



# Auditor-General of Victoria

*Special Report No. 9*

## Land Utilisation

*November 1987*

PERSONNEL OFFICER.

VICTORIA

Russell Walker

---

*Report*

of the

*Auditor-General*

**SPECIAL REPORT No. 9**

Land Utilisation

---

*Ordered by the Legislative Assembly to be printed*

---

MELBOURNE  
F D ATKINSON GOVERNMENT PRINTER  
1987



November 1987

The Honourable the Speaker,  
Legislative Assembly,  
Parliament House,  
MELBOURNE, Vic., 3002

Sir,

Under the provisions of the *Audit Act 1958*, I transmit a report on land utilisation. The main aim in carrying out this review was to determine the extent to which government departments and agencies managed the property at their disposal in an efficient and economic manner commensurate with modern land management principles and practices.

This report was prepared by a special project team led by Mr Trevor Wood, Director of Audit, with the co-operation and assistance from the departments and public bodies covered by the review. The participation by departments and public bodies was essential in preparing this report and I am grateful for their timely and considered responses to matters raised by the project team. I am pleased to note that organisations have responded positively and in a constructive manner to the issues raised in this report.

Yours faithfully,

A handwritten signature in black ink, appearing to read "R. G. Humphry". The signature is fluid and cursive, with a long horizontal stroke at the end.

R. G. HUMPHRY  
*Auditor-General*

# PREVIOUS SPECIAL REPORTS OF THE AUDITOR-GENERAL

---

<i>Report no.</i>	<i>Title</i>	<i>Date issued</i>
1	. <i>Works contracts overview - First Report</i>	June 1982
2	. <i>Works contracts overview - Second Report</i>	June 1983
3	. <i>Government stores operations</i> . <i>Departmental cash management</i>	October 1984
4	. <i>Court closures in Victoria</i>	November 1986
5	. <i>Provision of housing to government employees</i> . <i>Post-project appraisal procedures within the Public Works Department</i>	December 1986
6	. <i>Internal audit in the Victorian public sector</i>	December 1986
7	. <i>Motor vehicles</i>	April 1987
8	. <i>Foreign exchange</i>	November 1987

---

# CONTENTS

---

	<i>Page</i>
<b>PART 1</b>	<b>REVIEW SUMMARY</b>
1.1	Background 3
1.2	Objectives, scope and conduct of the review 4
1.3	Major observations and conclusions 5
<b>PART 2</b>	<b>DETAILED AUDIT OBSERVATIONS AND RECOMMENDATIONS</b>
2.1	Asset identification 15
2.2	Legislation 18
2.3	Management policies and procedures 22
2.4	Forward planning of property requirements 25
2.5	Revenue 28
2.6	Disposal of surplus properties 35
2.7	Leasing of office accommodation 41
2.8	Resource management 50
2.9	Land Monitoring Division 53
2.10	Accountability 55

**PART 1**

**REVIEW SUMMARY**

## 1.1 BACKGROUND

- 1.1.1 The Crown land estate occupies approximately 39 per cent of the total land area of Victoria. Of these holdings which represent 8.7 million hectares, approximately 52 per cent is reserved land consisting mainly of forests, national parks and land set aside for special purposes under the *Land Act* 1958. Approximately 3 million hectares of Crown land are occupied or utilised by the private sector for purposes of primary production, industry and/or commerce, recreational facilities and extractive industries.
- 1.1.2 The Department of Conservation, Forests and Lands is primarily responsible for the management of all Crown land and, in the event of any portion of such land being sold, is responsible for the issue of Crown grants enabling freehold title to be obtained. The cumulative value of total holdings of Crown land has never been assessed, although limited attempts have been made to value certain parcels managed by individual government agencies.
- 1.1.3 Following the recommendations of a consultant's report prepared in 1985 on property functions of the Victorian Government, a process has begun of classifying all Crown land into either government land or public land. The responsibility for public land, i.e. land permanently reserved for the use of present and future generations such as national parks and State forests, will remain with the Department of Conservation, Forests and Lands. Government land, i.e. land used for operational purposes by government will be progressively transferred to the Department of Property and Services. In 1986 the Department of Property and Services was responsible for administering property valued at in excess of \$1 billion. This agency is currently responsible for the provision of accommodation for government departments and certain agencies, and will be responsible for the sale and purchase of government land, and the overall responsibility for government land, when the proposed new arrangements governing land administration are implemented.
- 1.1.4 In addition to Crown land holdings, many government agencies hold freehold title to large property holdings, particularly the transport authorities and the Director of Housing. While this land is mainly used for operational purposes, or, in the instance of the Director of Housing, as a land bank for future housing developments, a certain proportion is rented/leased to the private sector or used for community purposes.
- 1.1.5 The Land Monitoring Division of the Department of Management and Budget is responsible for an oversight of all property transactions, excluding leasing, exceeding \$100 000 which are entered into by government departments and agencies.

## 1.2 OBJECTIVES, SCOPE AND CONDUCT OF THE REVIEW

- 1.2.1 The overall objective of the audit review was to determine the extent to which government departments and agencies managed the property at their disposal in an efficient and economic manner commensurate with modern land management principles and practices.
- 1.2.2 Specifically, the review covered the existence and practical application of policies and procedures for the identification, recording, utilisation, monitoring and disposal of properties. In addition to these aspects, emphasis was also placed on the accountability of government bodies for the property assets managed, in terms of adequate disclosure in annual financial statements and the value of this information for management purposes. The review did not extend to State forests, national, State or regional parks, or major developments under the control of the Victorian Government Major Projects Unit.
- 1.2.3 To obtain a balanced perspective in the review a cross section of public sector agencies was selected for examination. These agencies were:
- \* Alpine Resorts Commission;
  - \* Department of Conservation, Forests and Lands;
  - \* Department of Industry, Technology and Resources (Mining Division);
  - \* Department of Management and Budget;
  - \* Department of Property and Services;
  - \* Director of Housing, (Land Division);
  - \* Metropolitan Transit Authority;
  - \* State Transport Authority; and
  - \* Victoria Police Force.
- 1.2.4 Deficiencies in asset recording, management and reporting have been acknowledged by the Government for a considerable period of time. In an effort to address these issues a consultancy study on asset management was initiated by government in 1986. Subsequent to this study, a project commenced in July 1987 within the Department of Management and Budget to develop further policies in this area, and to progressively improve the standard of asset recording and reporting in the budget sector. The purpose of this report is to highlight the problems involved, including a range of additional issues which warrant further attention, and to provide constructive suggestions for the ongoing process of improving financial management and accountability controls within the public sector.
- 1.2.5 Following completion of the review, management letters were provided to the various agencies involved for the purpose of seeking comment on aspects relevant to their activities. Comments from the agencies on matters of significance are included in part 2 of this report.



### 1.3 MAJOR OBSERVATIONS AND CONCLUSIONS

- 1.3.1 The major observations and conclusions arising from the review are set out below. Although certain problems identified in the review may take some years to satisfactorily resolve, it was pleasing to note that, in general, agencies have responded positively to the issues raised and are taking action to remedy the deficiencies identified.
- 1.3.2 It must also be emphasised that management has been aware of many of the problems referred to for a long time. However, the solutions to these problems were on occasions, beyond the capacity of individual agencies. Nevertheless, audit considers there is an obligation upon government agencies to endeavour to maximise public benefit from properties under their control.

#### **Asset identification**

- 1.3.3 In general, the standard of recording of property assets in registers was poor, particularly in agencies with large holdings such as the Department of Conservation, Forests and Lands and the transport agencies.
- 1.3.4 As a consequence of property register deficiencies, the ability to effectively monitor property holdings was restricted, especially in terms of assessing whether properties were being effectively utilised for public purposes, and whether revenue earned from such properties represented an appropriate return on asset value.
- 1.3.5 The absence of effective property registers has also restricted the ability of agencies to identify properties surplus to operational requirements, that could be disposed of or which might be utilised in pursuing alternative policy objectives.
- 1.3.6 *All agencies should allocate a higher priority to the establishment of asset registers and subsidiary monitoring systems, preferably through the use of computer based-systems, which will facilitate the maintenance of current information, including valuations.*

#### **Legislation**

- 1.3.7 Certain aspects of existing legislation governing the use of Crown land are considered outmoded, and inappropriate for the purposes of obtaining adequate public returns from land utilised by the private sector and community organisations.
- 1.3.8 The uncertainty surrounding the basis for licences permitting exclusive private use of Crown land in circumstances where the fee charged could be regarded as a tax, needs clarification.
- 1.3.9 The adequacy of certain fees and charges levied under mining and extractive industry legislation warrants review, particularly in circumstances where minimal licence fees are charged for extended use of Crown land for essentially commercial and industrial operations.
- 1.3.10 *There is a need for the land legislation review which commenced in 1986, to consider amendments reflecting removal of inappropriate provisions, and to provide for greater flexibility of leasing arrangements. The mining and extractive industry legislation also needs to be reviewed as to the level of certain fees and charges.*
- 1.3.11 *There is also a need to clarify the basis for charging licence fees calculated upon a proportion of land values.*

## **Management policies and procedures**

- 1.3.12 A major deficiency in property asset management throughout the State is the absence of any specific resource management and accountability legislation dealing with the custody, control, management and accountability of public property under the control of government agencies.
- 1.3.13 Partly as a result of the absence of modern legislation, there is a lack of uniform policy guidelines both at departmental and central agency level. Even where broad policy directives were given, these were not always translated into management policies, directives and procedures necessary for the achievement of overall objectives.
- 1.3.14 Policy development was identified as being essential in many areas, to remove inconsistencies, delays and inequities that had developed and which were restricting opportunities to gain additional revenue.
- 1.3.15 *There is an urgent need to finalise foreshadowed resource management and accountability legislation.*
- 1.3.16 *Agencies need to establish and document corporate objectives in relation to their property functions, together with operational policies, procedures and directives, etc. which are consistent with government objectives.*

## **Forward planning of property requirements**

- 1.3.17 Over the past decade there has been a notable absence of long-term planning for government accommodation, and to a lesser extent, property requirements for operational purposes.
- 1.3.18 The lack of forward planning has contributed to a situation where extensive use is being made of leased premises as a short-term option, while at the same time a small number of government-owned properties have not been utilised to their maximum potential.
- 1.3.19 Although a Cabinet Committee meets annually to prepare 3 year forward estimates for works expenditure, these estimates with certain exceptions, are not complemented by detailed forward planning by agencies as to property needs. Reasons for the lack of planning by agencies included uncertainty as to future funding of proposals, potential policy changes and a low priority being assigned to this task as compared with the introduction of new programs and initiatives.
- 1.3.20 *Failure to undertake forward planning of operational requirements has contributed to an accumulation of under-utilised properties and inability to properly project and prioritise property and capital works requirements in response to emerging public demands.*
- 1.3.21 *All agencies should prepare forward plans of property requirements to assist in the budgetary process, and to aid the Department of Property and Services in planning for government accommodation requirements.*

## **Revenue**

- 1.3.22 In view of the magnitude of Crown land and agency property holdings either leased or licenced to the private sector, total revenue obtained from this source was relatively low.

- 1.3.23 Major factors inhibiting satisfactory revenue returns included:
- \* the restrictive nature of many long standing leases, particularly in the metropolitan and alpine areas. These leases, which were previously seen as essential to promoting development often provided for infrequent review periods, limitations on rental increases and periods extending to 99 years;
  - \* outdated legislative provisions;
  - \* wide-ranging inconsistencies in the level of charges payable by municipal councils, community groups and on land used for amusement or recreational purposes;
  - \* licencing arrangements providing minimal returns in circumstances where leasing at market values was more appropriate;
  - \* delegation of management responsibility for land to Committees of Management or private individuals without due regard to revenue provisions;
  - \* substantial delays in establishing the level of charges;
  - \* poor control over debtors; and
  - \* the effect of policy decisions. In this regard audit considered that the site rental policy adopted at alpine locations will not produce sufficient revenue to enable the Alpine Resorts Commission to adequately fulfil its statutory objectives without further subsidy.
- 1.3.24 Agencies in general did not make a conscious effort to actively seek tenants, promote land usage, or seek tenders for land suitable for commercial or industrial activities.
- 1.3.25 Pursuant to land tax legislation a lessee is primarily responsible for the payment of land tax on properties valued at in excess of \$64 000. Despite the large volume of properties eligible for land tax which are leased to the private sector, this aspect was not given proper attention, resulting in State revenue of many millions of dollars being foregone. With the exception of one site, land tax has never been levied upon alpine properties.
- 1.3.26 Agencies are slowly becoming conscious of the scope for increasing revenue through such actions as applying market values to new leasing arrangements. However, there is need for a concentrated effort by all agencies to define operational and community requirements, and to evaluate the remaining properties with a view to either obtaining revenue or disposal through public sale.
- 1.3.27 *There is a need for agencies to maximise the economic returns to the State from property management. Specifically consideration needs to be given to:*
- \* *reviewing the level of charges to be applied to land used for amusement, recreation, municipal and community purposes;*
  - \* *phasing out licencing arrangements in circumstances where leasing was more appropriate;*
  - \* *ensuring that all new leasing arrangements are commercially orientated;*
  - \* *drawing to the attention of the Commissioner of Taxation potential land tax liabilities; and*
  - \* *disposing of surplus properties with a high capital value where market returns cannot be achieved.*

## **Disposal of surplus properties**

- 1.3.28 The State has accumulated a large number of properties valued at in excess of \$1 billion which are either vacant, under-utilised or not required for government purposes. Many of these properties are being sold as part of a surplus asset disposal program initiated by the government in 1986. The full extent of properties held by government agencies ostensibly for operational purposes, and which are under-utilised cannot be estimated, due to inadequate management information.
- 1.3.29 Various problems are being encountered in the disposal of surplus properties, including:
- \* difficulty in identifying potentially surplus sites due to poor asset registers and uncertainty as to future operational requirements;
  - \* extended delays in obtaining Crown grants from the Department of Conservation, Forests and Lands enabling issue of freehold titles; and
  - \* difficulties in having land rezoned by certain Municipal Councils for either residential or commercial purposes. Delays usually occurred in circumstances where the Councils wanted the land for a community purpose and offered to buy it at a reduced value.
- 1.3.30 The concept of disposing of surplus properties for the best obtainable price, with proceeds being applied towards maintaining capital infrastructures which enhance benefits to the public of Victoria, has merit. However, while certain strategic developments are taken into consideration in the disposal program, attention needs to be given to the following:
- \* due to the absence of forward planning in most agencies, a danger exists that certain sites could be disposed of prematurely;
  - \* in view of the substantial leasing costs already incurred by the Government, the disposal of government-owned accommodation needs to be considered carefully; and
  - \* certain sites listed for disposal may be suited to development of public office accommodation at a later date.
- 1.3.31 *As the asset sales program continues, consideration needs to be given to sites which may be appropriate for future development for government purposes, in conjunction with the determination of other government priorities.*

## **Leasing of office accommodation**

- 1.3.32 The proportion of government-owned office accommodation as compared to leased premises has been reduced State wide from 75 per cent owned in 1973 to 33 per cent in 1987. The annual leasing bill payable from the Public Account has risen from \$8 million in 1976-77 to \$61 million in 1986-87.
- 1.3.33 While the leasing of premises has certain advantages, mainly in relation to solving short-term tenancy requirements and a need for flexibility as a result of machinery of government changes, disadvantages were seen as:
- \* rental reviews based on market rates were resulting in increases exceeding annual CPI movements;
  - \* while leasehold improvements undertaken by tenants were meant to be excluded when leasing agreements were re-negotiated, this factor was inevitably taken into account as it directly related to the building's capital value and returns required;

- \* on occasions actual costs incurred in fitting-out leased premises exceeded estimates by a large margin;
- \* dead rent, being rent paid from date of lease to actual occupation dates, was a substantial cost in individual cases; and
- \* in view of the significant escalation each year in leasing costs, audit considered that this financial burden will progressively impact upon the level of resources available for other purposes.

1.3.34 The issue of whether it is more economical for government to buy or lease accommodation has been the subject of a number of studies in recent years. Inclusive of one of these studies was an opinion by the Valuer-General that the provision of owned government accommodation is more cost-effective in the long-term as compared to leasing.

1.3.35 *In audit view, the present extent of leasing should be reviewed against the alternative of providing government-owned premises, as a more cost-effective, long-term means of providing office accommodation.*

1.3.36 *The present practice of disposing of surplus properties provides an opportunity to fund the purchase or construction of office accommodation.*

#### **Resource management**

1.3.37 The huge property portfolio of government places substantial demands upon human resources with property management skills. These skills are in short supply and various agencies have experienced difficulty in maintaining adequate staffing levels.

1.3.38 The need to provide for a career structure for property specialists was also apparent. Although action is currently being taken to restructure and upgrade resources in the Property Branch of the Department of Property and Services, there was a need to extend this process to other agencies involved in major property functions.

1.3.39 Audit also noted a lack of overall consistency in the formulation and application of policies, procedures and managerial practice between the various agencies, reflecting a need for a co-ordinated approach to government property management.

1.3.40 It was considered that the overall responsibility for policy development and strategy planning should be with the central property agency, with that agency developing standard guidelines and procedures to be adopted by other agencies.

1.3.41 Although it was considered that the responsibility for property management should be exercised, in accordance with guidelines, by individual agencies in respect of their own properties, a monitoring role by the central agency was also important to ensure standards were maintained.

1.3.42 All agencies recognised the importance of management information systems and performance indicators in property management. However, with few exceptions, such systems and measures were either not available or were in various stages of development.

1.3.43 *A central policy development group should be established within the Department of Property and Services to co-ordinate the implementation of government policy in all agencies, including non budget sector organisations, and to advise on all matters relating to property activities.*

- 1.3.44 *The Department of Property and Services should further develop policies and procedures, reflecting government property objectives and strategies. These statements should be capable of providing clear and practical guidance to all property sections within government agencies.*
- 1.3.45 *If it is intended to delegate responsibility to individual property sections within government agencies, these sections should be progressively reviewed as to their structure, staffing capabilities, availability of management information systems, adequacy of property registers, etc.*

#### **Land Monitoring Division**

- 1.3.46 The role of the Land Monitoring Division, which is attached to the Department of Management and Budget, is regarded by audit as crucial in providing an independent oversight of government property functions.
- 1.3.47 Concern was expressed by audit that as a result of a significant increase in the volume of property transactions currently being forwarded to the Division for review, it no longer had the capacity to satisfactorily examine all submissions in the necessary detail required, in accordance with its original objectives.
- 1.3.48 In view of past deficiencies which have occurred in government leasing arrangements, it was also considered that the Division's activities be extended to an oversight of major leasing arrangements proposed by government agencies.
- 1.3.49 *While there is scope for streamlining of procedures, it is necessary that the Land Monitoring Division have sufficient capacity to enable it to adequately examine the propriety of government agency real estate transactions, including major leasing arrangements.*

#### **Accountability**

- 1.3.50 The traditional reporting requirements of government departments, which have been limited to disclosure of cash transactions, are considered to be inappropriate for providing management with information necessary to critically assess a department's performance in terms of asset utilisation. In audit opinion, the adoption of accrual accounting would enhance the decision making process.
- 1.3.51 The non-disclosure of real estate assets in the financial statements of government departments can also lead to the following consequences:
- \* the overall size of government asset holdings is not disclosed;
  - \* an inability to determine the asset holdings of individual agencies when budget allocations are being made; and
  - \* limitations upon the ability to make informed decisions as to insurance cover, establishment of government charges, acquisitions and disposals, and asset replacement costs.
- 1.3.52 Where accrual accounting was used by non-budget agencies, recorded property values were usually based upon historical costs in accordance with traditional accounting practice. The disclosure of assets in this manner becomes meaningless when it reflects the values of properties acquired decades ago.
- 1.3.53 Due to deficiencies in asset recording, difficulties were experienced in reconciling the recorded property values in the financial statements of certain agencies to asset registers.

- 1.3.54 The overall costs associated with the provision of budget sector government accommodation are assigned to the budget of the Department of Property and Services. This process does not require agencies to take these costs into account in individual programs, consequently reducing the benefits obtainable from program budgeting.
- 1.3.55 The Treasurer of Victoria has established a Task Force to advise on government policy to be adopted on asset recording and reporting in the public sector. An intention has also been stated to require all agencies to complete a revaluation of assets by June 1989, to enable disclosure of values in financial statements.
- 1.3.56 *In order to meet the Treasurer's deadline of 30 June 1989, all agencies will need to progressively identify property holdings and obtain professional valuations with a view to disclosure of current values in financial statements.*
- 1.3.57 *In line with program budgeting principles that programs should bear the full cost of their operations, consideration needs to be given to agencies bearing the cost of their own accommodation.*

**PART 2**

**DETAILED AUDIT  
OBSERVATIONS  
AND RECOMMENDATIONS**



## 2.1 ASSET IDENTIFICATION

- 2.1.1 In general, the standard of recording of property assets was poor, particularly in relation to major organisations such as the Department of Conservation, Forests and Lands and the transport authorities. Registers maintained were often in the form of maps of various localities supplemented by files of varying standards relating to individual properties. The various maps maintained by the Department of Conservation, Forests and Lands were in many cases, prepared last century with reliance being placed on the progressive updating, arising from property acquisitions and disposals.
- 2.1.2 Extraction of meaningful information from the records maintained was usually a time consuming process, with the accuracy of the data being subject to verification before being acted upon. Where accrual accounting was adopted by agencies, difficulties were experienced in reconciling recorded values in asset registers with values disclosed in financial statements.
- 2.1.3 Although not specifically examined as part of the review, audit experience in the past in various departments disclosed that property assets controlled by government departments are generally not recorded in registers, nor are values obtained as there is no current requirement to disclose assets in annual financial statements.
- 2.1.4 The maintenance of accurate records of property assets is regarded as crucial to effective property management. Benefits obtainable include:
- \* physical control over properties and the recognition by management of the need to ensure effective utilisation, including economic returns where appropriate;
  - \* the ability of management to make informed decisions on property use, including consideration of program options knowing the extent and value of holdings;
  - \* availability of property for future operational needs, and identification of surplus requirements; and
  - \* support of budget strategies through inclusion of proceeds from sale of surplus properties.
- 2.1.5 Specific details on property recording in the agencies examined is set out below:

### **Department of Conservation, Forests and Lands**

2.1.5.1 The agency has primary responsibility for 8.7 million hectares of Crown land throughout Victoria. Following an unsuccessful attempt in the early 1980s to develop a computerised register of all government-owned land, development commenced in March 1986 on a new computerised Land Information Management System (LIMS). Eventually the system is intended to provide a complete listing of all Crown land used for public purposes in Victoria.

2.1.5.2 In view of the magnitude of the task and various resource constraints, completion of this assignment is currently expected to take several years to finalise. Audit recommended that a strategic plan, including realistic timetables be developed to assist in identifying the means by which the identification, classification and recording of all Crown land on the LIMS system could be achieved within a reasonable timeframe.

*Agency response*

*Substantial gains are expected in 1987-88 in the ongoing development of the system through the provision of additional funds. It is proposed to develop a strategy plan for the task which will include procedure statements for identified projects, cost-benefit analysis for these projects and timetables for their completion given various resourcing levels.*

**Victoria Police Force**

2.1.5.3 The Victoria Police Force operates from a total of 347 locations throughout the State. In addition, there are approximately 390 residences, 90 radio sites and 43 vacant sites reserved for police purposes. Although progress had commenced on validating property records, at date of preparation of this report the Victoria Police Force did not maintain a complete and accurate register of all police properties, including leased premises.

*Agency response*

*Progress is proceeding on validation of property records. Consideration was being given to using the services of the Victorian Government Computing Service to developing a microcomputer-based integrated property system.*

**Department of Property and Services**

2.1.5.4 The agency is currently working on an integrated land information system known as LANDATA which will incorporate all of Victoria's land-related systems, including LIMS into a single data bank.

2.1.5.5 Stage 1 of the system which commenced in 1983, has been completed and the linking of rating and taxing systems achieved, resulting in considerable annual financial savings from hereon. A public inquiry service to provide information on ownership, valuation, sale price, title particulars, etc. is about to be implemented. In addition to the LANDATA system, detailed information on all properties currently controlled by the agency are recorded in 3 separate locations. The main source of property information could be found in the Property Management Branch of the agency where a computerised management information system provided details on over 2 000 properties either owned or leased by the Government. The system however, did not fully meet the information needs of property managers in that certain recorded data was incomplete and unreliable.

2.1.5.6 Audit recommendations related to the need to validate all information and to develop a single, fully integrated data base system capable of servicing the current and future needs of the agency.

*Agency response*

*Priority has been assigned to the development of an integrated data base and consultants have been commissioned to prepare a management information system strategy plan.*

## **Metropolitan Transit Authority**

2.1.5.7 The total area of land controlled by the Authority was not available. However, it was estimated that the total value of property holdings at current values would be in the vicinity of \$400 million. The property register, which was basically a file-based system supplemented by various maps, was considered to be inadequate for management purposes and incapable of providing reliable information on a timely basis. This problem had been recognised by the Authority and development was proceeding on a computerised property register and management information system.

2.1.5.8 Audit recommended that development of the register continue as a matter of priority, with recorded information being verified through physical inspections and property valuations.

### *Agency response*

*While the Property Group's record system is still in need of improvements, the introduction of computerisation has made significant inroads into the problems associated with these needs.*

## **State Transport Authority**

2.1.5.9 Current value of property holdings was not available, but was estimated by audit to be in the vicinity of between \$300 million and \$400 million. The existing property register, consisting of property files and old maps, was outmoded and inadequate for management purposes. A computerised property register was in the process of being developed.

2.1.5.10 Audit recommended that high priority be assigned to implementation of the computerised register in conjunction with the obtaining of current values on all properties. This aspect was seen as important by audit as it was impacting on the agency's ability to identify potentially surplus properties.

### *Agency response*

*Computerisation of property records is currently being undertaken as a major project.*

## **Director of Housing (Land Division)**

2.1.5.11 At 30 June 1987, the Director of Housing recorded the value of vacant land in its financial statements as \$113.8 million. The Director of Housing relied upon a computerised property register which recorded all vacant land under the agency's control. Various other systems provided details of property developments in progress and projected needs. While the recording systems were technically efficient, it was recognised by the agency that all properties were not recorded on the register of vacant land, nor was the agency aware of all properties recorded in its name, mainly in relation to purchases in the early 1960s and 1970s. Audit recommended that, as the register was crucial to efficient operations, resources be allocated to the update and validation of all recorded information.

### *Agency response*

*Over the past 6 months, substantial effort has been put into validating the register, including comparisons with municipal records. It is now regarded as being substantially reliable.*

## **Alpine Resorts Commission**

2.1.5.12 The total value of land recorded in the Commission's financial statements at 31 October 1986 was \$95 million. The Commission did not maintain a complete and accurate property register, with reliance instead being placed on information contained on individual files of varying quality and accuracy. The Commission has acknowledged the inhibiting effects upon management effectiveness evolving from the absence of a register. The Commission's requirements for a fully integrated property register and management information system have been documented and a proposal for computerisation has been submitted to the responsible Minister for consideration by the Department of Industry, Technology and Resources.

2.1.5.13 Audit recommended that high priority be assigned to the introduction of such a system. In developing such a system, audit recommended that, due to a lack of in-house EDP expertise, consultants be engaged and an EDP Consultative Committee be established to oversee progress and develop appropriate standards, guidelines and implementation procedures.

### *Agency response*

*Although steps had been taken to prepare a property register, the task was incomplete as funding restraints had prevented the appointment of an officer to prepare and collate the necessary data.*

## **2.2 LEGISLATION**

2.2.1 The *Land Act* 1958, which had its origins in the early days of Victoria's settlement, is the prime legislation governing the use of Crown land. This Act was administered by the former Department of Crown Lands and Survey from 1855 until 1983 when its functions were absorbed into the Department of Conservation, Forests and Lands. Pursuant to this legislation, Crown land was regarded basically as a resource available for either:

- \* alienation for private use through the issue of Crown grants enabling freehold title to be obtained;
- \* reservation or vesting for specific public purposes; or
- \* use by private individuals under lease or licence. Private use in this manner was generally made on very favourable terms as part of a deliberate government policy to encourage settlement and development.

2.2.2 Over the years Crown land has been allocated to specific government agencies in order to fulfil various statutory objectives, e.g. transport activities, national and State parks, state forests, etc. In addition to this aspect, increasing use has been made by the private sector of various tracts of Crown land. However, legislative change has not necessarily kept pace with modern land management practices as could reasonably be expected to be applied in the current environment.

2.2.3 The need for a detailed revision of the *Land Act* 1958 has been acknowledged for a considerable period of time by government, and a review of the legislation, which will include extensive public and intra-government consultation commenced early in 1986. To date a revised bill has not been presented to Parliament. There are many outdated legislative provisions which are not considered conducive to achieving adequate returns on public assets. Examples included:

### *Lease/purchase arrangements*

2.2.3.1 The legislation allows for leasing arrangements that were originally intended to encourage early settlement and development. Under these leases an agreed value was placed on the selected land and leasing payments were made over a period extending to 20 years. Provided certain conditions were met by the lessee in relation to development of the properties, at the end of the period the leasing payments, which often excluded interest, were to be regarded as full purchase price. Under these subsidised arrangements, opportunities existed for substantial capital gains at the expiration of the lease period.

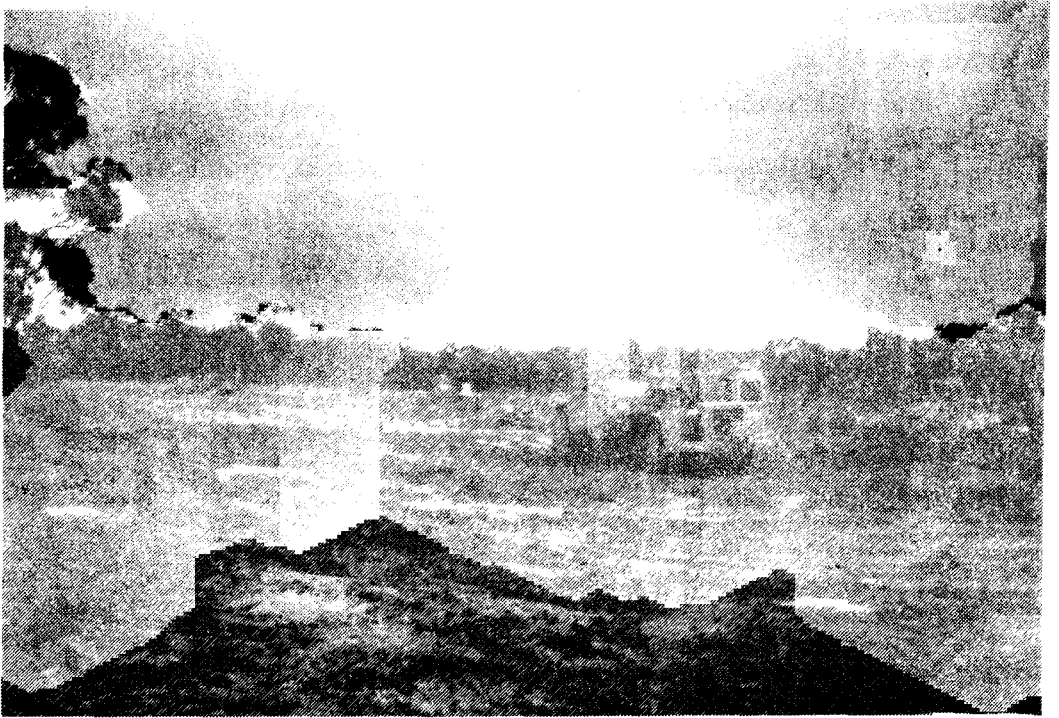
### *Issue of licences pursuant to section 138 of the Land Act 1958*

2.2.3.2 This section of the Act was originally intended to benefit pioneer settlers who established extractive or service industries on small blocks of Crown land. These settlers were granted an annual licence to occupy the sites and, depending on improvements made, could later purchase the sites. Although the option to purchase such sites was removed by legislation in 1985, the range of purposes for which such licences could be issued has increased, with the result that often large tracts of Crown land are used for essentially commercial or industrial purposes, e.g. caravan parks, upon which annual licence fees commencing from \$61 per annum are paid. These fees bear no relationship to private sector leasing arrangements from which market returns are obtained, and consequently result in substantial revenue being foregone by the State.

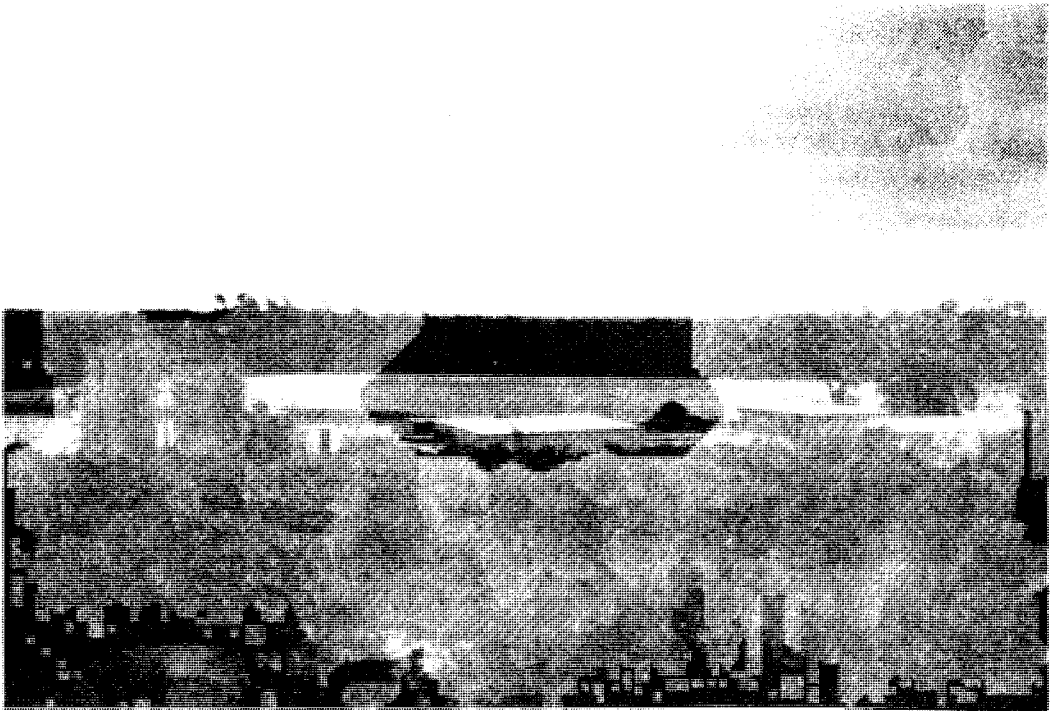
2.2.4 In addition to the *Land Act 1958*, audit drew attention to certain provisions in the *Mines Act 1958* and the *Extractive Industries Act 1966* in relation to the charging of minimal fees for extended use of Crown land for essentially industrial operations. This method of charging for private use of Crown land contrasted with policies adopted by other government agencies which emphasised the need to obtain market returns where practical, on properties used for similar purposes.

2.2.5 The following examples were used to illustrate the above situation:

- \* a mining area licence costing \$170 per annum was issued for a \$2 million ore treatment plant situated on 25 hectares of Crown land at Porcupine Creek, near Maldon; and
- \* a large tailings treatment plant at Bendigo situated on 9.5 hectares of Crown land for which an annual fee of \$17 was levied. As it transpired the licence fee was incorrect and should have been \$123 per annum.



Preparatory work being undertaken for an ore treatment plant at Porcupine Creek. Annual rental on the 25 hectare site is \$170.



Large tailings treatment plant on 9.5 hectares near Bendigo. Annual rental is \$17.

2.2.6 Of general concern in relation to land legislation was the legal advice provided by Parliamentary Counsel in 1982 to the former Department of Minerals and Energy which was obtained as a result of the intention of the Department to significantly increase its fees and charges. The advice stated in effect, that a "fee" is generally considered as a payment for services rendered. Any charge in excess of providing a service would be regarded as a tax, which cannot be levied without parliamentary sanction.

2.2.7 The Department of Conservation, Forests and Lands has sought the advice of the Victorian Government Solicitor on this matter. The effect of this advice, if subsequently confirmed, has very significant implications for the Department of Conservation, Forests and Lands and the Alpine Resorts Commission in relation to government fees levied in the form of licences permitting total occupation of Crown land. In circumstances where the licence fee is either based upon market rates, or in the case of the Commission, upon a percentage of site value, any charge in excess of the cost of providing the service needs to be clarified in terms of the above advice.

2.2.8 Audit recommendations to the following agencies were:

**Department of Conservation, Forests and Lands**

2.2.8.1 The land legislation review currently being undertaken consider amendments reflecting removal of inappropriate provisions, and to provide for greater flexibility of leasing arrangements.

*Agency response*

*The agency agreed with the requirement to remove inappropriate provisions of the Land Act 1958 and provide for greater flexibility of leasing arrangements for new leases. However, it was not legally appropriate to make retrospective amendments to current leases which contain inappropriate rental review procedures by today's standards.*

**Department of Industry, Technology and Resources**

2.2.8.2 Rentals receivable from mining and extractive industry licences and leases granted for essentially commercial/industrial operations be based on property market values assessed by the Valuer-General, as opposed to a "fee for service" basis.

2.2.8.3 The adequacy of fees and charges under mining and extractive industry legislation needs to be reviewed.

*Agency response*

*Following an extensive review of fees and charges in 1982, substantial increases to many of the fees and charges were recommended. However, following the advice by Parliamentary Counsel that fees and charges based on rates per hectare could not be legally increased beyond the cost of providing the service, the Department found it necessary to restrict the level of increases. It was also considered that fees and charges levied should not be at a level to deter mineral developments.*

## 2.3 MANAGEMENT POLICIES AND PROCEDURES

2.3.1 A major deficiency in property asset management throughout the State is the absence of any specific resource management and accountability legislation dealing with the custody, management and accounting for all public property under the control of individual agencies.

Evolving from such legislation, policies would need to be developed in respect of:

- \* physical management of property assets;
- \* asset recording and reporting;
- \* responsibility for policy making;
- \* delegation of responsibility for property control;
- \* financial management of property assets; and
- \* ownership status.

2.3.2 In the main, there was a general lack of management policy guidelines, both at departmental and central agency level. Policy on property asset management at present cannot be found from a single source, but from a combination of various directives, opinions and suggestions contained in legislation, regulations, statutory rules, ministerial directives, organisational instructions and various practices which have evolved over a period of time without adequate documentation.

2.3.3 Mainly as a result of this situation and consequential lack of co-ordinated direction, the general standard of property asset management has been poor. This has led to significant under-utilisation, a large accumulation of assets surplus to government operational requirements, opportunities foregone for revenue creation, and increased government expenditure, particularly in leasing accommodation and maintenance costs.

2.3.4 The above problems have been recognised by government and progress is taking place slowly, through such initiatives as revising the *Land Act* 1958 and commencement of the project within the Department of Management and Budget to develop an accounting policy on asset recording and reporting. However, many policy and procedural problems exist as disclosed during the course of the audit review in the following agencies referred to below:

### **Department of Conservation, Forests and Lands**

2.3.4.1 While the Department had developed broad land management objectives and strategies, these objectives and strategies had not been directly translated into operational policies capable of achievement. Attention was drawn to the need to individually evaluate and consolidate existing operational policies, directives, procedures, practices, etc. into a single policy and procedure manual reflecting corporate strategies.

2.3.4.2 Formal policies had not been established in certain areas, leading to various inconsistencies in returns being achieved from private and community use of Crown land. Areas identified which required policy development included:

#### *Subsidisation of community organisations*

2.3.4.3 While the Department's role includes providing Crown land to community organisations, the level of subsidised occupation varied markedly between similar groups in various regions. Subsidisation ranged from rent-free or peppercorn rentals to market related returns.



2.3.4.4 Similarly, inconsistencies were noted in relation to land used for golf courses and caravan parks in that in some instances these facilities were controlled by Committees of Management established by the Department and occupation was rent-free. In other instances the land was either leased or licenced directly to the golf clubs and caravan park proprietors with charges ranging from nominal licence fees of \$61 per annum to market rentals in excess of \$10 000, based upon Valuer-General valuations.

#### *Distinction between leasing and licencing arrangements*

2.3.4.5 As referred to previously in paragraph 2.2.3.2 of this report, the origins of licencing land stemmed from an early government policy to encourage settlement. As these circumstances have since changed, audit considers that licencing is no longer appropriate where a site is used for a single purpose only, and tenancy could logically be on a leasing basis gaining market returns.

2.3.4.6 In addition, the issue of licences adversely affects State revenue in that:

- \* on average, licence fees for commercial or industrial purposes are reviewed only at 5 yearly intervals; and
- \* where annual licences are issued, fee increases are limited by government policy which currently restricts increases to a maximum of 6 per cent. As the basis for setting licence fees is legally limited in most instances to a recoupment of administrative costs, the fee consequently bears no relationship to market returns on property values.

#### *Dispute settling procedures*

2.3.4.7 Disputes often arise where, in accordance with recent departmental policy, market valuations are applied. Formalised time-frames for dispute settlement, including the need for independent arbitration had not been established leading to delays extending to several years. On occasions arrears were not recouped, including interest thereon, following resolution of disputes.

2.3.4.8 This aspect was particularly apparent when extended delays in reaching agreement on grazing licence charges for 1986-87 resulted in grazing licence revenue of only \$190 851 in that year, as compared to \$1.25 million in 1985-86.

2.3.4.9 Audit recommendations related to the need to assess existing policies and practices in conjunction with the development of a procedure and policy manual. It was also recommended that policy development be undertaken, including such areas as subsidisation of community organisations, tenancy arrangements and dispute settling procedures.

#### *Agency response*

*A high priority has been given to reviewing existing policies and practices, with the intent of consolidating the work into a procedure and policy manual. Although a number of developments have occurred, resources available have only allowed existing policies to be reviewed on a selective basis.*

#### **Alpine Resorts Commission**

2.3.4.10 The Commission was formally created on 27 March 1984 to control the various alpine resorts previously managed by Committees of Management. Although the Commission's statutory objectives are stated in its legislation, a corporate plan has not been finalised. The Commission acknowledges the need for such a plan upon which to base its policies, strategies and future directions.

2.3.4.11 A draft corporate plan has been prepared in line with the statutory objectives. However, the Commission has expressed concern as to whether its current structure and resource levels are adequate to achieve these objectives, and the Public Service Board and independent consultants are intended to be engaged to advise on:

- \* an appropriate corporate plan;
- \* organisational structure;
- \* resourcing levels; and
- \* financial and management systems.

2.3.4.12 Audit agreed with the action taken by the Commission in regard to the above aspects. It was also recommended that in conjunction with the development of a corporate plan and strategies, a policy and procedure manual consolidating existing procedures be prepared.

*Agency response*

*Audit comments were accepted, but further action is dependent upon the results obtained from the proposed reviews.*

### **Metropolitan Transit Authority**

2.3.4.13 Other than the broad statutory objective concerning property management as outlined in the *Transport Act 1983*, the Authority had not developed detailed operational objectives and strategies in relation to property management apart from functional statements for individual positions with the Property and Services Group.

2.3.4.14 Audit recommended that the corporate strategies of the Authority as recorded in its business plans be expanded to include the property function. Development of a procedure and policy manual reflecting corporate goals was also recommended.

*Agency response*

*The Metropolitan Transit Authority has embarked on a major corporate planning exercise which will result in business plans for all the Authority's functions. It is intended that objectives and strategies for proper asset management will be addressed in the corporate planning exercise.*

*Revised management structures, adequate resourcing and improved operational procedures are in train, in conjunction with the production of a procedures manual incorporating formal policy statements.*

### **Department of Property and Services**

2.3.4.15 Although the overall objectives of the Property Division were incorporated, in general terms, in the corporate plan of the division, there was a need to translate these broad objectives into a policy and procedure manual recording detailed operational objectives, functions and procedures.

2.3.4.16 In reviewing the department's responsibilities as the central property agency for government, audit saw a need to apply resources towards establishment of a central policy development group. Such a group would be responsible for the formulation and co-ordination of all policy relating to government accommodation and property needs.

### *Agency response*

*The agency agreed that more detailed policies and procedures are required and a project to achieve this has commenced, which includes the establishment of a policy and planning function. However, the scope of this function does not extend to policy development for non-budget sector agencies. The Property Division is currently undertaking a comprehensive policy review of accommodation cost containment.*

### **State Transport Authority**

2.3.4.17 Specific corporate objectives and goals had not been developed in relation to property management. A need also existed to consolidate existing sectional policies, procedures, directives and practices into a policy and procedure manual. Audit recommendations related to the need to develop corporate objectives in relation to property functions and to prepare a policy and procedure manual.

### *Agency response*

*It is intended that a corporate strategy for property management will be developed and implemented.*

## **2.4 FORWARD PLANNING OF PROPERTY REQUIREMENTS**

- 2.4.1 The Department of Property and Services is responsible for the provision of accommodation for government departments and certain smaller agencies where property requirements are relatively minor. The provision of accommodation is dependent upon the Department of Management and Budget for funding, and the Public Works Department for advice and the fitting-out of premises. The Public Works Department also manages the construction of government buildings.
- 2.4.2 It was considered that over the past decade there has been an absence of long-term planning for government accommodation and, to a lesser extent, property requirements for operational purposes. This situation, which has led to an emphasis upon leasing as a short-term solution to accommodation needs, has culminated in a leasing cost to the Department of Property and Services of \$61 million in 1986-87 and increasing significantly as market rates are continuing to exceed CPI increases.
- 2.4.3 The lack of forward planning and budgetary allocations has also produced adverse affects in that government-owned properties have not been utilised to their maximum potential, particularly as at the same time leasing of additional space occurs. Examples include:
- \* *41 St Andrews Place, East Melbourne.*  
Two floors in the rear portion of this 3 storey building were damaged by fire over 4 years ago. Since then, this section has remained vacant, although it is being considered as part of an overall strategy for the Treasury Reserve area.
  - \* *Dovers Building - 7 Drewery Lane, Melbourne.*  
This 6 storey warehouse-type building classified by the National Trust, was purchased for \$560 000 by the Government in 1983 on behalf of the Ministry for the Arts for use by the Museum of Victoria. Protracted delays resulting from structural deficiencies in the building, lack of government funding and insufficient detail as to the Museum's specific requirements has resulted in the building remaining vacant and slowly deteriorating. In 1986 the Public Works Department estimated the cost of renovations to be \$8.4 million.



Government-owned building at 41 St Andrews Place, East Melbourne, which has remained vacant since a fire in 1983.

- 2.4.4 Observations were also made in most of the organisations examined, that forward planning of property needs for operational purposes did not occur. The main reasons given related to the uncertainty of future funding, the impact of policy changes, and generally a low priority being assigned to this task as compared with routine daily functions and introduction of new programs and initiatives.
- 2.4.5 Notwithstanding these reasons, the importance of forward planning by agencies beyond the annual parliamentary appropriation process is seen as:
- \* projection of accommodation requirements, so to provide sufficient lead time to construct buildings;
  - \* identification of properties surplus to projected operational needs that could be disposed of through either allocation to other authorities, leasing to the private sector, or sold;
  - \* tailoring property requirements to satisfy emerging public needs. The Victoria Police Force have long recognised this aspect and prepare a 6 year forward plan prioritising property requirements and capital works in response mainly to public demands. Similar planning is also undertaken by the Director of Housing; and
  - \* providing input for the budgetary process of government, with particular emphasis upon Works and Services allocations, which are determined annually for a 3 year period by a Cabinet committee.
- 2.4.6 Audit recommendations to the various agencies mainly emphasised the need for priority to be assigned to forward planning of property requirements and associated capital works.
- 2.4.7 Specific comments on forward planning were made in the following agencies:

## **Director of Housing**

2.4.7.1 The agency is currently developing a property acquisition program based upon warranted public housing needs over the next 5 years. While this action was commendable, the planning process suffered to a minor degree as the agency's register of vacant land holdings could not be relied upon as a complete and accurate record.

### *Agency response*

*As substantial emphasis has recently been placed upon validating the vacant land register, it is now considered a substantially reliable record and appropriate for forward planning process.*

## **Metropolitan Transit Authority**

2.4.7.2 Although the agency had developed strategy plans in relation to its business operations over the next 5 years, these plans were not complemented by similar plans in relation to property requirements. In preparing such a plan, it was also recommended by audit that recognition could be given to the advantages of relocating certain operational functions outside of the Central Business District, and of building a single head office facility upon land owned by the agency.

### *Agency response*

*The major corporate planning exercise currently being undertaken will result in business plans for the property function.*

*Long-term accommodation strategies regarding acquisition of premises, or building on MTA-owned land will be examined as part of the Authority's ongoing forward planning considerations.*

## **State Transport Authority**

2.4.7.3 Forward planning of property requirements was not undertaken. Failure to identify future property requirements for operational purposes was impacting upon the ability of the agency to identify surplus properties.

### *Agency response*

*The Authority's 1988 Business Strategy is being developed and the requirement for forward planning of property requirements and resources will be incorporated in it.*

## **Victoria Police Force**

2.4.7.4 Audit complimented the Force upon its initiative in developing a "forward look program" which identified property and works requirements up to 6 years in advance. Attention however, was drawn to 43 vacant police sites throughout Victoria of which only 2 were identified for development in the next 6 years. Audit view was that these sites could be regarded as surplus and be disposed of.

### *Agency response*

*The Victoria Police Force acknowledged that few of the vacant sites were required for early development, but pointed out that most of the sites were in country locations where suitable land was notoriously scarce, even if funds for purchase were provided. However, another examination of the vacant sites would be made with the objective of reducing their number.*

## Department of Property and Services

2.4.7.5 The Department had developed a 3 year strategy plan covering the projected accommodation requirements of government departments and certain agencies for the period 1986 to 1989. While this action was a positive step, the plan had certain deficiencies including:

- \* the data base was developed from information supplied by the various agencies, the validity of which was not independently established; and
- \* the strategy plan did not take into account certain information reflecting upon accommodation costs, options, trends, past history of agency locations, etc. which audit regarded as relevant to projected requirements.

2.4.7.6 Audit recommended that the validity of the base information needed to be established where possible, through close consultation with agencies concerned.

### *Agency response*

*The forward planning of accommodation needs of agencies is recognised as important, but planning needs to be flexible in order to respond to contingencies such as changes in government priorities, machinery of government changes and the emergence of new programs and initiatives. New approaches to improve the planning process have been identified, and these will be a high priority for the policy and planning function to be established as part of the new structure of the agency.*

## Alpine Resorts Commission

2.4.7.7 The Commission was established in 1984 without sufficient attention being given to structure and resource levels required to enable it to adequately perform its functions. The Commission is soon to be subject to review by independent and Public Service Board consultants with a view to resolving these problems. The Commission acknowledges an urgent need for a strategy plan to be developed for the future, particularly in view of various constraints upon funding and the high level of capital works and service facilities required at the various resorts. Inadequate resources within the Commission are currently restricting development of such a plan.

2.4.7.8 Audit regarded a forward strategy plan as being crucial to the future direction of the Commission and recommended that high priority be assigned to the preparation and submission, of such a plan to the Minister for Industry, Technology and Resources and the Treasurer for budgetary consideration.

### *Agency response*

*Specific comment was not provided.*

## 2.5 REVENUE

2.5.1 When it is considered that over 3 million hectares of Crown land in Victoria are either leased or licensed to the private sector, predominantly by the Department of Conservation, Forests and Lands, revenue obtained from this source is relatively low, even after taking into account occupation by community groups and non-profit organisations from which market rentals are not appropriate.

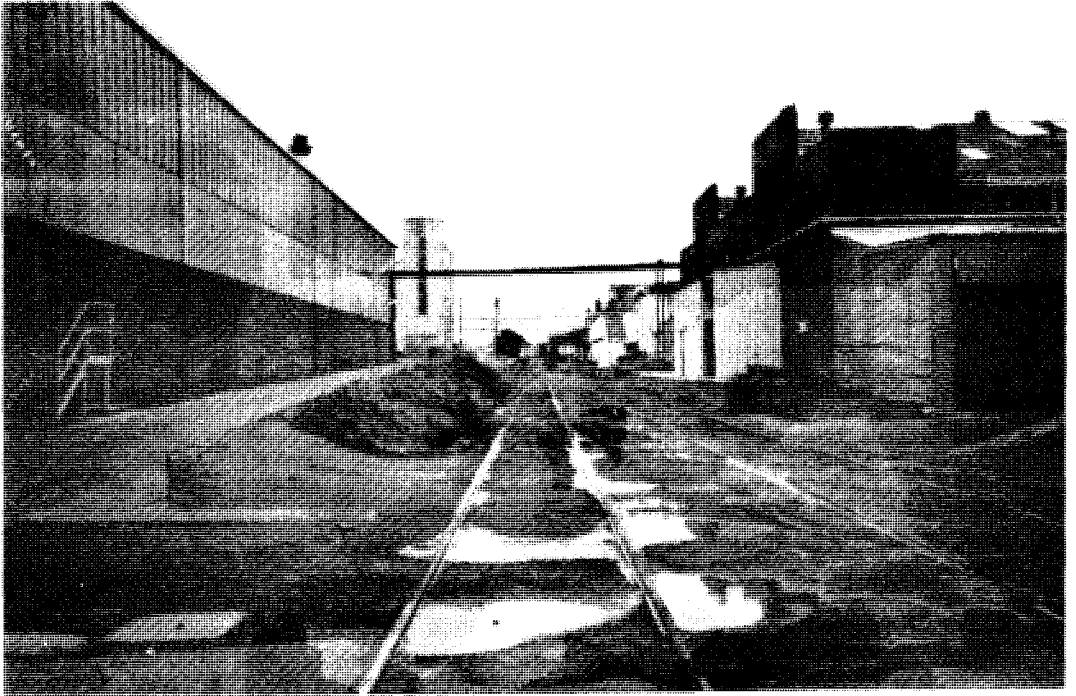
2.5.2 This aspect is illustrated by the fact that total land revenue earned by the Department of Conservation Forests and Lands, excluding royalties upon forest produce, was only \$16 million, predominantly from the metropolitan area. Property revenue earned during 1986-87 by the Metropolitan Transit Authority was \$5.9 million. During the same period the State Transport Authority earned \$4.3 million from property rentals. The Department of Property and Services receives approximately \$5 million per annum from tenancy arrangements on properties owned by the State.

2.5.3 Reasons for the low returns can mainly be attributed to the following factors:

- (1) Outdated legislative provisions, particularly in the *Land Act* 1958 which still bears a strong resemblance to the original legislation proclaimed at the turn of the century.
- (2) In the past the former Lands Department saw its role as a trustee only of Crown land, preferring to delegate responsibility for land management to various Committees of Management or private individuals in return for either peppercorn rentals or nominal licence fees. Within the railways area, leasing or licencing of land surplus to operational requirements was not sought. Where such arrangements were entered into, terms were inevitably very generous, with a view to promoting rail use, which often did not eventuate.
- (3) Where leases were entered into in the past by agencies, particularly in the metropolitan and alpine areas, conditions were also generous with terms extending to 99 years with infrequent review periods. Often leases were restrictive in terms of limiting rental increases, as illustrated by the conditions applicable to the lease on the former Ballarat Gun Cotton Factory at Ballarat.

This site, which comprises 11 hectares of industrial land and buildings with excellent potential for subdivision into industrial allotments, was leased for 49 years from 1950 at an annual rental of \$21 200 for the duration of the lease. In 1984 the Valuer-General assessed market rental as being in the vicinity of \$200 000 per annum.

This restrictive nature of certain leases was also evident in the alpine regions, where a prominent chalet at Mount Buller pays an annual rental of \$1 200 on a site valued currently at \$1.4 million, by virtue of the terms of a 45 year lease which does not expire until the year 2009.



The former Gun Cotton Factory near Ballarat which is leased for \$21 200 per annum until 1999.

- (4) There was no evidence to indicate a concerted effort on the part of any of the agencies examined to actively seek tenants, promote usage or seek tenders for land suitable for commercial or industrial activities. Leasing or licencing arrangements entered into mainly arose from requests from private individuals, with long delays often occurring in finalising arrangements.
- (5) The ability to achieve economic returns from Crown land has always been constrained to a certain degree by alternative government objectives. In the early days of settlement land usage was granted upon very favourable terms to promote settlement, and fees charged under mining and extractive industry legislation remain low to encourage development. The site rental policy at the various alpine resorts provides for annual rentals to be based upon a percentage of site value assessed at 3.5 per cent phased in over 3 years. The Valuer-General considered that a fair and equitable charge on alpine land would have been a site rental based upon 5 per cent of site values.

Without the site rental charges of 5 per cent of site value as recommended by the Valuer-General, in audit opinion, the Alpine Resorts Commission will not achieve an objective of becoming self-sufficient by 1991-92, nor will it be able to readily fund the level of capital improvements and provision of services required at all resorts.





Alpine village at Mount Baw Baw. This resort, despite its proximity to Melbourne has no SEC power and road access is poor.

- (6) Use of Crown land by community organisations often involves peppercorn rentals or low rentals unrelated to market values. Audit does not dispute the use of Crown land by community organisations nor should they be expected to pay market rentals in most instances. However, the level to which these organisations are to be subsidised and the resultant effect upon revenue earned by the various agencies needs to be defined to ensure consistency of application. Audit identified wide inconsistencies in the levels of rentals applied, ranging from 10 cents per annum, if demanded for Flemington Racecourse, up to market rates for several suburban golf clubs.

2.5.4 In addition to the need to obtain adequate rental returns from private sector use of Crown land, the revenue implications arising from land tax are considerable. Pursuant to the provisions of the *Land Tax Act 1958* a lessee is primarily responsible for the payment of land tax on properties valued at in excess of \$64 000. This aspect has not been given due attention in the various agencies examined, particularly as in most instances property valuations were not available. Accordingly, a potential liability for land tax was not readily apparent.

2.5.5 This aspect has wide-ranging implications for State revenue, particularly when it became apparent that, with the exception of a ski lift company at Falls Creek, land tax has never been levied upon alpine properties leased to the private sector.

- 2.5.6 In general, agencies are beginning to acknowledge the scope available for increasing returns from properties they control, and in recognition of this aspect most agencies in recent years have adopted a policy of applying market values to new leasing arrangements. However, audit is of the view that a concerted effort needs to be made to assess all agency land holdings with a view to defining operational requirements, and evaluation of the remainder with a view to either maximising returns, or disposal through public auction or tender.
- 2.5.7 There are obviously limitations as to the extent to which the Government can capitalise upon its land holdings and at the same time satisfy community expectations. Nevertheless the audit review identified significant scope for increasing revenue within the various agencies examined:

#### **Department of Conservation, Forests and Lands**

##### 2.5.7.1 Increased revenue could be obtained from:

- \* removal of restrictive outdated legislative provisions in the *Land Act* 1958;
- \* replace licencing arrangements with leases based on market rates where sites are essentially used for commercial or industrial purposes;
- \* revise leasing agreements to reflect more closely leasing conditions in the private sector, i.e. reduced periods, annual increases based upon cost of living movements, market reviews every 2 years, etc.;
- \* disposal of surplus properties with a high capital value where restrictive leases inhibit market returns;
- \* streamlining of dispute settling procedures; and
- \* implementing a consistent method of charging for use of Crown land for recreational or amusement purposes.

##### *Agency response*

*The need to remove inappropriate provisions of the Land Act and to provide greater flexibility of new leasing arrangements was agreed with. The current draft of the new Land Bill will make provision for greater flexibility.*

*Steps are being taken to replace licensing arrangements with leasing agreements where there is exclusive occupation of land.*

*A draft policy currently recommends that all new leases be formulated to provide for rents based on index market returns.*

*The Department in conjunction with the Assets Review Committee is reviewing properties which could be sold.*

*Disputes involving leases of a commercial nature are normally settled through agreement at a valuer's conference. The resolution of disputes over rentals for non-commercial tenancies will be addressed in the process of developing policy in that area.*

*A practice relating to concessional rentals for Crown land used for recreational or amusement purposes has been consolidated into an interim policy which is awaiting endorsement from the Department of Management and Budget.*

## **State Transport Authority**

2.5.7.2 This agency has inherited from its predecessors a situation whereby numerous properties are leased on a long-term basis with infrequent review periods and minimal rentals. Often these properties were leased or rented on favourable terms with the objective of promoting rail use, which frequently did not occur. In addition there are numerous occupations by community groups and municipal councils for which nominal or peppercorn rentals are received.

2.5.7.3 Most tenancy arrangements arose from public requests to use properties and rates were usually negotiated upon what applicants offered to pay. The absence of an effective property register has also had an inhibiting effect upon the ability of the agency to identify properties from which returns could be achieved.

2.5.7.4 More recently, and in recognition of the above problems, all new leasing arrangements entered into by the agency are to be based upon market values with reviews every 2 years. However, there has been considerable leaseholder reaction to the large increases evolving from this policy and instances were noted where rentals were agreed to below the agency's minimum requirements.

2.5.7.5 In addition to normal leasing arrangements providing for a fixed-term, there were also a substantial number of monthly tenancy arrangements which had been operating for several years. The agency did not have an established policy in relation to these tenancies, nor were regular rental reviews conducted.

2.5.7.6 Audit recommendations mainly related to the need to base all tenancy arrangements, including licences on either market rates, or minimum fees enabling recoupment of administrative costs. It was also recommended that in view of the limited tenure offered by monthly tenancies and consequent lack of incentive to initiate leasehold improvements, that each site be assessed as to either disposal or extended leasing arrangements at market values.

### *Agency response*

*Information about the extent to which the Authority subsidises community organisations' occupation of its land is not obtainable from the existing manual records. A computer record will be established in connection with the ongoing development of the computer system.*

*The disposal of surplus properties with restrictive lease clauses will be pursued in accordance with existing guidelines.*

## **Department of Industry, Technology and Resources**

2.5.7.7 The following areas were identified where potential existed for increasing the State's revenue:

- \* additional interest could be earned and the level of outstanding debts reduced by requiring royalties payable on certain minerals and stone to be submitted on a monthly basis, instead of every 6 months as is currently the situation;
- \* the statutory obligation to refund mining title application fees prior to approvals being granted was considered inappropriate, as it did not recognise the administrative costs incurred by the Department in processing transactions;

- \* declining demand for the use of the State Batteries for crushing ore resulted in an operating loss of an estimated \$58 000 in 1986-87. Fees charged were insufficient to recoup the cost of providing the service. In this instance, audit recommended that consideration be given to either promoting or rationalising facilities at State Batteries and the recouping of operating costs through revised charges; and
- \* the adequacy of certain fees payable under mining legislation was questioned, particularly in circumstances where administrative costs were not being recouped, or where total occupation of land occurred and leasing provisions appeared to be more appropriate.

*Agency response*

*Although the agency was in general agreement with audit recommendations, it was stressed that care must be taken that fees and charges were not set at such levels which the mining industry would regard as making development uneconomic.*

**Department of Property and Services**

2.5.7.8 The Department is responsible for the collection of rentals from approximately 100 properties owned by the State. Audit drew attention to the high level of outstanding debts beyond 60 days, and the failure of the agency to charge penalty interest on overdue rentals, despite the provision for such charges in tenancy agreements.

*Agency response*

*It was agreed that tenancy arrangements should be more stringently reviewed and penalty clauses enforced. While credit control and collection procedures have been strengthened, certain tenancy arrangements involving statutory authorities and small businesses do not provide for penalty clauses.*

**Director of Housing**

2.5.7.9 Audit draw attention to the agency's vacant land bank and the absence of a policy to achieve returns from properties where development was not planned in the near future.

2.5.7.10 The audit recommendation related to the monitoring of such properties as to suitability for alternative use in the interim period prior to development.

*Agency response*

*In the past, large parcels of undeveloped lands were leased out and several leases are still in existence. However, while it was not considered appropriate to lease residential allotments, it was agreed that where opportunities exist for obtaining returns on land holdings, they should be pursued.*

**Alpine Resorts Commission**

2.5.7.11 In addition to the impact of the site rental policy on the Commission's revenue as referred to previously, attention was also drawn to:

- \* the uncertainty surrounding the basis for the Commission continuing with permissive occupancy licences based upon a percentage of site values;
- \* the need to review and ratify all commercial leasing agreements, a number of which had been in existence for many years without being formalised;

- \* the adequacy of a development statement at Falls Creek supplied to the Valuer-General which impacted upon valuations provided for the purpose of determining site charges; and
- \* land tax implications, including likely opposition from tenants and the revenue being foregone by the State.

2.5.7.12 The major audit recommendation related to the need to develop and submit to the Minister and Treasurer a 5 year strategy plan outlining capital requirements, the required levels of operational and human resources, and the impact of the site rental policy and other aspects of revenue collection upon the Commission's ability to meet these requirements. It was also recommended that licencing arrangements be phased out, and that site valuations be forwarded to the Commissioner for Taxation to enable assessment of land tax.

*Agency response*

*Extreme concern was expressed at the potential implications of the audit viewpoint on the legality of applying the site rental policy to permissive occupancies. The agency has indicated that it will seek a legal opinion from the Victorian Government Solicitor on this matter.*

*The agency also provided statistics indicating that a composite charge of site rentals, service charges and land tax at Mount Buller would be in the order of \$3 million, \$2.4 million at Falls Creek and \$1.4 million at Mount Hotham.*

*In relation to the valuation of sites at Falls Creek, the apparent discrepancies were explained on the basis of a valuation being given after taking into account a "quasi" planning control, rather than actual use of a site.*

*Acknowledgement was given as to the potential land tax liability. However, the agency held the view that, in the absence of a government policy on the provision of confidential information relating to property to the Commissioner for Taxation, and the need for public debate on such an issue, the Commission was not obliged to provide information on property valuations.*

## 2.6 DISPOSAL OF SURPLUS PROPERTIES

2.6.1 The intention of the original land legislation introduced in 1855 was that, apart from land reserved for specific public purposes such as national and State parks and government operational needs such as courthouses, police purposes, etc. the remainder of the Crown land was to be either progressively sold, or leased or licenced to the private sector to encourage settlement and development.

2.6.2 While the above intention was acceptable in the early days of settlement, subsequent development of Victoria has led to the existing situation of:

- \* government agencies leasing land to the private sector purely for the purpose of producing revenue, e.g. commercial and industrial leases in major cities;
- \* licencing arrangements involving minimal fees being retained in circumstances where either leasing or sale would be more appropriate, as the original intention of promoting development was no longer relevant; and
- \* government agencies remaining responsible for land ostensibly for operational purposes, which is either vacant or under-utilised, mainly as a result of policy change by successive governments, or from lack of funding.

- 2.6.3 Against this background 2 important government initiatives are underway:
- (1) The progressive classification of Crown land into either public land, which is to be permanently reserved for public purposes, or government land. With this distinction, government land can be used for either operational purposes or sold.
  - (2) The establishment in July 1986 of an Asset Sales Task Force to identify government properties capable of being sold to generate additional government funds. The basic criteria to be applied in identifying such properties was whether they were used for government purposes, and if so, were they vacant or grossly under-utilised? Properties not used for government purposes and properties vacant and under-utilised, the retention of which could not be justified, were to be sold.
- 2.6.4 Subsequent to the preparation by the Asset Sales Task Force of an inventory of properties with an aggregate value of approximately \$930 million, Cabinet established an Asset Management Review Committee with the responsibility of ensuring that properties were disposed of in accordance with projected annual sales targets. The Department of Property and Services was assigned the responsibility of co-ordinating the disposal program, although sales within the major agencies such as the transport authorities and the Director of Housing are co-ordinated through their own property groups.
- 2.6.5 The Asset Sales Task Force inventory concentrated mainly upon the budget sector, with a small selection of the more valuable properties being selected from non-budget sector agencies such as the Port of Melbourne Authority. Given the limited timeframe involved, the inventory tended to concentrate upon the readily identifiable properties such as those not used for government purposes, i.e. leased or licenced to the private sector, or large tracts of land that were grossly under-utilised, e.g. properties surrounding health institutions. Accordingly, audit considers that probably an equivalent number of properties could also be further identified if an exhaustive examination was made of all properties managed by the various government departments and non-budget agencies.
- 2.6.6 All government agencies have an obligation to the general public to effectively utilise properties under their control, whether it be for accommodation requirements or servicing public needs. However the extent to which this occurs has never been effectively evaluated due to a variety of factors, including:
- \* lack of adequate property registers;
  - \* lack of a visible incentive scheme for budget agencies to dispose of properties, as proceeds are payable to the Consolidated Fund, as opposed to retaining funds and directly benefiting the agency;
  - \* a philosophy of retaining properties regardless of usage in case they "may be needed one day". This aspect was also emphasised by the uncertainty of obtaining funding for new property acquisitions when a need was identified;
  - \* absence of regular monitoring by a central agency as to property use by individual agencies;
  - \* either limited or non-disclosure of property assets in financial statements, thereby not enabling any external judgement as to the effectiveness to which they were employed; and

- \* public considerations, even though properties may be largely unused. This situation was typified within the Victoria Police Force where successive public inquiries over the years have recommended significant reductions in the number of inefficient country and suburban police stations, in favour of large, 24 hour complexes servicing a wide area. Public reaction has largely prevented this action as a visible police presence was wanted, despite the scope for improved effectiveness of police operations.

2.6.7 There is no doubt as to the large amount of government property that is largely under-utilised, as evidenced by the Asset Sales Task Force report. The total extent of this under-utilisation cannot be estimated, particularly as it could also include public properties where alternative forms of private occupation may be more appropriate and productive. With this aspect in mind audit supports the concept of disposing of surplus properties to the private sector for the best obtainable price, with proceeds being applied towards maintaining alternative capital infrastructures which enhance benefits to the public of Victoria. Notwithstanding this viewpoint, attention is drawn to the following issues:

- (1) Due to the absence of forward planning of operational requirements in most government agencies, a danger exists that certain sites could be disposed of prematurely.
- (2) Extreme care needs to be taken when disposing of any owned government accommodation that the accommodation needs are not supplemented by leasing arrangements which, in the long-term may negate the short-term benefits from cash proceeds.
- (3) Certain sites currently owned by the Government may be suited to development of office complexes, e.g. the Cathedral Place Car Park. As stated later in this report, long-term advantages including productivity improvement and cost savings are available from constructing office accommodation, as opposed to a disbursement of operations throughout various leased premises. In view of this factor and the need for forward planning of accommodation, potential development sites need to be excluded from the current sales program.
- (4) Asset sales revenue is currently being used to supplement Works and Services expenditure within Victoria, an area where the Commonwealth contribution was reduced as a result of budget cuts announced in early 1987. However, funding from asset sales will only be available over a limited period and in addition, annual revenue from leasing/ licencing to the private sector will be permanently reduced.

2.6.8 While there is merit in the concept of disposing of surplus properties and at the same time, stimulating industry through enabling the use of the freehold land as security for loans obtained for development purposes, the extent to which surplus assets were identified and disposed of in an orderly manner varied markedly between agencies. Common problems to most agencies, included:

- (1) Difficulty in identifying potentially surplus sites through inadequate asset registers, absence of current property valuations, and uncertainty as to whether sites may be required for operational purposes in the future, due to lack of forward planning.
- (2) Often long delays extending to many years in obtaining Crown grants from the Department of Conservation, Forests and Lands enabling issue of freehold titles.

- (3) Difficulties with local municipal councils in processing applications to have land rezoned for either residential or commercial purposes. This aspect was particularly apparent with the transport agencies where councils may have occupied sites for many years at nominal rentals, and accordingly requested first option to purchase, usually at values far below market valuations. The surplus assets disposal policy permits private sales to councils, but only where a convincing case can be advanced for community use.

2.6.9 The above provision often results in long delays as to the agreed purchase price and values less than market rates can be received. Alternatively, where community use as proposed by a council is not considered appropriate by an agency, long delays may occur before rezoning applications are approved by councils.

2.6.10 An example of the above situation can be found at Mornington where the Shire of Mornington and the Railway Preservation Society stated their intention to purchase railway land declared surplus in 1984. In early 1986 the Council offered the Metropolitan Transit Authority \$2.4 million for the land, as compared with the Valuer-General's valuation of \$4.7 million. The offer was refused and in June 1986 the agency employed private consultants to undertake a study as to the most appropriate use. The study concluded that the land was best suited for commercial and residential purposes as opposed to the Council's intention of community use.

2.6.11 The Council did not accept the consultants' recommendations and employed their own consultants to conduct a similar study. As the recommendations of the second study were broadly compatible with the Council's views, the land was rezoned on this basis by the Council in August 1987. This decision materially affected the value of the land, and the agency intends appealing against the decision.

2.6.12 Specific comments on the identification and disposal of surplus land in the various agencies were:

#### **Department of Conservation, Forests and Lands**

2.6.12.1 The evaluation of surplus properties was inhibited to a degree by inadequate property registers and lack of human resources to individually identify properties potential for disposal. Audit also drew attention to restrictive leasing/licencing conditions on various properties utilised by the private sector from which market returns could not be achieved, and sale became a preferred option.

2.6.12.2 The often long delays in the issue of Crown grants enabling sale were highlighted, particularly as this aspect reflected on the operations of other agencies. Although not a major problem, instances were also noted where long delays had occurred in finalising sales and the final purchase price was based upon valuations that were outdated.

2.6.12.3 Audit recommendations related to:

- \* the need for the Department to take an active role in identifying and disposing of surplus properties with a high capital value and restrictive leasing/licencing conditions inhibiting market returns;
- \* isolating and taking corrective action in areas where extensive delays have occurred in the process of issuing Crown grants; and
- \* purchase price, other than at auctions, should always be based on current valuations.



### *Agency response*

*The Department, in conjunction with the Assets Review Committee is reviewing properties which could be sold. For 1987-88, properties to the value of \$80 million have been identified.*

*Procedures for the issue of Crown grants will be reviewed as part of the implementation arrangements for division of management of Crown land between the Department of Conservation, Forests and Lands (public land) and the Department of Property and Services (government land). This aspect will also be addressed in the proposed new land legislation which will provide for the issue of titles for government land, on the Torrens Register.*

*Action will be implemented to use current valuations as the basis for determining purchase price, other than at auctions.*

### **Director of Housing**

2.6.12.4 Although the agency had adopted a policy of disposing of commercial properties it owned which were originally included as part of the development of estates, it did not have established procedures for reviewing its land bank to identify vacant properties surplus to projected requirements. In this regard, considerable benefits were available to the agency from the sale of surplus properties, as proceeds could be retained and applied to current projects.

2.6.12.5 Audit recommendations related to the need to develop policies and procedures to identify and dispose of surplus properties on an ongoing basis.

### *Agency response*

*Where land supply is identified as surplus to the 5 year projected needs of the Director of Housing, it has been recent practice to dispose of the surplus. Consequently, large undeveloped parcels of land in the Melbourne metropolitan fringe areas have been vested in the Urban Land Authority for development and sale to the public. Similarly, large land holdings in country areas have been, or are in the process of being sold.*

### **Metropolitan Transit Authority**

2.6.12.6 Audit considered that the process of identifying surplus properties was not being approached on a systematic basis with emphasis being given to the easily identifiable properties which were not necessarily the more valuable allotments. In addition, the sales process was hampered by:

- \* delays of up to 2 years in obtaining clearances for sale from the various operational areas of the agency;
- \* inadequate resources within the Property Group;
- \* lengthy delays in obtaining zoning approvals from councils;
- \* extended negotiations with municipal councils where the council expressed an intention to purchase a site; and
- \* extended negotiations with lessees where options to purchase properties had been exercised under arrangements existing prior to August 1986.

2.6.12.7 It was also noted that costs associated with sales, including multiple valuations, were not closely monitored with a view to maximising net sale proceeds.

#### 2.6.12.8 Audit recommendations related to:

- \* assessment of resource levels within the Property Group;
- \* the need for forward planning of operational requirements to assist with the identification of surplus properties;
- \* imposing time constraints on sales negotiations, with disputes being submitted for independent arbitration; and
- \* seeking advice from the Ministry of Planning and Environment as to options available to minimise what were considered to be unnecessary delays in processing rezoning applications through councils.

#### *Agency response*

*Steps have been taken to streamline the procedure for having properties declared operationally surplus. This process, combined with the proposed new subdivision of land and planning and environment legislation, and the introduction of new staff should see significant reductions in the time taken to assemble and market surplus property.*

#### **Victoria Police Force**

2.6.12.9 As referred to previously in this report, there are 43 vacant sites reserved for police purposes throughout Victoria, mainly in country locations. Audit considered that many of these sites could be regarded as surplus and the Victoria Police Force indicated that an examination of these sites would be undertaken.

2.6.12.10 In addition to the above aspect, audit drew attention to instances where police stations had closed for public use, but the properties were retained for occasional use for other purposes and were substantially under-utilised. Other instances were noted where closure of police stations was recommended by both the Victoria Police force and in major public inquiries, due to very low workloads and policing inefficiencies. Instead, the stations were retained and substantial capital improvements effected representing what audit considered to be an inefficient use of scarce capital funding.

2.6.12.11 To illustrate this aspect, the Harrow Police Station situated in western Victoria services a population of between 500 and 1 000 people. Successive reports on the station's productivity highlighted an extremely low workload and the fact that it was not cost-effective to maintain a police presence in the area. Despite this evidence, in late 1986 an announcement was made that construction of a new station and residence would be given high priority in the 1987-88 Police Capital Works Program. The estimated cost of construction was \$280 000 with annual recurrent expenditure of at least \$40 000.

#### 2.6.12.12 Audit recommendations included:

- \* continuing efforts be made to significantly reduce the number of inefficient and under-utilised police stations within Victoria and thereby more effectively utilise available human and property resources; and
- \* an appraisal be made of all police locations not essential to operational requirements to determine if disposal could be effected.

#### *Agency response*

*While there was general agreement with the audit comments, reference was made that the agency was cautious in surrendering property that may be needed at short notice for special purposes. In relation to the closure of police stations emphasis was made that the problem was political and could only be resolved at government level.*

## State Transport Authority

2.6.12.13 The overall performance of the agency in disposing of surplus property was considered by audit to be poor. This view was based upon the initial identification by the Asset Sales Task Force of potentially surplus properties of \$87 million, and the actual disposal of only 95 properties in 1986-87 for \$1.4 million.

2.6.12.14 Reasons for this performance included:

- \* the Property Group was not always provided with timely or sufficient information from operational areas to enable informed decisions to be made as to whether properties were surplus to requirements;
- \* often long delays occurred in obtaining Crown grants from the Department of Conservation, Forests and Lands enabling sale as freehold; and
- \* undue emphasis was given to the disposal of minor properties, mainly in response to requests from tenants in a preferred position to buy, including municipal councils.

2.6.12.15 Audit recommendations included the need for forward planning of operational requirements to assist in the identification of surplus properties, and to give emphasis to the disposal of the more valuable properties. However, the identification and scheduling for sale of the smaller properties was also important with care being taken not to flood small markets.

### *Agency response*

*Forward planning of property requirements for operational purposes will occur in conjunction with the development of a corporate land-use strategy.*

*Prioritising of land disposal according to value has been commenced by the Special Projects Section which is identifying all land with sales potential in key municipalities.*

*The development of management information systems capable of effectively monitoring the identification and sale of surplus properties will occur through implementation of the new computer system.*

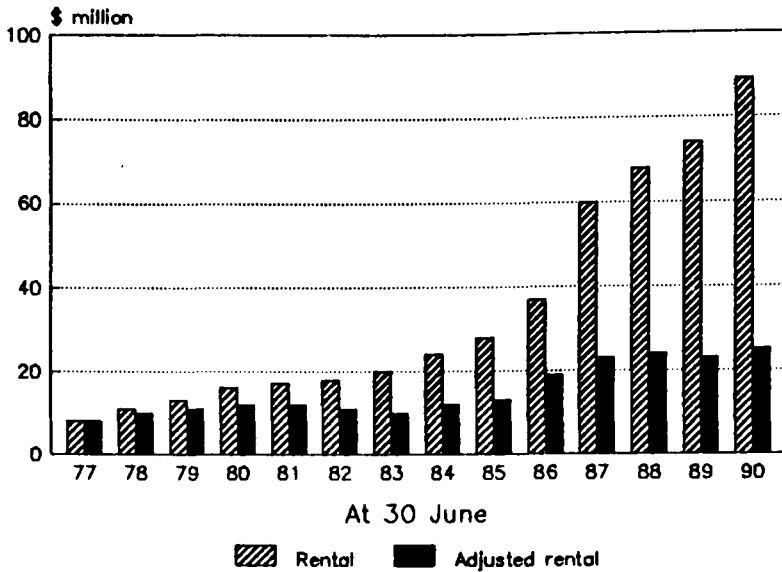
*The Asset Management Review Committee is being regularly informed of all cases where delay is occurring in the issue of Crown grants.*

## 2.7 LEASING OF OFFICE ACCOMMODATION

2.7.1 The provision of office accommodation for government agency employees up until the early 1970s was predominantly in government-owned buildings, such as the Treasury complex adjacent to Parliament House, Melbourne. Since that era, the proportion of government-owned accommodation as compared to leased premises has been reduced State wide from 75 per cent in 1973 to 33 per cent in 1987. In the Melbourne area only 23 per cent of space currently occupied by budget agencies is owned by the State.

2.7.2 During the past 10 years the annual leasing bill payable from the Public Account has risen from approximately \$8 million in 1976-77 to \$61 million in 1986-87. On current trends, this expenditure, which is increasing at a faster rate than the annual CPI is estimated by the Department of Property and Services to reach \$100 million per annum by the early 1990s.

**CHART 2.7A. LEASING COSTS COMPARED TO CPI MOVEMENTS**



- Note:*
- (1) Actual leasing costs represent expenditure by the Department of Property and Services and its predecessor on behalf of government agencies.
  - (2) Adjusted rental figures are corrected for the CPI using Australian Bureau of Statistics figures, and projected growth in public service staff numbers.
  - (3) Forecasts for 30 June 1989 and 1990 are based on 15 per cent property market growth less productivity savings of 1.5 per cent.

*Source:* Property Division, Department of Property and Services, 1987.

2.7.3

Reasons for the move towards leased accommodation are varied, but the main factors were:

- (1) In the early 1970s there was a realisation that the general level of accommodation was of a poor standard and overcrowded. To remedy this situation it was intended to progressively build 5 large office developments on the Treasury complex in Melbourne, at an estimated cost of \$80 million.

Although plans were prepared, other budgetary considerations were given priority and instead it became government policy to provide office accommodation through the leasing of premises. Currently, the site in Cathedral Place, East Melbourne upon which the building development was to occur, is predominantly vacant and used as a car park. It is also understood that it is under consideration for disposal as part of the Asset Sales Program.



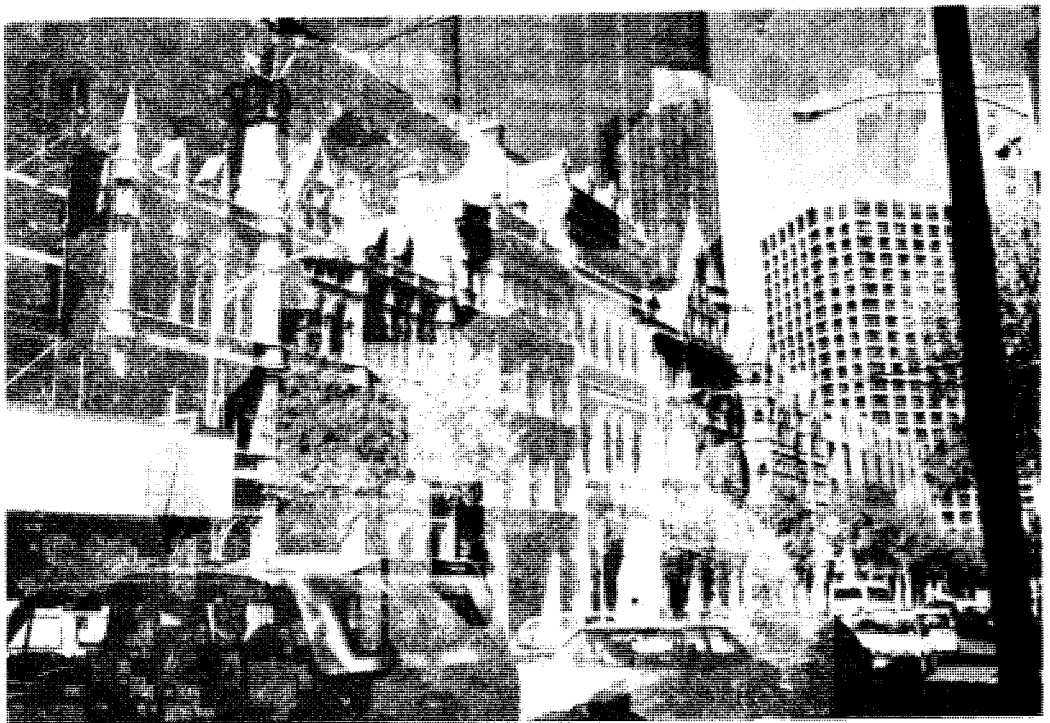
Government car park, Cathedral Place, East Melbourne.

- (2) There is usually a long lead time involved in office construction, inevitably involving a degree of cost escalation impacting upon other government programs. For this reason, and the potential for public criticism should costs escalate markedly, there has been a reluctance to undertake redevelopment of existing buildings or new building development, as compared to short-term benefits from leasing.
- (3) The construction of office accommodation has a lower priority as compared to the provision of new hospitals and schools and implementing new programs and initiatives.
- (4) Decisions to lease premises are not always based upon office accommodation needs, but involve other considerations such as pre-commitment of leasing by government to stimulate major private building developments. Major examples of these decisions are Nauru House, the Rialto and the Olderfleet building.

There are public benefits to be gained from such developments through employment, tourism, encouragement for private companies to establish operations in Melbourne, etc. However, against these benefits there is also public cost involved as can be illustrated by the government decision in 1981 to pre-commit itself to lease 20 000 square metres of space in the Rialto project.

The Ministry of Education began progressively relocating approximately 1 300 staff in the Rialto from October 1985. In February 1986, discussions commenced on decentralising the Ministry to various regional locations. These discussions culminated in a decision in May 1987 to relocate approximately 1 000 Ministry of Education personnel in new education centres to be located throughout Victoria. As the space occupied in the Rialto is subject to a 10 year lease expiring in December 1991, the Department of Property and Services will be required to find new tenants, thereby incurring further relocation expenses.

Costs associated with the above decision are substantial. The original estimate in 1981 to fit-out the premises and relocate staff was \$3.5 million, as compared to a final cost of approximately \$11 million. The cost per square metre of space occupied is in the highest bracket of government accommodation and the 10 year leasing agreement involved a payment of \$4.8 million in 1986-87.



Olderfleet building with Rialto building at rear. The buildings are either wholly or partially leased for government office accommodation.

- (5) Machinery of government changes may also create accommodation needs arising from relocation of staff. These needs are often satisfied from leasing in the short-term as other options are not available, particularly in country regions. Decisions to regionalise large departments such as Education and Health are given as examples.
- (6) Until recently there was no long-term planning as to accommodation requirements, with the Department of Property and Services reacting on an individual basis to accommodation requests according to the degree of urgency involved. On most occasions requests were satisfied with leased accommodation of varying standards.

2.7.4 While the leasing of accommodation has certain advantages, mainly in relation to solving short-term tenancy requirements, audit considers there are also many disadvantages which are considered to outweigh the benefits to be obtained. In this regard it was also noted that as part of a consultancy study, recent advice provided to the Department of Property and Services by the Valuer-General concluded that:

*"... after taking into account both the rental and capital markets over recent years, it is considered that owner occupiers have, in the long-term, occupied their space requirements at a far lower cost than lessee occupiers".*

2.7.5 Disadvantages from leasing as compared to owned premises were seen by audit as:

- (1) Current leasing agreements often provide for annual cost of living increases and market reviews every 2 years, usually resulting in average increases reflecting market movements which often exceed CPI increases.
- (2) While agreements are meant to exclude leasehold improvements undertaken by the lessee, inevitably this factor is taken into account by the owner when reviews are undertaken. As taxation benefits are not applicable to government this aspect also becomes important when, at the expiration of the lease period the Government could face a choice of either negotiating a new agreement based upon capital improved value, or relinquishing the premises and attempting to recoup a portion of the improvements from the incoming lessee.
- (3) Problems with fitting-out of premises. Although a detailed analysis was not conducted by audit in this area, examples were found where substantial delays and cost escalation had occurred in fitting-out leased premises, and as a consequence, substantial dead rent was involved. Examples include:
  - (i) The original estimate of the fit-out of a police complex at 412 St Kilda Road was \$4 million in 1984, as compared to the final cost of approximately \$8.6 million 2.5 years later. Further, on the basis of the lease being entered into on 1 October 1984 to dates of progressive occupancy, which was not completed until 1 February 1987, dead rent was calculated to be approximately \$3.7 million.
  - (ii) A multi-storey office building was purchased by the Government at 565 Lonsdale Street, primarily for the provision of accommodation for certain government agencies. The building was completed in December 1986. However, since that date extensive delays in finalising the fit-out arrangements has resulted in the building remaining empty. At October 1987, the fit-out was yet to commence.



Government-owned building at 565 Lonsdale Street, Melbourne, which was completed in 1986 and has remained vacant pending fitting-out.

- 2.7.6 In audit opinion, the major disadvantage from the current leasing arrangements is the cost escalation each year, which is likely to become a significant financial burden in the future. Accordingly, this aspect will progressively impact upon the level of resources available for other public purposes.
- 2.7.7 After reviewing leasing commitments, both current and projected, in certain of the agencies it is considered that far greater benefits were available in the long-term if an increased proportion of leasing expenditure was redirected towards servicing loan moneys obtained for the purpose of purchasing or constructing buildings tailored towards client needs.
- 2.7.8 The advantages of purpose-built buildings could include:
- (1) Containment of various agencies within a single location, with resulting increase in efficiency through improved communication, shared use of facilities and resources, etc. This aspect was particularly apparent with the Victoria Police Force and Metropolitan Transit Authority whose office personnel are scattered throughout various city and inner suburban locations.
  - (2) The standard of accommodation and cost of leasing for the various government agencies involved varies markedly between locations. Overall, the cost of leasing within the Central Business District is considerably higher than in city fringe locations and suburbs. Obviously there is scope for cost reductions through centralisation of certain agencies in owned accommodation.



- (3) As many agencies do not require a *shop front* profile, or for that matter, need to be located in the Central Business District, scope could exist for building government accommodation on land owned in inner suburbs with partial recoupment of costs being obtained from the sub-leasing of ground floor shops to the private sector.

2.7.9 While detailed audit comments on individual agencies are recorded separately, the major recommendations in relation to the provision of government accommodation are:

- (1) An analysis be made of the relative advantages and disadvantages of continuing to lease accommodation, as compared with:
- (i) better use of existing owned accommodation through upgrading; and
  - (ii) initiating action to construct buildings on existing sites owned by the State.
- (2) If, in certain circumstances, leasing is preferable or unavoidable, consideration could be given to leasing premises in city fringe locations or suburbs where costs are lower. Such a move would also need to take into account other factors, including the availability of public transport and service delivery.

2.7.10 Comments upon individual agencies were as follows:

#### **Metropolitan Transit Authority**

2.7.10.1 Since its establishment in 1983, the agency did not have a centrally co-ordinated strategy plan for staff accommodation, leading to the existing unsatisfactory system of administrative staff being located in various owned and leased premises throughout Melbourne. The current agency strategy is to satisfy its office accommodation needs through leasing, the cost of which was \$3.7million in 1986-87 and escalating significantly.

2.7.10.2 The need for a single head office facility has been acknowledged by the agency, particularly as existing accommodation arrangements are impacting upon its ability to fulfil statutory objectives.

2.7.10.3 Audit recommended that forward planning be undertaken as to long-term accommodation requirements and alternative strategies be considered, including the construction of facilities on land owned by the agency.

#### *Agency response*

*The current leasing strategy of the Authority was reached after consultation and guidance by the Department of Property and Services. Consolidation of many functions at one or two central locations, albeit leased premises, is seen as a cost-effective, medium-term solution when all costs and benefits are taken into account.*

*Long-term accommodation strategies regarding acquisition of premises, or building on MTA land, will be examined as part of the Authority's ongoing forward planning considerations.*

## **Victoria Police Force**

2.7.10.4 Between 1984 and 1987 the cost of leasing police accommodation increased from \$1.5 million to \$5 million per annum, predominantly on account of a large complex leased in St Kilda Road. While the St Kilda Road complex consolidated certain sections of the Victoria Police Force, it did not address an overall requirement to locate police management in a single, centrally located building as recommended in a departmental study completed in March 1987.

2.7.10.5 Audit recommendations related to the need for the Victoria Police Force to continue efforts to consolidate central operations, in view of the benefits attainable. In this regard it was considered accommodation requirements should be directed towards owned premises built to police specifications.

### *Agency response*

*The general thrust of the audit recommendations were regarded as valid. However, it was emphasised that the leasing option is the only way to solve an accommodation problem when capital funds are severely limited, however unpalatable that option may be.*

## **State Transport Authority**

2.7.10.6 The agency currently leases 13 properties throughout Victoria at a cost of \$9.1 million in 1986-87, which is expected to rise to \$10.7 million in 1987-88. Audit drew attention to the continual escalation of leasing costs and the benefits available to the agency from building upon land it currently owns.

2.7.10.7 Audit recommended that potential building sites be excluded from the surplus assets review and a cost-benefit analysis be prepared for the information of management as to the benefits attainable from owned accommodation as compared to continuing to lease.

### *Agency response*

*The decision to locate Authority staff in the existing leased accommodation was made by the Government and administered by the Department of Property and Services. Authority land in the Central Business District is limited to Spencer Street rail yards area, the use of which is being reviewed by the Docklands Study.*

*The Authority has recently experienced a period of major organisational change and consolidation of functions. All costs and benefits must be counted in making accommodation decisions and not simply building costs.*

## **Department of Property and Services**

2.7.10.8 A function of the Accommodation, Planning and Audit Branch of the agency is to ensure there is adequate utilisation of accommodation assigned to agencies, particularly in view of the often substantial leasing costs involved. Audit observed that a low priority was allocated to this program resulting in few inspections being conducted. In addition, a formal audit program had not been established providing for a regular review of all properties.

2.7.10.9 The agency employs 15 centrally-based property managers, each with responsibility for managing a given number of properties throughout the State. Duties include the regular inspection of each property as to maintenance requirements. Audit was advised that these managers do not currently have the capacity to conduct regular maintenance inspections, thereby exposing the agency to substantial repair and maintenance costs at a later date.

2.7.10.10 The agency has established a system to monitor dead rent on leased premises, which arises mainly from fit-out delays. While this system has merit, delays occurring from the fitting-out of owned accommodation are not monitored, as unproductive rent is not involved. Nevertheless, audit considers the incidence of unproductive utilisation of government-owned accommodation also needs to be highlighted in view of the indirect costs involved, and opportunities foregone.

2.7.10.11 Audit observed the wide discrepancies between the accommodation space and fit-out standards of individual agencies and was advised that although detailed accommodation standards have been developed by government, they were predominately applicable only to budget sector agencies. Accordingly, there was nothing to prevent non-budget sector agencies leasing high standard accommodation, the cost of which ultimately impacts upon the ability to fund other programs.

2.7.10.12 The agency is aware of the spiralling cost of leasing government accommodation and has drawn attention to future cost projections. However, in the absence of a formal government policy and strategy as to the provision of owned accommodation, the agency will need to continue with leasing arrangements.

2.7.10.13 Audit recommendations related to:

- \* facilitating the regular inspection of government buildings as to area utilisation, maintenance requirements and identification of unproductive accommodation space arising from fit-outs;
- \* accommodation standards be applied to *all* government agencies; and
- \* ensuring that the proposed sale of any owned government office accommodation by any agency is brought to the prior notice of the Accommodation, Planning and Audit Branch of the Department to enable long-term implications to be assessed and whether disposal can be justified.

#### *Agency response*

*The agency agreed with the need to institute a formal audit program to ensure all properties were regularly reviewed with respect to area utilisation, maintenance requirements and unproductive accommodation utilisation.*

*A program for maintenance inspections is important. However, in addition, the need for maintenance planning, e.g. life-cycle costing, is also recognised.*

*The agency has pioneered the monitoring of "dead rent" on leased premises and, acknowledging the need for a monitoring system to highlight unproductive utilisation of government-owned properties arising from fit-outs of premises, has now extended this monitoring to government-owned premises.*

*The agency has responsibility for administering the accommodation standards set by the Government in 1984. However, maintenance of the standards rests with individual departments and the Department of Property and Services does not have the authority to enforce staff movements that may be required in order to achieve the set standards.*

*Attention was drawn to the extensive work being performed in conjunction with the Department of Management and Budget on accommodation cost containment, and the long standing issue of lease/buy/build options. The degree of leasing was seen as due to government capital funding priorities principally during the last two decades.*

*It was recognised that suitability for use as government-owned accommodation is an important factor in determining the optimum proposed use of government land, and this aspect will continue to be taken into account in the future.*

*Attention was also drawn to the recent purchase of 3 buildings by the agency, which considers that this action indicates the direction which should be taken in the future.*

## **2.8 RESOURCE MANAGEMENT**

- 2.8.1 The huge property portfolio of government places substantial demand upon an adequate level of human resources with property management skills. These skills are in short supply and various agencies have experienced difficulty in maintaining adequate staffing levels. The need for a career structure for property specialists was also apparent.
- 2.8.2 It is pleasing to note that, following a consultant's report in June 1987 on the management of the Property Division of the Department of Property and Services, steps are now being taken to provide additional resources, revised work practices, and a restructure of the Property Division in recognition of its increasing responsibilities. While this initiative is welcome, audit also considers that similar action needs to be taken in other agencies involved in major property functions.
- 2.8.3 In addition to certain limitations on the level of human resources employed, audit also noted a lack of overall consistency in the formulation and application of policies, procedures and managerial practices between the various agencies, reflecting a need for a co-ordinated approach to government property management.
- 2.8.4 It was considered that the overall responsibility for policy development and strategy planning should be with the Department of Property and Services as the central property agency for government. Responsibilities would include developing standard guidelines and procedures to be adopted by other agencies. In this regard, audit agreed with a recent consultancy report which recommended that a strong policy and development group be established within the agency to ensure the uniform development and implementation of overall departmental policy.
- 2.8.5 Although it was considered that the responsibility for property management should be exercised by individual agencies, in accordance with the guidelines prepared by the Department of Property and Services, it was also considered necessary for that Department to exercise a monitoring role to ensure standards were maintained.
- 2.8.6 All agencies recognised the importance of management information systems in controlling property. However, with the exception of the Director of Housing, such information systems were either not in existence, inadequate, or were in various stages of development depending on funding available. The various inadequacies in property registers maintained by the agencies also affected their ability to establish fully integrated, computerised, management information systems.
- 2.8.7 In addition to management information systems including details such as tenancy arrangements, vacancy reports, maintenance data, rental arrears, review dates, etc. there was also a definite need for data on performance. Again this aspect was recognised but not properly addressed by most agencies. Basic performance indicators would include information on:
- \* projected development schedules and actual performance;
  - \* actual property sales and revenue earned, as compared to budget projections; and
  - \* property costs incurred by the owner as a proportion of rentals earned.

- 2.8.8 Performance indicators are of particular relevance to the Department of Property and Services which, apart from its present responsibility of servicing the accommodation needs of government agencies, is soon to assume responsibility for the management of most budget sector government land, including land leased to the private sector.
- 2.8.9 Overall, it is considered that in view of the size and value of government real estate and the need to maximise use of this property for the general benefit of the public, there is an urgent need to establish asset registers and associated monitoring information systems and performance indicators. In turn, such systems should be supplemented by regular physical inspections.
- 2.8.10 Comments on monitoring provisions in the various agencies examined are as follows:

#### **Alpine Resorts Commission**

2.8.10.1 The existing registry system, a poor standard of property files inherited from its predecessors and an ineffective property register have inhibited the establishment of property management information systems. In addition, a lack of skilled staff, including EDP personnel is inhibiting the ability of the Commission to effectively perform its statutory obligations.

2.8.10.2 In response to these problems the Commission has established a steering committee to review the registry problems and has submitted a proposal to the Department of Industry, Technology and Resources for a fully integrated property management information system. Public Service Board consultants are to be engaged to review the Commission's resources, organisational structure, service delivery and management systems.

2.8.10.3 Audit recommendations related to the priority that needs to be allocated to implementation of the proposed computer system. It was also recommended that EDP consultants be engaged and an EDP consultative committee be appointed to oversee the implementation of the system.

#### *Agency response*

*A specific response was not provided.*

#### **Department of Conservation, Forests and Lands**

2.8.10.4 Audit emphasised that effective control over the use of Crown land, along with the various benefits attainable, could not be achieved until such time as all verifiable data on Crown land is recorded on the Land Information Management System (LIMS) being developed by the Department. This process is likely to take several years. In addition to the requirement to finalise recording of property information, staffing constraints, other program priorities and lack of procedures within regions was inhibiting the Department's ability to systematically monitor the usage of Crown land, including monitoring of revenue, environmental aspects and detection of unauthorised or illegal occupations. In this regard, in 1982 a project commenced whereby all private use of unused roads, water frontages and grazing land was to be physically inspected as to productivity capacity and illegal use.

2.8.10.5 The project came to a standstill in 1985 due to funding constraints, despite the fact that an additional \$1.2 million in revenue was obtained through the detection of illegal and unlicensed occupations. Departmental staff estimate that the cost of continuing the project would be more than offset by revenue gains from an estimated 13 000 illegal occupations that have not been examined.

2.8.10.6 Audit recommendations related to the need to develop a strategic plan, including realistic timetables to identify the means by which the Crown land identification and recording on LIMS could be completed. It was also recommended that approval be sought to continue the surveillance project in view of the benefits available.

*Agency response*

*While major gains have been made in the further development of LIMS, the provision of adequate staff to undertake the huge task of gathering and processing the information required remains an unresolved issue.*

*To date, the Department has been unsuccessful in gaining approval to continue the surveillance project, despite the fact that revenue benefits far outweigh the costs involved. An expanded proposal is being developed for submission to the Minister for Conservation, Forests and Lands.*

**Director of Housing**

2.8.10.7 In general, the management information systems utilised by the agency's Land Division were regarded as effective in providing information for management purposes.

**Department of Industry, Technology and Resources**

2.8.10.8 The Mining Division does not have sufficient mining inspectors to adequately monitor mining and extractive industry operations throughout Victoria. This shortage impacts upon mining industry standards, verification of royalty revenue, environmental aspects and the monitoring of leasing and licencing arrangements.

2.8.10.9 Audit recommendations drew attention to the need to employ additional inspectors and to review the impact of administrative functions upon inspectors currently employed which restrict their ability to conduct field inspections.

*Agency response*

*The agency was in general agreement with the recommendations and is quantifying the requirements.*

**Metropolitan Transit Authority**

2.8.10.10 The property management information systems inherited by the agency from its predecessors were outmoded, incomplete and inadequate for management purposes. These deficiencies have been recognised by the agency and progress has been made in developing a sophisticated, computerised property information system.

2.8.10.11 Audit acknowledged the progress being made but drew attention to the need to ensure the system was able to satisfy all user requirements.

*Agency response*

*Considerable progress has been made in implementing computerised property management information systems, the benefits of which are cost-justified. Programs to physically inspect all leasehold property on a regular basis will be implemented as staff resources to undertake these tasks are built up.*

## **Victoria Police Force**

2.8.10.12 Property information systems were not in place to effectively monitor and control the property function. However, action had been taken to validate records and to computerise certain functions and, depending on funding it was anticipated adequate systems would be in place in the near future.

## **State Transport Authority**

2.8.10.13 The absence of an effective property register has inhibited the agency from developing the management information systems necessary to properly monitor and control the property function. This deficiency had been acknowledged and substantial progress had been made in implementing a new computerised property register.

2.8.10.14 Audit recommended that, in conjunction with the introduction of the register, an integrated information system be developed to provide relevant property management statistics, including performance indicators.

### *Agency response*

*Computerisation of property records and development of property management information systems is currently being undertaken as a major project.*

## **Department of Property and Services**

2.8.10.15 The property information management systems currently operated by the agency were found to be deficient as to accuracy and completeness of data generated. In addition, the agency considered the existing systems would not have the capacity to cope with the workload generated as a result of additional property responsibilities being progressively transferred to its control from the Department of Conservation, Forests and Lands.

### *Agency response*

*The present systems were developed to service the specific needs of property management and asset sales. Consultants have been commissioned to conduct an information strategy study which will identify the requirements and enhancements necessary to the systems. It is intended that the property management systems be linked to the agency's other land information systems currently under development, including LANDATA and the parcellation project at Survey and Mapping.*

## **2.9 LAND MONITORING DIVISION**

2.9.1 The Land Monitoring Division of the Department of Management and Budget was originally established in 1978, following public criticism of land dealings conducted by the former Housing Commission in the early 1970s. Its main function is to review all real estate transactions exceeding \$100 000 which are conducted by government agencies. The Land Monitoring Division, up until 1985, formed part of the Department of Property and Services. However, following the assumption by that Department of real estate responsibilities, the Division was transferred to the Department of Management and Budget so as to be seen as independent from the decision making process involved in the acquisition and managing of properties.

2.9.2 Audit regards the role of the Land Monitoring Division as crucial in providing an independent oversight of government property functions. Although there have been major advancements in property management throughout government in recent years, substantial problems still remain as referred to elsewhere in this report. These problems include a scarcity of skilled property managers, inadequate property registers and monitoring procedures, poor financial systems, etc. Accordingly, a role still exists for the Land Monitoring Division to provide an independent oversight of government property transactions.

2.9.3 Following the review of the Land Monitoring Division's operations the major concerns of audit were:

(1) There has been a significant increase in the volume of submissions forwarded to the Division for review. The increase in submissions has mainly resulted from the activities of the Asset Management Review Committee in disposing of surplus properties and from complexities involved in large-scale property developments currently being considered by government agencies. Audit considered that the Division no longer had the capacity to satisfactorily examine all submissions in detail, nor to devote time to the development of more effective monitoring measures, a task which is also included in the Division's objectives.

(2) Audit considered there was a need to extend the Division's activities to an oversight of major leasing arrangements proposed by government agencies. To illustrate this point, audit quoted the example of a major tertiary education organisation in 1983 being refused approval from the Division to sell a property by private treaty. Following this rejection, the organisation entered into a leasing arrangement with the intended buyer, allowing for a lease term of up to 20 years and rental reviews being restricted to a 5 per cent maximum increase.

In 1986 the organisation again sought permission to sell the property. Advice from the Valuer-General stated that the lease provided for a rental below market rates and was severely detrimental to the potential sale price of the property. The Valuer-General concluded that the value of the property without the lease would have been \$5.75 million, but due to the restrictive leasing conditions its value was \$3.25 million. Approval was given to publicly auction the property, which was bought by the lessee for \$3.26 million.

2.9.4 It is emphasised that the above example was used for illustrative purposes only, and should not be regarded as representative of all agency leasing arrangements. The Department of Property and Services exercises firm control over most government leasing arrangements, but this authority does not extend to all agencies.

2.9.5 Audit recommendations to the Department of Management and Budget included that the capacity of the Land Monitoring Division be sufficient to enable the Division to adequately examine the propriety of government real estate transactions, including major leasing arrangements.

*Agency response*

*Proposals will be made by the agency to the Victorian Public Service Board to upgrade the level of senior resources in this area and to streamline its functions given current government priorities for the Land Monitoring Division.*

*As the Finance Division of the agency has a role in assisting with the negotiation of lease arrangements on behalf of agencies, it was considered that the Land Monitoring Division should work more closely with this Section to upgrade its skill base in the evaluation of leases.*



## **2.10 ACCOUNTABILITY**

- 2.10.1 The adoption of accrual accounting by government departments, which would involve establishing asset registers, and the disclosure of the current market value of real estate assets in the financial statements of government agencies are seen as key elements in improving the accountability of government agencies for the real estate assets they control.
- 2.10.2 Traditionally, the reporting requirements of government departments have been limited to disclosure of cash transactions. While this approach may be appropriate for ensuring that funds were expended in accordance with parliamentary appropriations each year, it fails to provide for the information necessary for managers to critically assess the department's performance in terms of asset holdings employed.
- 2.10.3 In addition, the non-disclosure of real estate assets in the financial statements of government departments leads to the following possible consequences:
- \* financial information is not available to determine the overall size of government asset holdings;
  - \* an inability to determine the magnitude or level of capital resources allocated to individual departments, the costs associated with maintaining capital assets, and the performance of management in utilising these assets;
  - \* annual budget allocations being made without a comparative assessment of asset holdings within individual departments; and
  - \* management may not be in a position to make informed policy decisions in respect of insurance, acquisition and disposal of assets, establishment of government charges and asset replacement values.
- 2.10.4 In addition to the non-disclosure of values in financial statements, the failure to take into account accommodation costs in agency programs reduces benefits obtainable from program budgeting. The real cost of implementing government programs cannot be effectively evaluated if agencies do not take into account costs associated with the provision of accommodation. These costs apply to owned accommodation as well as leased premises.
- 2.10.5 Where accrual accounting was used by the non-budget agencies, recorded property values were usually based upon historical costs in accordance with traditional accounting practice. Notwithstanding the historical cost convention however, the disclosure of asset values in this manner becomes meaningless, particularly in agencies such as the State Transport Authority where the recorded value of land was \$6.25 million as compared to current values of land estimated at between \$300 million and \$400 million.
- 2.10.6 While disclosure of current real estate values in financial statements does not in itself disclose the existence of surplus properties, the rate of return achieved from such assets may indicate significant under-utilisation.
- 2.10.7 Apart from the limitations upon disclosure arising from the historical cost convention, a close scrutiny of recorded values in the financial statements of agencies also revealed that:
- \* due to deficiencies in asset recording, the recorded values were often not capable of being reconciled to asset registers;
  - \* values were not recorded on all land managed by the agencies, particularly in relation to Crown land and land vested in the agencies; and

- \* property values were not always recorded on a consistent basis. Methods of disclosure included a combination of historical cost, *modified* historical cost, median sale price and Valuer-General valuations. Accordingly, the value of such information was very limited, particularly in relation to comparisons between agencies as to real estate responsibilities.
- 2.10.8 In addition to the above deficiencies in the recording and disclosure of assets, deficiencies were also noted in several of the agencies in relation to debtors/accounts receivable accounting systems used to record revenue obtained from real estate holdings. In general these deficiencies had been recognised and efforts were being made to install suitable computerised accounting systems.
- 2.10.9 The Treasurer of Victoria has established a Task Force to advise on government policy to be adopted on asset recording and reporting in the public sector. In accordance with a timetable prepared in relation to this project, it is the Treasurer's intention that all agencies will have completed by June 1989 a revaluation of assets, including real estate, to enable such information to be disclosed in future financial statements.
- 2.10.10 The adoption of accrual accounting, as recommended in previous audit reports, would address the issues referred to. This method of accounting would not mean that the present process of cash budgeting would be discontinued, as control over cash flow remains essential. Rather, the disclosure of cash transactions becomes a subset of information available when accrual systems employing accrual concepts are in place.
- 2.10.11 Major audit recommendations in relation to asset reporting were:
- \* in view of the Treasurer's intention as referred to above, it was recommended that, in accordance with *Australian Accounting Standard AAS10*, action will need to be taken by agencies to progressively identify and obtain professional valuations on all property holdings, with a view to disclosure of current values in financial statements; and
  - \* in accordance with program budgeting principles, which require each program to bear the full cost of operations, all agencies should bear the cost of leasing accommodation. Consideration could also be given to extending this principle to owned accommodation, whereby a notional charge could be charged to agencies by the Department of Property and Services.
- 2.10.12 Specific comments on individual agencies were as follows:

#### **Department of Management and Budget**

2.10.12.1 Audit considered that the failure of current accounting practices and asset management systems to effectively disclose and monitor public assets has contributed to an accumulation of surplus assets and an inability to assess the effectiveness of asset utilisation.

##### *Agency response*

*The reply drew attention to the current absence of any formal accounting and reporting of assets in the budget sector of Australian States and the Commonwealth. In this regard the agency confirmed it was very supportive of measures to enhance asset management practices and had taken several important initiatives, including the formation of the task force to recommend policy in this area, and the enhanced capital budget processes.*

*The agency agreed in principle with the use of accrual accounting and had taken action to move towards greater use of this practice. Attention was drawn however, to the traditional control requirements over parliamentary appropriations which are primarily of a cash nature.*

*Acknowledgement was made that while disclosure is vitally important, this in itself will not ensure the implementation of more efficient asset management practices. In line with the Commonwealth and other States (apart from New South Wales which provides narrative reporting on major assets), Victoria does not provide formal asset reports. However, it was considered that information on past and proposed expenditure on capital assets was contained in budget documents and appropriation legislation.*

### **Department of Conservation, Forests and Lands**

2.10.12.2 Specific comment was not made on the disclosure of assets as this is essentially a matter to be addressed by the Treasurer in relation to all agencies. Attention was directed towards the existing computer system used to record leasing and licencing revenue. The system was obsolete, inefficient and incapable of providing timely debtor information.

2.10.12.3 Audit recommended that priority be given to implementing a new computerised debtors/accounts receivable system.

#### *Agency response*

*The problems with outdated accounting equipment had been recognised and high priority has been given to this aspect in conjunction with the upgrading of the financial control system of the Department. A new accounts receivable system package is expected to be implemented in July 1988.*

### **Director of Housing**

2.10.12.4 Vacant land values were recorded in the financial statements as \$113.8 million at June 1987, representing a combination of historical cost and median sale price values. Due to deficiencies in the vacant land register, it was possible that all property values were not recorded.

2.10.12.5 Audit recommended that professional valuations be obtained on all property holdings for inclusion in the financial statements.

#### *Agency response*

*The agency intends to ensure that all vacant land will have been valued by 30 June 1989, except for land acquired during that financial year which will be valued at cost. Rental properties are revalued each year by the Director of Housing in accordance with an accounting policy approved by the Department of Management and Budget in 1985-86.*

### **Metropolitan Transit Authority**

2.10.12.6 At 30 June 1987 vacant land values were recorded in the financial statements as \$31 million as compared to current values estimated by audit to be up to \$400 million. The recorded amount represented a combination of historical cost, and a modified version of historical cost.

2.10.12.7 The existing debtors/accounts receivable system was deficient in certain aspects in relation to the recording of debtors and prompt collection of moneys receivable, including penalty interest. This deficiency had been recognised and development was continuing on a new computerised system.

2.10.12.8 Audit recommendations related to the need to commence as soon as practical, the progressive identification and valuation of all property holdings for inclusion of values in the 1987-88 financial statements.

*Agency response*

*Acknowledgement was made that the debtors/accounts receivable system was inadequate in certain respects. Significant work has been undertaken to computerise the system, and to eliminate the current system of 3 separate collection points for rentals payable. Additional staff are also being provided to enable the implementation of a computerised rent collection system, including the collection of land tax and penalty interest.*

*The Authority is in the process of appointing a valuer to assist with the valuation of properties, including those which become eligible for rental reviews. However, while the Authority would ideally prefer to value all its properties immediately, cost factors may prove to be prohibitive, despite the advantageous effects of any increased valuations on land tax assessments.*

**State Transport Authority**

2.10.12.9 As referred to previously, the recorded value of the agency's property holdings was \$6.25 million on an historical cost basis. This figure was considered by audit to be meaningless as compared to current property values of in the vicinity of \$400 million.

2.10.12.10 The rental debtors system and associated procedures were also considered to be inadequate, leading to an inability to readily identify arrears, the taking of prompt corrective action, and loss of revenue.

2.10.12.11 Audit recommendations related to the need to identify and value *all* properties for inclusion of values in the 1987-88 financial statements. It was also recommended that the existing accounts receivable/debtors system be improved and active attempts be made to reduce the high level of debtors.

*Agency response*

*Improved computer systems which are currently being introduced will provide a vehicle for enhancing the existing accounts receivable/debtors system.*

*Revaluation of all assets can be undertaken. However, because the Authority owns large land and asset holdings, it is estimated that it will require 12 full-time valuers to complete the task in 12 months. The Authority does not possess such resources.*