.

**3.10** The results of this audit were consistent with the outcomes of Audit Report No.12, 1999–2000, which evaluated the management of contracts for a range of business support processes. That audit found there were no formal mechanisms for managing the treatment and resolution of problems with contracts and observed:

...an absence of pro-active management to ensure the timely identification and resolution of contractual issues. Contract managers did not routinely monitor the provider's service and performance levels to facilitate the reduction of the likelihood of contract performance issues emerging.<sup>9</sup>

**3.11** The correlation between the findings in this audit and those in Audit Report No.12 confirms that managing the quality of services provided by

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<sup>8</sup> Auditor-General of Western Australia, Good Housekeeping: Facilities Management of Government Property and Buildings, Report No.7, Perth, August 2001, p.19.

<sup>9</sup> Australian National Audit Office, op. cit., p.28.

contracted service providers remains a significant challenge for Commonwealth organisations.

3.12 The shortcomings in contract management were considered to impact directly on the effective delivery of the respective property-related business processes. These issues are discussed later in this chapter.

### **Creating a contract management framework**

3.13 Three of the organisations provided a range of contract management support mechanisms, including educational programs and guidelines outlining the key steps in the management of contracts. One organisation had also developed a set of protocols, outlining the conditions to which contractors were to adhere. These protocols include provisions related to:

- compliance with security requirements;
- storage of equipment;
- work site practices and behaviour;
- compliance with a range of safety requirements;
- removal of rubbish and trade waste; and
- quality of work.

### **Monitoring and measuring performance**

3.14 Amongst the organisations audited, performance management processes were largely informal and unstructured. Although several of the contracts reviewed during the audit nominated a series of indicators and mechanisms that might be used to assess the contractor's performance, these mechanisms were rarely used. Among the practices observed to assess performance levels were:

- regular communication with contactors, including monthly meetings;
- regular inspections of the work performed;
- periodically completing a '*customer service performance assessment*' provided by the contractor;
- contractors submitting job sheets or signing a book to indicate when routine work had been completed (although these records were not always being reviewed);
- monitoring feedback through the fault reporting system; and
- monitoring issues identified by OHS inspections.

**3.15** In addition to being inconsistent with the provisions of some of the contracts reviewed, many of the performance monitoring practices used by organisations were considered, at least on their own, to be insufficient to ensure consistent and objective assessments. The effective management of a contract does not mean checking everything. Rather, it means striking a balance between maintaining an effective working relationship and the objective measurement and monitoring of performance.<sup>10</sup> This is in the interests of all parties concerned.

**3.16** A further weakness observed during the audit was that the regional offices of the organisations in the audit generally had not been provided with any formal tools to assist them to adequately monitor contract performance. Nor were they required, other than through the fault reporting system, to report regularly on performance issues. The substantial lack of any formal performance measurement instruments for use by regional offices limits their ability to manage performance issues and increases the likelihood of inconsistent practices developing across various locations.

**3.17** The lack of adequate performance monitoring also exposes organisations to: the risk of not detecting instances of poor performance (at least in a timely manner); being unable to put in place effective strategies for rectifying problems; and paying for services that are not 'up to scratch' or, in extreme cases, which it does not receive. Key steps in effective performance monitoring are:

- establishing performance measures, preferably in consultation with the provider and other key stakeholders;
- specifying in the contract, processes for the routine capture of the information needed to measure performance;
- analysing and regularly discussing performance with the provider and reporting results to management; and
- periodically reviewing the continued suitability, relevance and usefulness of performance measures over the life of the contract.<sup>11</sup>

## **Form of contracts**

**3.18** A key element in the effective management of contracts is the form and content of the contract. Among the organisations audited, the better contracts contained the following:

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<sup>10</sup> For further discussion on the maintenance of such a balance, refer to Australian National Audit Office, Contract Management, Better Practice Guide, Canberra, February 2001, pp.45–47 and pp. 69–74.

<sup>11</sup> *ibid.*, p.35.

- comprehensive description of the services to be delivered, including details of acceptable standards of performance (this may take the form of a Service Level Agreement appended to the contract);
- pricing schedule, including invoicing and payment procedures;
- description of performance management processes; including details of performance measures or indicators, methods for, and regularity of, evaluation and how unsatisfactory performance is to be dealt with;
- access to contractor's records and information;
- names of specified personnel, including the respective managers;
- reference to contemporary Commonwealth policies, including OHS legislation; and
- requirement to develop a suitable risk management and implementation plan.

**3.19** Only one organisation's property-related service contracts addressed all of these matters. However, at the time of the audit, another organisation was tendering for the delivery of property management services, and was able to demonstrate that these matters had been addressed in the draft contract documentation.

**3.20** In another organisation, most of the contracts for property-related services were brief and contained very few of these clauses. In addition, most of the contracts had been prepared by the respective service-providers, rather than prepared in accordance with the organisation's own requirements or standards.

**3.21** Many of the contracts reviewed during the audit were more than five years old and had not been updated since they originally commenced. Accordingly, these contracts did not reflect much of the contemporary thinking about contract conditions. They were prepared at a time when considerations such as the measurement of performance, and the need to assess and manage the risks associated with the services provided, were seemingly less important.

### *Performance-based contracts*

**3.22** At the time of the audit, none of the organisations used performance-based contracts for the delivery of property-related services, that is, contracts providing incentives for the achievement of improved performance and for innovation.

**3.23** Performance-based contracts attempt to improve the link between the providers' remuneration and the key performance outcomes. While less complex services do not necessarily warrant the use of incentives for innovative service

delivery, organisations should consider whether there is scope for the use of performance-based arrangements in the delivery of significant property-related functions. Table 3.2 provides guidance on developing performance-based contracts.

**Table 3.2**  
**Performance-based contracts**

Objective	Methodology
Alignment of the priorities of the purchaser and provider	Performance incentives should be aligned to corporate strategy and direction of the purchaser. Clear identification of risk. Flexibility to allow for changes in incentives, key result areas, outputs and benchmarks.
Incentives for improved performance	Mechanisms that deliver mutual gain. Incentives that add value to the purchaser's business and are based on performance. Incentives that are easy to administer and are cost effective to operate.
Measurement methods that support performance improvements	Results are measurable and, although they may involve some subjectivity are not based on perception but on well-articulated requirements. Established and agreed minimum performance standards.

Source: ANAO Contract Management Better Practice Guide

**3.24** One organisation advised ANAO that, rather than providing a prescriptive set of performance standards, it was now providing potential contractors with information regarding its objectives and expectations covering, for example, quality, timeliness and reliability issues. This is an effective means of promoting the notion of performance-based services and obtaining agreement on performance-based conditions with contractors.

### *Access by the Auditor-General*

**3.25** A clause, providing the Auditor-General (and staff of the ANAO) with a sufficient level of access to the records and information relevant to that contract, which is in the possession of the contractor, is important in meeting accountability expectations.

**3.26** Audit Report No.38, 2000–2001,<sup>12</sup> provides a brief history of action taken by the Auditor-General and the Joint Committee of Public Accounts and Audit in

<sup>12</sup> Australian National Audit Office, *The Use of Confidentiality Provisions in Commonwealth Contracts*, Canberra, May 2001, pp.48–49.

this area. More recently, the Commonwealth Procurement Guidelines, issued in September 2001, encourage the use of such access clauses as a means of meeting accountability obligations.

**3.27** Despite these references, many of the contracts reviewed during the audit did not contain clauses providing access to the Auditor-General (or staff of the ANAO) to the records and information of the contractor. This is as important for management's accountability and assurance as it is for the ANAO.

## Lease management

### Introduction

**3.28** A critical property management activity for most organisations is the management of property leases. Among the more critical areas are the processes involved with:

- negotiation of new leases or rent reviews;
- renewal of existing leases;
- termination of leases;
- lease assignments, surrender and/or subleasing (as appropriate); and
- monitoring of compliance with lease responsibilities and conditions.

**3.29** Overall, the three organisations, where lease management processes were examined, had generally sound and effective practices in place. However, record-keeping practices were generally sub-standard. The most significant area of concern was the lack of ready access to accurate documentation on critical lease issues, in particular, records detailing the organisation's rights and responsibilities under their leases.

### Lease negotiation

**3.30** Overall, the organisations had sound and effective practices in place around lease negotiation processes, including processes for terminating leases. Among the better practices identified were:

- well-considered and justified decisions for the employment of consultants to support lease negotiations. Consultants were generally hired to provide services such as:
  - market review and research;
  - strategic information on the office accommodation market;
  - advocacy services; and

- technical expertise (including architectural and engineering services).
- clear and regular communication with senior or executive management, to keep them well informed of the status of negotiations;
- staff invited to comment on accommodation proposals, including issues associated with location, such as: access to public transport, travel times, and proximity to car parking, shopping precincts, and schools; and
- use of a comprehensive list of action items for terminating leases, including accommodation issues, staffing matters and records management. The checklist also required the allocation of responsibility for each item and the nomination of an action officer.

**3.31** In one organisation, the property management area had a policy of notifying affected staff well in advance of the end of each lease and requested they identify and evaluate the requirements needed for any new lease.

**3.32** Another organisation had developed a comprehensive list of specifications to assist in the assessment of the suitability of properties against its business requirements and standards. The assessment, which required input from a number of stakeholders, addresses a wide-range of specifications, including:

- profile of the building; including its location, orientation and the materials used in its façade;
- planning issues, including the efficiency of the layout, design of public spaces and the level of compliant amenities;
- quality of finishes, including durability, acoustics, colour and signage; and
- services, including, telephone, life-safety (such as the nature of the emergency warning and intercommunication system), mechanical, air-conditioning, lighting and power outlets.

**3.33** At the time of the audit, one organisation had introduced a requirement for the development of accommodation plans to assist in the management of property-lease projects. These plans are expected to include information such as:

- project objectives;
- project evaluation, including key performance indicators;
- project schedule and budget;
- risk management;

- HR management; and
- stakeholder management.

### *Processes to manage lease rights and responsibilities*

3.34 Organisations should fully understand their rights and responsibilities under their leases to ensure that all payments made are in accordance with their obligations. Among the information maintained in relation to property leases was the following:

- schedule of projected financial data;
- analysis of critical dates, including lease start and end dates, option deadlines and rent review dates;
- schedule of debtors (relating to subleases);
- property inspections schedules;
- details of areas under lease, including number of car-bays; and
- real estate agent contact details.

3.35 However, apart from the time-consuming practice of reviewing each lease, none of the organisations had any effective processes to aid in the ready identification and management of their (and the lessor's) property lease-related rights and responsibilities. One organisation maintained a suite of property datasheets to record information on each of its properties, including, in some cases, a summary of the key responsibilities. However, a comparison of a selection of these datasheets against the relevant lease revealed several inconsistencies and anomalies in the information recorded.

3.36 Two of the organisations indicated they relied on their respective property services provider to keep them informed of their rights and responsibilities and to ensure that they do not assume responsibilities (or costs) that relate to the duties of the lessor. Both organisations expressed confidence in the provider in relation to the management of leases. However, given the lack of formal documentation concerning rights and responsibilities, ANAO considered that neither organisation was in a position to be fully informed about the provider's performance in this regard. In one organisation, the provider was also responsible for undertaking a program of property inspections to determine the level of compliance with leases and service contracts. However, these inspections were not taking place.

## Repairs and maintenance

### Introduction

**3.37** All organisations should have a structured and systematic repair and maintenance (R&M) program in place in respect of their property and related assets. A formal program can play an important part in ensuring that property continues to efficiently and effectively support the organisation's service delivery requirements. Specifically it can provide the following benefits:

- ensuring ongoing compliance with legal obligations, including OHS legislation and relevant building codes;
- assist in addressing lease conditions;
- greater management control and better informed decision-making;
- improved value for money by better targeting R&M expenditure; and
- preserving the value and extending the life of property and related assets.

**3.38** On the other hand, the lack of formal and structured maintenance planning can lead to the deferral or oversight of critical maintenance activity resulting in unnecessary deterioration in the condition of the property and associated assets. This can potentially result in unsafe operating conditions and ultimately, the failure of assets with attendant OHS and service delivery implications.<sup>13</sup>

**3.39** While the extent of R&M activities depends heavily on the nature of the property, including whether it is owned or leased, proper planning is critical to support the delivery of effective maintenance services. In this regard, the key elements of an R&M program are:

- fully understanding maintenance requirements, including whether items of plant, equipment and infrastructure are the responsibility of the organisation or the lessors (or their agents);
- ensuring that lessors, or their agents have appropriate maintenance arrangements in place;
- providing a help desk (or fault reporting process);
- input from the program of property inspections; and
- an informed 'balance' between the categories of maintenance activity.

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<sup>13</sup> Australian National Audit Office, Defence Estate Facilities Operations, Audit Report No.26, 2000–2001, Canberra, December 2000, p.91.

## Audit results

3.40 The organisations had a range of R&M arrangements. However, only two had recently assessed their R&M requirements and developed formal plans or programs to assist in the management of the delivery of R&M work. These plans enhanced the efficiency and effectiveness of the R&M function by better aligning R&M activities with the organisation's priorities and user requirements; improving coordination between various R&M activities; and providing a central source of information on R&M work.

3.41 Amongst the major shortcomings identified during the audit were:

- maintenance activities were often ad-hoc and largely driven by users' complaints rather than planned or programmed;
- lack of up-to-date assessments to determine whether existing R&M service levels remained sufficient and appropriate;
- property staff overly reliant on other functions, including OHS inspections, to identify and report R&M issues;
- work driven by the availability of funds, rather than targeted to meet an up-to-date assessment of needs;
- no formal monitoring of the preventative maintenance work delivered under contract;<sup>14</sup> and
- instances of uncertainty concerning the responsibility for maintenance works.

### *Categories of Maintenance*

3.42 In broad terms, maintenance may be broken into planned or unplanned elements.<sup>15</sup> Planned maintenance is proactive in nature and is performed in accordance with an established plan or program. It is intended to reduce the probability of failure or degradation in performance of the asset and generally consists of the following types of activity:

- pre-determined—regular or fixed maintenance work regardless of the condition of the asset; and
- condition-based—maintenance is triggered by certain condition thresholds.

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<sup>14</sup> Audit findings relating to monitoring the performance of contractors are discussed at paragraphs 3.8–3.23.

<sup>15</sup> Commonwealth Scientific and Industrial Research Organisation, Repairs and Maintenance Operational Manual, August 2000, p.33.

**3.43** An example of the steps involved in a maintenance planning exercise is outlined in *Appendix 2*.

**3.44** Unplanned maintenance is generally reactive in nature and is performed in response to the failure of an asset. Its components are generally described as:

- routine—maintenance work carried out after a failure has occurred, but which is not critical and therefore does not need to be done urgently; and
- emergency—conduct of maintenance work on an asset which has failed and which is critical to the operations of the organisation. It therefore needs to be completed urgently.

**3.45** There are no firm rules regarding the balance between planned and unplanned activity. To find the 'right' mix, organisations should consider factors such as: available funding limits; the nature of property and associated assets; the risks inherent in preserving the capital value of assets; and the consequences (and costs to performance) of breakdowns.

**3.46** Nevertheless, the increased certainty, ability to forecast, and smooth expenditure over time, suggest that greater levels of investment into a planned regime is a better response. Furthermore, too much reliance on a reactive process may result in:

- increased exposure to unreliable performance;
- potential problems remaining undetected;
- reduced ability to budget and forecast accurately; and
- the need to find funds at unexpected times, putting other priorities under pressure.

### *Maintenance levels*

**3.47** There are also no firm rules about the required extent of maintenance work. The most accurate method of establishing required maintenance levels involves a detailed engineering assessment of the condition of each asset. However, this would typically require a substantial investment of time and money.

**3.48** Several models exist to assist in the development of optimal maintenance levels. Audit Report No.26, 2000–2001<sup>16</sup> for example, notes that the Property Council of Australia recommends that the annual level of maintenance expenditure should be within the range of two to four per cent of a building's replacement value. The audit report also highlights several other comparable benchmarks concerning maintenance levels.

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<sup>16</sup> Australian National Audit Office, op. cit., pp.93–94.

**3.49** A more recent and comprehensive model is the *Facilities Sustainment Model* (FSM) developed by the US Department of Defense.<sup>17</sup> The model contains a series of benchmarks (known as cost factors) that can be used to calculate the annual level of maintenance expenditure required to sustain a property at its current condition. Table 3.3 provides a sample of the benchmarks for a range of the facility classes contained in the FSM.<sup>18</sup>

**Table 3.3**

**Sample of Facilities Sustainment Model Cost Factors**

Category title	Description	FSM cost factor (\$A/m <sup>2</sup> )
General Administrative Building	A building containing general office space as well as space typically associated with office space, including conference rooms, small storage rooms, restrooms, break/lunch rooms, locker/shower rooms and utility rooms.	25.72
Library	A facility with bookshelf space, administrative offices, restrooms, reading area, and music appreciation area for the general use of the installation's population.	36.91
General Purpose Instruction Building	Training buildings that include primarily classroom space for multipurpose training or instruction. These facilities may include an auditorium, library and/or technical education or learning resource centres.	36.91
Auditorium and Theatre Facility	Auditoriums and theatres providing space for administrative areas, seating and viewing, film projection and storage, live performances, concession stand, toilets, lobby and ticket sales.	22.38

Source: US Department of Defense

**3.50** It should be noted that the relevant proportions of these cost estimates depend on whether organisations are the owner, or a lessee, of the property in question, and the extent of individual responsibilities for R&M activities.

### *Fault-reporting processes*

**3.51** Capturing and reporting the details of property faults is an important component in the management of property, in particular, the management of R&M activity. For example, in addition to being a key customer service mechanism, a fault-reporting process can be a valuable source of intelligence about the condition of assets, contribute to assessments of the effectiveness

<sup>17</sup> More information about the Facilities Sustainment Model can be found at <[www.acq.osd.mil/ie/irm/index.html](http://www.acq.osd.mil/ie/irm/index.html)>.

<sup>18</sup> US Department of Defense, DoD Facilities Pricing Guide—Version 5, United States of America, March 2003, available from <[www.hada.army.mil/acsim/srmfiles.html](http://www.hada.army.mil/acsim/srmfiles.html)>.

of R&M practices and improve the information available to manage service contracts. Data on fault-reporting levels should also be used to support lease negotiations, as it is a good indication of building performance history.

**3.52** Each of the organisations in the audit had a fault reporting arrangement in place. In the absence of detailed R&M planning processes, the fault reporting function was, on occasions, the most critical source of information about R&M activities. In these situations, some caution is required, as over-reliance on fault reporting statistics to provide feedback can prove to be unreliable. For example, complaints about maintenance issues that may not be within the responsibility of the organisation or its service providers can distort performance information or indicators.

**3.53** Among the better practices observed were:

- a help desk function, located within the property management section which provided the initial point of contact for fault reporting and had the ability to log work requests directly onto the property management database;
- an internet-based, preformatted template for staff to report property-related faults. The system provided a sound trail of documentation, including ensuring a copy of all requests were forwarded to the property management section; and
- detailed specifications for the delivery of fault-reporting services, including a breakdown of the responses (including timeframes and escalation procedures) and the level of reporting required for each emergency, as well as urgent and routine requests for assistance.

**3.54** Shortcomings identified during the audit included a lack of formal control to ensure that all the work requests issued were completed and a lack of follow-up to ensure that staff requests had been addressed satisfactorily. It is important that the fault reporting process is sufficiently robust to ensure that:

- work requests are actioned in a timely fashion;
- staff are kept informed of the progress of their requests;
- work is properly completed (and the status of work requests updated); and
- the organisation is correctly charged for the work performed.

## **R&M software**

**3.55** Two of the organisations audited had computer software packages to support the delivery of their R&M activities, in particular, the delivery of

preventative maintenance programs. These organisations advised ANAO that the property maintenance software was an effective aide to managing their R&M work. Amongst the advantages from the use of specialised software are:

- improved maintenance planning leading to better prioritising and scheduling of work and a reduction in the need for emergency repairs;
- enhancements to safety and energy management performance through improvements in the operation of equipment;
- reduction in replacement or turnover costs through an extension of the life of equipment;
- better management of fault requests, including the ability to monitor work in progress; and
- providing the means to readily identify and report on work backlogs.

**3.56** The audit observed a number of complementary processes were in place to contribute to the ongoing accuracy and integrity of the information in these databases, including: regular meetings between the property manager and contractors to discuss works; a series of historical and completed work enquiries; and consideration of the impact on the maintenance program during the design of building works.

## Cleaning

### Introduction

**3.57** Organisations should, desirably, have formal arrangements in place for the cleaning of their properties. Cleaning arrangements should be based on a careful analysis of requirements and be supported by detailed specifications, including details of the areas to be cleaned, the frequency of cleaning activity and a statement of the mix of cleaning tasks to be performed.

**3.58** The effectiveness of the cleaning function directly impacts on occupational health and safety issues, as well as staff satisfaction levels. For those organisations with significant visitor access, including the general public, the cleanliness of the building can play an important part in their impression of the organisation, including its efficiency.

### Audit results

**3.59** In most cases, cleaning services for each of the properties occupied by the organisations audited were provided under service contracts. However, in a small number of cases, the respective lessor or their agent managed cleaning arrangements. Each of the organisations had developed a range of specifications

to guide the delivery of contracted cleaning services. Among the organisations audited, the following matters were covered in cleaning specifications:

- schedule of the minimum cleaning resource levels (by function) required;
- schedule of the areas to be cleaned, including areas of restricted access. These schedules detailed, for each nominated area, the frequency, timing and a description of the cleaning tasks to be performed;
- schedule of the consumables required to be provided;
- list of performance standards and indicators of performance; and
- quality assurance checklist.

**3.60** Each of the organisations advised that feedback on the state of cleaning work was received through staff complaints (fault reporting) or through OHS inspections, which, for example, may contain observations that an area is visibly dirty. However, the audit observed a general lack of formal processes for assessing the performance of contracted cleaners, including a failure to ensure the schedule of cleaning requirements was being met. While informal feedback arrangements may be effective in identifying issues and concerns with the state of cleaning, they are less likely to be as effective as formal monitoring or review mechanisms in identifying performance issues. These issues have been addressed above under 'contract management'.

**3.61** The audit also observed a lack of recent assessments to gauge the continued appropriateness and sufficiency of cleaning specifications. This matter is discussed in the following paragraphs.

## **Cleaning specifications**

**3.62** Only one organisation had undertaken, in the last two years, a formal assessment of the appropriateness of their cleaning specifications against current user requirements. Another was compiling an updated specification schedule at the time of the audit. Prior to this, however, the schedule of specifications had not been formally reviewed for six years in that organisation.

**3.63** Only one organisation was able to demonstrate to ANAO that its schedule of cleaning requirements remained appropriate and sufficient to meet its current circumstances. Another organisation, which had a relatively generic schedule, was unable to demonstrate that this schedule adequately addressed the requirements of the various individual locations in its property portfolio.

**3.64** In one organisation, where responsibility for the management of the contracts for cleaning services resided with the external property services

manager or with the respective building owners, copies of cleaning contracts, including schedules of cleaning specifications, were not readily available.

## Cleaning inspections

**3.65** A program of regular inspections of cleaning work provides an opportunity to test the standard of work against the cleaning specifications and to determine if periodic tasks have been carried out. It is also a useful tool to determine if the cleaning specifications continue to be sufficient and appropriate, particularly as circumstances change. A further useful tool, is to supplement an inspection program, with a series of surprise inspections, that is, observing the methods used by the cleaners and assessing their equipment and materials.

**3.66** Only two of the organisations conducted any formal inspections of cleaning works. In these organisations, inspections were based on a mix of formal monitoring, using a checklist and an informal walk around or observation method. In one organisation a special point was made to check items of particular concern, such as toilets and public areas.

**3.67** In two organisations, although the regular conduct of inspections of cleaning work was provided for, these were not occurring. In addition, these organisations had also developed quality control inspection checklists, but these were not being used.

## Health and safety

### Introduction

**3.68** Maintaining a safe and healthy work environment is a highly important part of a productive organisation. While property management staff may not have responsibility for health and safety matters, the active consideration of issues relevant to the maintenance of health and safety standards should be an integral part of all property-related activity.

**3.69** The creation of a safe and healthy workplace is essential for the well being of staff and to maximise the productive potential of the office. Among the potential health and safety roles and responsibilities for property management staff are:

- managing or conducting a program of inspections to identify and measure health and safety risks;
- management of fire equipment, emergency and evacuation procedures, including responsibility for management of the fire warden program;
- management of incident/accident reporting processes;

- ensuring the active participation of staff in the design of work layouts and the selection of office furniture, including workstations; and
- maintaining appropriate monitoring processes and contracts for the prevention and identification and removal of hazards.

3.70 This part of the audit examined the relationship between the property management function and the organisation’s health and safety management. In particular, it examined how health and safety issues were integrated into the property management function, and the processes by which this may occur.

## Audit results

3.71 ANAO found, in each of the organisations audited, that the property management function played an important part in the promotion (and maintenance) of health and safety issues. There were sound processes to ensure that the property management function was well informed of relevant property-related health and safety issues.

## Processes supporting the integration of health and safety issues into property management

3.72 Generally the property management functions in the organisations audited effectively identified and addressed health and safety issues as an integral part of their operations. There were a number of formal and informal processes to ensure the property management function played a role in the creation and maintenance of a safe and healthy workplace. The better practices observed during the audit are highlighted in Table 3.4.

**Table 3.4**

### Integrating OHS into Property Management functions

OHS issues were effectively integrated into property-related activities because:	• a member of the property management team attended meetings of the OHS committee (in one case, the property manager was the chair of the OHS committee);
	• the Property Management area was responsible for coordinating training for, and maintenance associated with the equipment used by Fire Wardens and First Aid Officers;
	• OHS issues and activities were recognised in property management business planning documentation; and
	• OHS representatives were consulted during office refurbishment projects.

Source: ANAO

## Conclusion

3.73 The audit observed a number of shortcomings with the delivery of the selected property management business processes. In particular, there were a range of weaknesses in relation to the management of contracts for the delivery of property-related services. These issues impacted heavily on the effectiveness of the business processes that were reviewed.

3.74 Most of the organisations needed to improve processes for the management of property-related service contracts. In particular there was a need to:

- develop more-formal processes to monitor and measure the performance levels of contractors in order to ensure the required services are delivered to an acceptable standard with any problems being identified in a timely manner; and
- periodically assess the ongoing appropriateness of the services specified in contracts to ensure they continue to be relevant and sufficient and meet circumstances and user requirements.

3.75 There were also several shortcomings in the form of property-related contracts. For example, many of the contracts reviewed did not include a comprehensive description of the services to be delivered; did not identify a performance management processes; nor contain details of acceptable standards of performance.

3.76 The audit observed that the organisations had generally sound and effective processes around the negotiation of new or existing leases and in relation to the termination of leases. However, none of the organisations had effective processes to support the ready identification and management of their property-lease related rights and responsibilities.

3.77 Most of the organisations had not recently assessed their R&M requirements and, as appropriate, developed a formal plan or program to assist in the management of R&M work. By regularly assessing R&M requirements, organisations are better placed to:

- identify the optimal balance between planned or programmed R&M work and ad-hoc maintenance activities, that is, work driven by users' complaints;
- overcome reliance on other functions, including OHS inspections, to identify and report R&M issues; and
- more effectively target R&M activity towards areas of greatest risk and need.

## Recommendation No.2

3.78 ANAO *recommends* that organisations critically assess their property-related business processes and practices on a regular basis, to identify whether they are, and are likely to remain, effective in meeting their short and longer-term property-related requirements.

### Implementing the recommendation

3.79 Assessments of the effectiveness of property-related business processes should be made in the context of, for example, the significance of their property-related assets, the extent of their lease responsibilities and the results of property condition inspections.

## Recommendation No.3

3.80 ANAO *recommends* that organisations develop formal processes that will enable the consistent and timely management of the performance of all contractors providing property-related services.

### Implementing the recommendation

3.81 To support the development of effective performance management processes, organisations will require clear contract terms and conditions. At the very least, the items listed in paragraph 3.18 of this report should be considered for inclusion in contracts for the provision of property-related services.

# 4. Information and Performance Management

## Introduction

4.1 Access to timely and accurate information, including details of: the property occupied by the organisation; how it is used; the resources involved; and the costs incurred, is critical for the delivery of effective property management services. It is also an important element in supporting and informing decision-making processes. In turn, regular monitoring of this information, including comparing it against plans and better practices, is a critical part of the management of performance.

4.2 In evaluating each organisation’s information and performance management processes, the audit assessed the organisations in the audit against the evaluation criteria shown in Table 4.1.

**Table 4.1**

**Information and performance management evaluation criteria**

Evaluation criteria	Principle
Property management information	Information on the property portfolio and related property-operating activities is readily accessible, easy to use, and assists decision-making.
Performance measurement and reporting	Performance against targets and plans is regularly measured and reported to those staff with property management responsibilities and to senior management.
Benchmarking	The organisation periodically measures its performance against a series of acceptable standards or periodically benchmarks its procedures and practices against other organisations.

Source: ANAO

## Property management information

### Introduction

4.3 This area of the audit was concerned with an examination of the extent and form of information, relevant to property management activities, maintained by each organisation. In particular, the audit considered whether information was readily accessible, easy to use, and supported the organisation’s decision-making processes.

4.4 The lack of an authoritative and robust record of information can result in inefficient practices, such as, the inadvertent duplication of data collection activities. It can also result in inconsistencies between data sources, as well as a lack of confidence in the data being presented, and ultimately lead to poor decision-making.

## **Audit results**

4.5 All of the organisations in the audit maintained appropriate levels of financial information in relation to their property management activities. However, there was a general lack of non-financial information, including for example, utilisation levels and levels of vacant space. In addition, the audit identified several opportunities for improvements in information management, including instances of inefficient practices through the duplication of data.

4.6 The organisations sourced property-related information from a variety of records, both electronic and manual. However, none had implemented a specialised property management information system to meet their information needs.

## **Types of property-related information**

4.7 In assessing the management of property-related information, ANAO considered whether the organisations had access to five key areas of information related to their properties and property-related activity:

- identification—location of property and accountability details;
- financial management—budgeted and actual expenditure (and where applicable, revenue) by category and accounting period;
- performance—details of the condition, functionality and utilisation levels of property;
- maintenance—details of programmed and actual maintenance activity; and
- accounting—details of expenditure capitalised for financial reporting purposes.

4.8 Overall, the audit found that most of the organisations audited had access to most of these categories of information. However, only one had ready access to each of these categories of information.

4.9 All the organisations had access to a range of financial information, including details of property-related operating and capital expenditure. However, most did not have ready access to information dealing with the non-

financial issues, such as, information on the efficient use of their properties and on the performance of their property-related activities.

**4.10** The maintenance of non-financial performance information is important to support the comprehensive management of property and property-related activity. For example, it enables more objective analysis and evaluation of whether property and property-related activity is supporting program delivery. In addition to information on the cost of occupying or using property, information is needed to answer the following questions:

- how effective is the property in meeting user requirements;
- are users satisfied with the property;
- what is the physical condition of the property;
- how intensively is the property used; and
- is there any vacant or under-utilised space.

### **Sourcing property-related information**

**4.11** Amongst the organisations audited, property management information was maintained or generated from a variety of sources, most commonly:

- information was held in hardcopy form—usually (but not in all cases) maintained on official files or in project folders;
- spreadsheets—worksheets containing budget and expenditure information and information on each property, including critical lease details;
- Financial Management Information System (FMIS)—containing budget and actual expenditure details;
- specialised building maintenance software—details of plant and infrastructure items and the related maintenance program;<sup>19</sup> and
- reports from contractors—including work reports and various schedules, including details of leases; and analysis of critical dates, debtors, property inspections, and fault reporting statistics.

**4.12** The need to extract information from a variety of sources resulted in a number of instances of poor record/information management practices. For example, two of the organisations in the audit maintained an extensive suite of spreadsheets to record property-related expenditure information. These spreadsheets were maintained because the respective FMISs did not contain sufficient information to meet the needs of the property section. In one case, spreadsheets were maintained because reliable information could only be

<sup>19</sup> The use of this software was discussed at paragraphs 3.55–3.56.

extracted from the FMIS once the end-of-month close processes had been completed.

**4.13** As well as the double keying of information that this situation requires, there is also the additional effort involved in reconciling the spreadsheets to each other (where there is more than one) and, as appropriate, to the FMIS.

**4.14** On occasions, the audit observed that important information was poorly organised or was filed in an unstructured and informal manner. Consequently, it was not always readily available. Poor record-keeping practices can have a detrimental impact on the accessibility of information and the timeliness of decision-making. Furthermore, inadequate management of information increases the risks of using inaccurate or incomplete information and reduces the ability to maintain an effective overview of property management operations.

**4.15** A formal and structured recording system is critical to support effective property management. The proper recording and maintenance of information improves its accessibility and reduces the reliance on the experience and knowledge of key personnel. By way of example, the following structure may be adopted for the storage of property-related information:

- *general accommodation*—to record activities relating to the entire property management function or the property portfolio;
- *property*—documentation relating to each property, including copy of the lease and details of negotiations relating to rentals;
- *contract*—documentation relating to outsourced services, including copies of property service contracts or other service related records; and
- *project*—documentation related to specific projects or activities such as a refurbishment or major maintenance work.

## **Property Management Information Systems**

**4.16** Using financial information, which has not been sourced from the FMIS or from another corporate system that is interfaced with the FMIS, increases the risk of inaccurate, untimely or inconsistent information being relied upon to support decision-making.

**4.17** Better practice is to maintain the information relevant to the management of the property management function, as far as possible in the one system; preferably, an automated system. When circumstances dictate that more than one record is necessary, careful attention to the level of integration between these different systems will reduce inefficiencies and provide better support through improved communication.

**4.18** None of the organisations had implemented a single corporate-wide Property Management Information System (PMIS) to support the delivery of property management services. At the time of the audit, one organisation was working with its external property services manager to obtain access to its PMIS.

## Performance measurement and reporting

### Introduction

**4.19** The ANAO examined the processes employed by organisations to monitor the performance of property-related activities against targets and plans, including the processes for reporting the results to those staff with property management responsibilities and to senior management.

### Audit results

**4.20** Each of the organisations audited had sound processes in place to manage the financial performance of their property-related activities, including the identification, analysis and reporting of variations from financial targets or expectations. However, there were few formal processes in place to regularly measure and assess broader (non-financial) performance issues. These included assessing the progress, timeliness, quality, and effectiveness of the key activities and outcomes associated with the delivery of the property management function.

**4.21** None of the organisations had established, or regularly used, key performance indicators to assist in the measurement of the performance of their property management services. Only two organisations had identified non-financial performance indicators in their property management business plans. However, actual results against these indicators were not being measured and/or assessed in either organisation. Nor were there any targets or expectations to measure performance against.

### *Measuring performance*

**4.22** The monitoring, and measuring, of property management-related performance occurred at a number of levels and through a variety of processes amongst the organisations in the audit. Some of the examples encountered included:

- preparation of property-related activity status reports to the property committee (or equivalent) and the organisation's governing body;

- regular meetings between management and staff of the property section (although these meetings tended to assess progress of activities and not necessarily performance issues);
- analysis of reports from, and monthly meetings with, the outsourced service provider;
- monitoring and reporting progress against milestones; and
- reviewing actual and forecasted expenditure levels (both operating and capital) against approved budgeted levels and providing explanations for variances between the actual and budgeted activity.

4.23 Although non-financial performance issues were considered during some of these processes, the overriding focus in most cases was the financial performance of property-related activities.

4.24 None of the organisations regularly reported on non-financial performance issues associated with their property-related activities, such as, the standard of work performed. Rather, formal reporting of non-financial property management activity was typically limited to the progress of various jobs against critical dates or milestones.

### *Measuring performance across a number of dimensions*

4.25 The lack of formal processes to assess non-financial performance increases the risk of undue influence being placed on financial results to support decisions on performance and in determining future practices and priorities.

4.26 Better practice performance measurement is designed to provide a balance between financial factors and non-financial or operational factors, such as, issues associated with quality, timeliness, customer satisfaction and improvement/innovation. Consideration of a broader range of performance issues enables more effective identification and management of whole-of-organisation performance.<sup>20</sup>

### *Key Performance Indicators*

4.27 Key Performance Indicators (KPIs) can be a useful tool in the management of performance by focusing attention on critical areas and informing assessments of performance. Using KPIs enables managers to readily compare current performance against previous performance or against identified targets and standards, thereby facilitating better analysis of results.

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<sup>20</sup> This is the basis of the Balanced Scorecard approach to performance measurement, for further information refer to Management Advisory Board, *Beyond Bean Counting, Effective Financial Management in the APS—1998 & Beyond*, Commonwealth of Australia, Canberra, 1997, pp.50–54.

**4.28** The use of KPIs requires careful planning. There are a number of characteristics that contribute to the quality and effectiveness of KPIs, including:

- keeping the number of measures to an acceptable minimum, for example, five or six;
- ensuring KPIs are able to be measured objectively;
- using a mix of results orientated and outcome oriented indicators;
- establishing clear lines of responsibility/accountability;
- ensuring measures are broad-based, that is across cost, quality and time dimensions; and
- linking KPIs to the critical risks and success factors.

**4.29** Three of the organisations had developed a series of KPIs in either their business planning documentation, or in contracts for the delivery of property management services. However, none were using KPIs effectively to assist with the measurement of the performance of the property management function.

**4.30** In one case, performance indicators contained in the business plan were mainly concerned with the completion of projects and did not overtly measure quality and cost issues. Well-defined performance indicators can lead to more informative assessments of performance and an enhanced understanding of activities.

**4.31** Some examples of potential KPIs that can be adopted for use in the management of property-related operations and service delivery are shown in Table 4.2.

**Table 4.2****Potential property-related KPIs**

<b>Operational measures</b>
• property-operating costs (in total or broken down into the major components, such as rent, maintenance, energy and cleaning) per m <sup>2</sup> ;
• proportion of salary costs to total property-related costs;
• percentage of planned maintenance undertaken;
• proportion of vacant space in properties;
• property condition index (composite indicator based on the relative score given to a range of components);
• ratio of capital expenditure to maintenance expenditure; and
• space utilisation (m <sup>2</sup> per employee, including contractors).
<b>Service delivery measures</b>
• satisfaction levels;
• percentage of works completed in accordance with budgets (time and costs);
• number of concerns raised by staff, building owners/agents or regulatory authorities;
• timeliness of help-desk responses;
• accuracy/timeliness of payments;
• proportion of critical lease dates met; and
• number of instances of proactive or innovative advice.

Source: Grosvenor Management Consulting

## Benchmarking

### Introduction

4.32 Benchmarking is a proven and sound performance improvement methodology. By comparing costs and other measures associated with the delivery of property-related functions to other organisations, organisations can gain a valuable source of information and opportunities for improvement.

4.33 The ANAO examined the extent to which the organisations in the audit were involved in benchmarking activity and how they had dealt with the results or information gained. Additionally, the ANAO calculated, based on data supplied by the organisations, a set of five data-metrics, to identify relative efficiencies associated with property management activity. These metrics can be used by organisations to compare the costs of their own property management function and may highlight opportunities for process improvement.

## Audit results

4.34 Only two of the organisations in the audit had been involved in formal benchmarking studies in the past. Of these, only one regularly compared its property management processes and performance against external data sources, albeit, often informally. Amongst the processes used by that organisation to periodically measure its performance were:

- comparison of staff satisfaction ratios (from surveys) with a number of external organisations;
- regular liaison with, including sharing experiences with similar organisations;
- assessment against corporate services diagnostics developed by Finance; and
- maintaining an awareness, through newsletters and internet newsgroups, of activities in similar organisations.

### *Data metrics*

4.35 During the audit, the ANAO collected a range of information in order to identify the level of investment, and to gauge the relative efficiencies, of property management activity across the organisations audited. Information was obtained to calculate the following measures.

- (a) Property operating costs<sup>21</sup> per square metre.
- (b) Property operating costs per person (including employees and contractors).
- (c) Number of square metres (of office accommodation<sup>22</sup>) per person.
- (d) Property operating costs as a proportion of total Departmental or Operating expenditure.
- (e) Property staff costs as a proportion of total property operating costs.

4.36 The average results for each of these metrics are shown in Table 4.3. This table also outlines best practice industry benchmarks that have been collated for

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<sup>21</sup> Property operating costs includes rent, repairs and maintenance expenditure, cleaning and other outgoings, building depreciation (owned properties), security costs, property staff costs and any outsourced provider's fees. It excludes insurance, other costs of ownership and expenditure of a capital nature.

<sup>22</sup> Different types of accommodation can impact significantly on portfolio performance; for example, storage areas will have a higher cost per person but lower costs per square metre. Accordingly, significant space not used for office accommodation was excluded from the calculation of this metric. However, no adjustment has been made for any property-related costs directly associated with these areas (for example, cleaning and utility costs).

the ANAO by Grosvenor Management Consulting from a number of sources, including industry reports and benchmarking activities.

**Table 4.3**

**Property management data metrics**

Metric Number	Average for organisations that own property	Average for organisations that lease property	Average for all organisations in the audit	Industry Benchmark
1	\$350	\$395	\$377	\$200 to \$275
2	\$6 564	\$10 185	\$8 737	\$6 000 to \$9 000
3	19.54 m <sup>2</sup>	26.00 m <sup>2</sup>	23.42 m <sup>2</sup>	14 m <sup>2</sup> to 20 m <sup>2</sup>
4	7.15%	6.82%	6.95%	4.0% to 7.0%
5 <sup>23</sup>	20.70%	2.86%	10.01%	0.5% to 4.7% (leased) 5.0% to 7.0% (owned)

Source: ANAO, based on data supplied by the audited organisations

4.37 Overall, the results for the organisations in the audit, particularly amongst those that leased their office accommodation, were broadly consistent with each other's. Table 4.3 also indicates that the various 'averages' of the organisations in the audit, with the exception of metric number five, are higher than (or at the higher end of the range of) the best practice industry benchmarks. This suggests there is scope for the organisations to improve their management of space and property-related costs.

4.38 On the other hand, the wide-ranging results for metric number five indicates that care needs to be taken in comparing the average of the organisations in the audit with the industry benchmarks. The average for the organisations that leased their property was at the mid-point of the comparable industry benchmark and is considered to be acceptable. However, the extreme result for the organisations that owned property is less comparable to the industry benchmark. This is because it is, at least in part, due to the fact that the property-related staff in these organisations are involved in property-related capital works or improvement activities as well property-operating work.

4.39 Organisations should measure their own property-related performance against these metrics as they may highlight opportunities for process

<sup>23</sup> This measure will vary significantly depending on the level of outsourcing and the roles performed by internal staff. For example, fully outsourced arrangements will generally be at the lower end (0.5% to 1.5%), however, owned portfolios will generally be higher due to responsibility for the base building. Extreme results may be experienced when internal property staff also perform functions in addition to facilities maintenance (including maintenance tasks, project management, help-desk, portering and hotel services).

improvement. To achieve an accurate level of comparability with these, or any of the benchmarks included in this section, care should be exercised with the measurement of costs and application of definitions. As an example, it is common industry practice to reduce the size of the total leased space for any areas that are sub-leased and to reduce the amount of property-operating costs by the amount of any sub-lease revenue.

**4.40** These metrics were based on the total office space available to the organisations. ANAO has not attempted to identify relative measures for each location (for example, each state) where accommodation was situated. Audit Report No.53, 2000–2001 highlighted that there can be significantly different accommodation costs between city/metropolitan and country/regional locations.<sup>24</sup> On average, the organisations in the audit had over 90 per cent of their accommodation in city/metropolitan areas. Given this, organisations with a large proportion of their accommodation in country/regional areas may not be able to readily compare their accommodation costs to these metrics.

### *Other public sector property-related benchmarking in Australia*

**4.41** In September 2002, the NSW Government reported that the average space ratio of the office accommodation occupied by its agencies was 18.07 m<sup>2</sup> per person.<sup>25</sup> Both the SA and Victorian governments also conduct regular benchmarking work to monitor the performance of agencies in meeting a range of established space targets, including:

- average area (m<sup>2</sup>) per full time equivalent;
- average area (m<sup>2</sup>) per workpoint;
- percentage of vacant workpoints;
- proportion of enclosed areas; and
- proportion of interactive and support areas.

**4.42** Under the auspices of the Australian Procurement and Construction Council, the Government Real Estate Group (GREG)<sup>26</sup> has conducted benchmarking work to measure the performance of Government office accommodation practices. The latest report by the GREG<sup>27</sup> contained the following property-related benchmarks as at 30 June 2001:

<sup>24</sup> Australian National Audit Office, op. cit., pp 61–63.

<sup>25</sup> NSW Department of Public Works and Services, op. cit., p.5.

<sup>26</sup> Comprising the seven agencies responsible for property management in each state (and NT) public-sector jurisdiction.

<sup>27</sup> Government Real Estate Group, National Office Accommodation Benchmarking Report, December 2001, available at <[www.apcc.gov.au/apcc/publications/](http://www.apcc.gov.au/apcc/publications/)>.

- occupational density—net lettable area per employee (or workpoint);
- vacancy rate—the percentage of marketable office accommodation (by area) that is vacant; and
- simple yield—the percentage yield on government owned accommodation.

4.43 As only the first measure is comparable to the data metrics calculated during the audit, further analysis will be limited to it. However, vacancy rates are also a useful measure of property-utilisation and should be considered as part of any property management performance framework. Vacancy rates of not more than 3 per cent of total office space are considered better practice.

4.44 Five of the seven agencies contributed to the GREG's occupational density measure. The results for three of the states were based on *area per employee* calculations, while in the other two; the results were based on *area per workpoint*. Overall, the average occupational density measures reported ranged between:

- 18.0 m<sup>2</sup> to 21.6 m<sup>2</sup>—based on *area per employee*; and
- 16.3 m<sup>2</sup> to 17.3 m<sup>2</sup>—based on *area per workpoint*.

4.45 The report further identified that four of the five states had reduced their occupation density measure over the last twelve months and that a similar number had reduced their occupation density rates over the four years of the study. These five states had each set targets for occupational density of between 15 m<sup>2</sup> and 18 m<sup>2</sup> per employee for both their owned and leased properties.

4.46 Finally, the ACT Division of the Property Council of Australia has recently established and agreed to facilitate a forum for Commonwealth property managers. ANAO supports this action, as it could prove to be a useful vehicle for sharing ideas and information. It also provides organisations with another source of data on the relative costs and processes associated with property-related activity.

## Conclusion

4.47 Generally, the processes for the management of property-related information were sound and effective, although some inefficient record-keeping and data-storage practices were observed. To achieve more efficient and effective information management and improve the accessibility of information, organisations should:

- adopt more-formal and structured filing systems for recording hard-copy property-related information; and
- as far as possible, maintain electronic property-related information in one system.

4.48 All of the organisations had access to a range of financial information on their property-related activities. They generally had sound processes to manage the financial performance of their property-related activities, including the identification, analysis and reporting of variations from financial targets or expectations. Most, however, did not have ready access to non-financial information. There were few formal processes to regularly measure and/or assess broader (non-financial) performance issues. The lack of analysis of non-financial performance information meant that the organisations were not readily able to address issues such as: how effectively the property was being used; whether it was meeting user requirements; the satisfaction of staff; and the quality of property-related activities.

4.49 The audit observed scope for greater use of KPIs in the delivery of property management activities. The monitoring of carefully defined KPIs can assist with the measurement of performance and lead to greater levels of understanding and interpretation.

4.50 The audit also observed the need for organisations to undertake more regular comparisons of their property-related performance against other organisations and/or appropriate external standards. For example, organisations should compare their performance against the data metrics contained in Table 4.3. A comparison of the best practice industry benchmarks and the averages for the organisations in the audit, contained in Table 4.3, indicates there is scope for savings through improvement in the management of space and property-related costs in the Commonwealth.

## Recommendation No.4

4.51 The ANAO *recommends* that organisations regularly assess the performance of their property-related activity across a range of performance measures, incorporating both financial and non-financial dimensions.

## Implementing the recommendation

4.52 To support the effective implementation of this recommendation, organisations will require access to a cost-effective, authoritative, reliable and timely source of financial and operational property-related information.

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Canberra ACT  
17 December 2003



P. J. Barrett  
Auditor-General

# Appendices



# Appendix 1: Property Management arrangements in State Government jurisdictions

The following are three examples of current property management practices in state government jurisdictions in Australia.

## New South Wales

The New South Wales (NSW) Government launched the Office Accommodation Reform Program in 1996. This program comprises a series of strategies to improve the planning and management of office accommodation. Among the objectives of the program are:

- reducing the financial impacts of owning and occupying property;
- releasing more funds for core services;
- reducing the exposure of agencies to rent increases;
- achieving better space utilisation; and
- ensuring the best leverage out of the Government's position as a significant player in the real estate market.<sup>28</sup>

The Government Asset Management Committee (GAMC) was established to oversee the effective management of the Government's investment in office accommodation and to monitor implementation of the reforms.

Two key elements of the program are the development of annual office accommodation plans by individual agencies and the regular measurement of space utilisation performance. These processes are coordinated by the Office of Government Business (formerly the Department of Public Works and Services (DPWS)) in the Department of Commerce.<sup>29</sup> The Department provides guidance and instruction to enable individual agencies to complete their plans and are responsible for analysing these plans. Through this process it accumulates information to assist in the development of whole-of-government office accommodation strategies, including identifying opportunities for sharing corporate services and for regional development.

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<sup>28</sup> NSW Department of Public Works and Services, Government Office Accommodation Reform Program—Improved service delivery, Better workplaces, Savings in accommodation, Sydney, December 1998.

<sup>29</sup> The former DPWS was incorporated into the Department of Commerce in April 2003.

The former DPWS advised ANAO that it estimated that improvements in space management had yielded, since the reform program commenced, savings in rental costs of approximately \$450 million. In addition, it considered the major improvements in the management of office accommodation were:

- reduction in the average occupancy ratio from around 24 m<sup>2</sup> per person to around 18 m<sup>2</sup> per person;<sup>30</sup>
- reduced duplication of effort;
- better communication;
- better staff morale;
- improved links between service delivery and office accommodation; and
- greater recognition of opportunities for savings.

## Victoria

In January 2001, the Victorian Government released its Office Accommodation Guidelines<sup>31</sup> to assist agencies administer their office accommodation responsibilities. The guidelines contain a series of key principles for the use of office accommodation, including:

- space allocation based on a benchmark of 15 m<sup>2</sup> per full time equivalent (FTE);
- office environments designed to suit the nature of the work to be undertaken;
- whenever cost effective and appropriate, agencies should utilise any vacant or under utilised space that is owned or leased by other public sector agencies;
- new lease commitments should reflect the current and future service needs of the government; and
- the use of office space for storage is to be minimised.

The Victorian Government Property Group (VGPG) plays the key coordination role over the Victorian Government's portfolio of leased and owned office accommodation. In this role, the VGPG fulfils the responsibilities of both landlord and tenant. A key role of the VGPG is to ensure that a commercial, whole-of-

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<sup>30</sup> NSW Department of Public Works and Services, 2002 Office Accommodation Survey—A Snapshot, Sydney, September 2002.

<sup>31</sup> Department of Treasury and Finance, Office Accommodation Guidelines, Melbourne, January 2001.

government perspective is taken in relation to property-related decision-making. Its responsibilities include:

- developing and implementing office accommodation strategies and policies;
- developing standardised leases for use by departments and agencies;
- reducing the costs of office accommodation and minimising vacant space and dead rent;
- establishing and promulgating office accommodation benchmarks; and
- managing a program of property-related performance audits.

## South Australia

As part of its office accommodation strategy, adopted in April 2001, the South Australian Government published a set of *Office Accommodation Guidelines*<sup>32</sup> to assist its agencies plan and manage their office accommodation.

The Government Office Accommodation Committee (GOAC) oversees the use of office accommodation to ensure compliance with the Government's policy requirements.

On a day-to-day basis, the Real Estate Management (REM) business unit in the Department of Administrative and Information Services, is responsible for the management of the South Australian Government's office accommodation portfolio (both owned and leased). Its responsibilities include:

- coordinating the planning of office accommodation solutions by individual agencies;
- developing strategic whole-of-Government office accommodation plans;
- providing assistance to individual agencies in the procurement of suitable accommodation;
- managing office accommodation, including leasing arrangements for government agencies;
- developing, facilitating and monitoring policies for the provision and management of office accommodation; and
- providing an interface with the GOAC.

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<sup>32</sup> Department of Administrative and Information Services, *Office Accommodation Guidelines*, Adelaide, April 2001

## Appendix 2: A maintenance planning model

A maintenance planning process might entail the following steps:<sup>33</sup>

### Conduct an Asset Failure Risk Assessment

Organisations should conduct an assessment to review the probability, mode and consequences of the failure of their assets. Following an assessment, the implications of the failure of each asset should be assigned a criticality factor. Examples of critical factors are:

- safety—there are safety issue related to the failure of the asset;
- function—failure of the asset could effect operational capabilities, including security;
- cost—failure could results in significant loss of value or increased maintenance costs in the longer-term;
- image—failure could impact on public image or perceptions of staff; and
- environmental—failure could impact on environmental issues.

### Review strategic policies and directions

These should be reviewed to determine whether there are any new policies, priorities or directions that are likely to impact on the level of maintenance expenditure required for particular assets, for example, increased or scaled-down activity in a particular location.

### Review condition of each asset

Regular inspections of the condition of assets are a good source of information on the rate of an asset's deterioration and provide guidance on the optimum balance between planned and unplanned maintenance activity. Such reviews can also provide information on an asset's remaining useful life, may provide an indication whether an asset is being over or under maintained and provide options and recommendations for rectification. The following ratings might be adopted:

- excellent—only normal maintenance required;
- good—minor maintenance required;

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<sup>33</sup> Commonwealth Scientific and Industrial Research Organisation, op. cit., pp. 34–37.

- average—significant maintenance required;
- poor—significant renewal or upgrade required within two years; and
- failed—the asset is unfit for service and requires replacement in the current year.

### **Review user requirements and minimum performance standards**

A key element in the development of an effective maintenance strategy is a clear understanding of user needs and preferences. These have to be balanced with any recommended or standard maintenance arrangements and also statutory requirements in order to identify desirable or optimum levels of performance reliability.

### **Adjust planned maintenance program (as required)**

Based on the information gained, decisions need to be made, documented and implemented, including developing or amending the maintenance works plan or schedule, entering into, or amending arrangements for the provision of the maintenance work; and updating budgets and dealing with related funding issues.

## Appendix 3: Responses from organisations

The comments provided on the proposed audit report by the organisations that participated in the audit are shown below.

### **Australian Communications Authority (ACA)**

The ACA did not provide comments on the proposed report.

### **Australian Film, Television and Radio School (AFTRS)**

The AFTRS welcomed the chance to participate in the Property Management audit as it was seen as an opportunity to assess the progress that it had made in recent years in the area of property management, services and maintenance.

The AFTRS embraces the findings of the audit. It can identify with several of the sound and better practices highlighted, as well as a number of the positive observations included within the audit report.

The AFTRS acknowledges the recommendations made and has already commenced work to address the specific issues raised.

### **Civil Aviation Safety Authority (CASA)**

CASA advised that the report's conclusion, that property management services in the audited organisations were operating efficiently and were generally providing an adequate level of support for the business, accords with its own view of the performance of its property management function. CASA advised that changes to the civil aviation environment will inevitably impact on the way in which it conducts its regulatory functions. This, by its nature, will affect the performance of functions such as property management and sometimes means a reactionary rather than longer term planning approach. CASA recognises this and accepts that it must ensure a focus on longer term planning as well as the need to continue to review and assess its business processes, including those relating to the management of its property portfolio.

Recommendation No.1—CASA agreed with the recommendation, indicating that it is developing a business model for its future operations. In conjunction with this development work, CASA will review and document plans for longer term property requirements to meet organisational needs.

Recommendation No.2—CASA agreed with the recommendation and indicated that it will review its property-related processes to ensure they meet property requirements.

Recommendation No.3—CASA agreed with the recommendation. While it considers its existing processes are adequate, it advised that as current service contracts are reviewed, it will ensure services are well defined and processes are put in place to monitor and measure performance levels.

Recommendation No.4—CASA agreed with the recommendation, advising that it will, as appropriate, develop financial and non-financial performance measures to assess its property activities.

## **Department of Employment and Workplace Relations (DEWR)**

Recommendation No.1—DEWR agreed with the recommendation, indicating that it has taken a strategic approach to long-term property requirements and developed a strategic property management plan. This document forms the umbrella under which the annual property-related business plan resides. Both plans encompass risk management plans and are monitored quarterly to achieve desired property outcomes. DEWR advised that its property management service provider conducts a program of annual condition inspections and provides a report on each property. DEWR also indicated that its annual business-plan template requires forecasts of accommodation requirements, to assist in the accurate and efficient allocation of accommodation.

Recommendation No.2—DEWR agreed with the recommendation, advising that the new contractual arrangement with its outsourced service provider strengthened the formal measurement aspect of property-related service delivery.

Recommendation No.3—DEWR agreed with the recommendation, indicating that it has established, and is further developing, key performance indicators to assist in the effective review of performance in property-related contracts.

Recommendation No.4—DEWR agreed with the recommendation. It advised that its strategic property management plan and associated property-related business plan are reviewed and revised quarterly. It is also indicated that it has developed performance-focussed exception reporting on property service contracts and commenced benchmarking auxiliary property-related contracts.

## **National Library of Australia (NLA)**

Recommendation No.1—the NLA supported the recommendation. It noted that the management of 'owned' buildings can be very complex and that comprehensive planning and control procedures were required. It also noted that the development of policy and procedural documentation needs to be carefully managed to ensure that these remain concise, informative and not too onerous to maintain.

Recommendation No.2—the NLA agreed with the recommendation. It indicated that it has in place a generally sound regime of property-related business processes and practices that is subject to regular review by a senior executive committee.

Recommendation No.3—the NLA supported the recommendation, advising that it will look to formalise some of the less structured contract management arrangements.

Recommendation No.4—the NLA agreed with the recommendation, noting, however, that it can be difficult to find suitable benchmarks for special purpose facilities and, on occasions, cost prohibitive to seek certain improvements.

### **Department of Finance and Administration (Finance)**

Finance did not participate in the audit but was asked to comment on two extracts from the proposed report.

In its response, Finance indicated that it noted the comments in the extract provided with respect to agencies' compliance with the Commonwealth Property Principles (CPP). Finance indicated that it will review the final report with a view to any identified systemic weaknesses and will determine whether further action is required to ensure agencies are aware of their obligations under the CPPs.

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