



New South Wales  
TREASURY

TOTAL ASSET MANAGEMENT GUIDELINE

# Asset Disposal Strategic Planning

TAM06-4 June 2006

# Asset Disposal Strategic Planning

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# 1 Asset disposal strategic plan within TAM

## 1.1 Background

General Government agencies are responsible for delivery of particular services in line with Government's overarching service delivery agenda and priorities. Agencies determine the best way to achieve Government requirements. Their plans recognise current and future risks including changes in service demands and delivery methods, and changes in the level of available resources.

Assets are one major resource available to an agency. These are only of value if they continue to cost effectively support the delivery of an agency's services, as reflected in its Results and Services Plan (RSP) or corporate planning documents.

An agency's Asset Strategy is its asset response to its service delivery needs. Where the analysis undertaken in the Asset Strategy shows that an asset no longer plays a viable role in supporting service delivery, its worth lies only in the benefits to be gained from its disposal.

Asset disposal is the final stage in the asset life cycle. Its proper planning and management is therefore an integral part of the TAM strategic process. This document provides guidelines to agencies on the strategic processes for planning disposal of their surplus assets.

While the guideline is generic in nature and relates to the full range of government assets, it recognises that real property assets generally have high values and their disposal often involves more complex planning and financial issues. The guideline includes Appendices, which provide more detailed guidance on the application of the generic process to the disposal of real property.

## 1.2 The essence of disposal planning

Asset Disposal Strategic Planning allows agencies to cull redundant assets that might otherwise reduce efficient and effective service delivery.

Asset Disposal planning involves two separate and distinct elements: the detailed assessment of assets identified as *Surplus* by the Asset Strategy followed by an analysis of the physical *Disposal* of the assets.

*Surplus* asset is identified when it:

- is not required for the delivery of services, either currently, or over the longer planning time frame; or
- becomes uneconomical to maintain and/or operate; or
- is not suitable for service delivery.

For example, changes in service delivery methods either due to advances in technology or social expectations can cause assets to become surplus. This can also occur as a result of changing demographic patterns or the economies of scale made possible by new service capacity.

*Disposal* of the physical asset once an asset is identified as surplus, depend on one or more of the following:

- whether there are net disposal benefits, either in financial or other terms;
- whether there are secondary service obligations associated with the asset which dictate its retention; and/or
- whether a disposal can be carried out without adverse impacts on the physical environment.

The disposal of an asset identified as surplus is not a foregone conclusion. The net disposal benefits (disposal value less disposal costs) may be negative for some assets (especially fixed or purpose-built equipment such as buildings, pipelines and process control equipment) which will discourage their premature disposal.

Disposal value is dependent on the market for the asset. For example, the market for two-year old cars is much larger than that for second hand office furniture.

Disposal benefits will not always be dictated by monetary returns. Disposal relieves an agency of responsibility for an asset's supervision, day-to-day management, maintenance, insurance, security and cleaning along with housing or storage throughout the asset's life.

Under utilised assets may be of significant value to another agency. In assessing the benefits of disposal, the advantages from the whole of the government perspective must be considered.

Assets identified as surplus to core service delivery requirements, may need to be retained due to heritage, open space or other social environmental considerations, which agencies may have as secondary service obligations.

### **1.3 Benefits of disposal planning**

A strategic approach to the management of Government assets and the disposal of those no longer required will have impacts on:

- whole of Government
- government Agencies
- community
- environment

#### **Whole of Government**

A managed disposal strategy will assure Government that its asset investments are effective and that the assets are currently relevant to the service it requires agencies to provide, maximising the return on government investment.

Constant review of asset relevance offers Government the economies and benefits that flow from new cross agency asset sharing opportunities that can replace existing assets.

#### **Agencies**

Disposal planning offers agencies a means of disposal of unnecessary or non-performing assets timed to minimise disruption to their business and maximise returns by selecting appropriate times in their market cycle to dispose.

Disposal may have impacts on agency clients, staff, and other key stakeholders. An agency should consult the affected groups to understand any concerns/issues and develop appropriate responses.

In the disposal of significant assets, agencies should be aware of broader community concerns other than those related to service delivery, particularly when disposal involves re-use or redevelopment of property assets.

It will benefit agencies to identify and to accommodate any such concerns where possible since this can avoid protracted community confrontation and consequent delays in the disposal of the asset.

#### **Community**

The community will benefit from increased efficiency in overall service delivery resulting from disposal of ineffective assets.

Disposal of assets may cause anxiety among communities that feel their services will be compromised by such disposal.

To minimise this understandable concern, agencies should break the perceived nexus between the services they provide and the assets that are used to deliver them.

When a community understands that the service it requires is, for example, education or policing and not a school or police station, they are less likely to resent disposal of assets.

Agencies need to be sensitive to the symbolic importance that major assets play in the community.

The presence of a hospital or police station in a town provides a sense of security quite apart from the service. The symbol is in part the service.

Agencies must consider the cultural significance of assets such as courthouses, schools and police stations to a community when planning their disposal. Failure to address such concerns may well result in community confrontation and delays in the disposal process.

#### **Environment**

The production, maintenance and disposal of assets can each have environmental impacts. There are significant environmental advantages in minimising the number of assets used and the density of that usage.

When asset disposal is strategic not premature and considers further use or recycling by future owners, then it is the final stage of good environmental stewardship of an agency's assets.

## 2 Agency roles and responsibilities

### 2.1 Service agencies

All agencies are required to prepare and submit an Asset Disposal Plan including a Property Disposal Plan (refer [www.gamc.nsw.gov.au](http://www.gamc.nsw.gov.au) for specific details) to the NSW Treasury by 31 August each year with the agency's Asset Strategy.

This reflects the need to integrate disposal planning into an agency's annual strategic asset management planning and budgeting cycle.

#### General Asset Disposals

Most agencies have the skills to manage the disposal of general assets. The actual disposal process, which may include valuation, auctioneering or agency roles can be outsourced to specialists.

Agencies should carefully consider the advantages of engaging experts if their experience in disposal activities is infrequent or not core business.

#### Real Property Disposals

The Government Asset Management Committee (GAMC) was established to ensure the effective management of Government's significant investment in assets, particularly real property and office accommodation.

Subsequently, the GMAC established the Property Disposal Assessment Panel (PDAP) to provide advice on issues relating to agency property disposals.

In developing disposal strategies and plans agencies should familiarise themselves with the:

- roles and functions of the GAMC and the PDAP ([www.gamc.nsw.gov.au](http://www.gamc.nsw.gov.au)); and
- information requirements for Property Disposal Plans (PDPs) and the Surplus Property Database ([www.gamc.nsw.gov.au](http://www.gamc.nsw.gov.au)).

See also, requirements for PDPs in Appendix B.

All individuals involved in providing expert advice on property disposals, including consultants, must declare any conflicts of interest.

Such conflicts would not necessarily exclude the individual from providing advice, but an agency should be made aware of these conflicts and information must be maintained confidentially at all times.

### 2.2 NSW Treasury

Treasury will review existing funding and management policies to ensure they support the objectives of best practice in asset planning. Treasury will also:

- approve all high value asset disposals for budget sector agencies within the annual budget process; and
- approve all disposals in which the assets are to be offered for sale at less than their market value (refer to Treasurer's Directions/ 469.01 to 469.08 Sale or Lease of Government Assets).

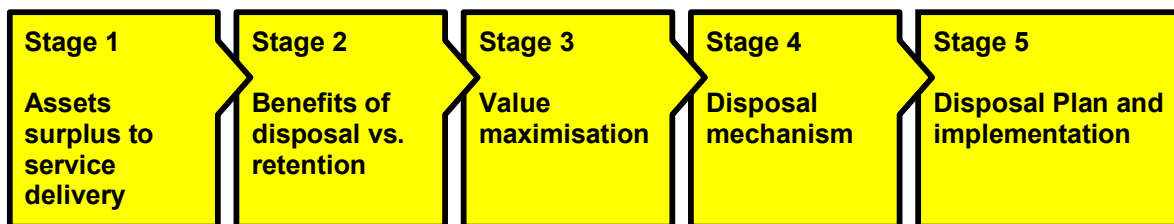
NSW Treasury also provides the executive support and secretariat for the Government Asset Management Committee and the Property Disposal Assessment Panel.

### 2.3 Department of Commerce

Information on opportunities to transfer and obtain property from another Government agency is available from the Surplus Property Database, which is administered by the Department of Commerce. The database details non-essential land from advice provided by Government agencies, primarily through Property Disposal Plans.

A checklist for information required for the Surplus Property Database is available on [www.gamc.nsw.gov.au](http://www.gamc.nsw.gov.au)

### 3 The asset disposal planning process



#### 3.1 The disposal process

Asset Disposal Planning is a structured and systematic process to ensure an agency's asset portfolio comprises only those assets that effectively meet its service delivery requirements at the lowest long-term cost to Government.

Disposal Planning is a five stage process driven from an agency's asset strategy. The process described here is generic and covers the disposal of all types of assets. Additional aspects to be considered for the disposal of real property at each stage of the process are detailed in Appendix B.

##### Stage 1

Assess in detail those assets identified by the Asset Strategy as surplus to service delivery requirements.

##### Stage 2

Assess the advantages to Government, agency and the community in divesting assets.

##### Stage 3

Identify opportunities for increasing asset value before their disposal.

##### Stage 4

Identify disposal requirements including probity considerations.

##### Stage 5

Prepare and implement the Disposal Plan and monitor performance.

Appendix A provides an example of the development of a Disposal Plan to guide agencies on the application of the planning process.

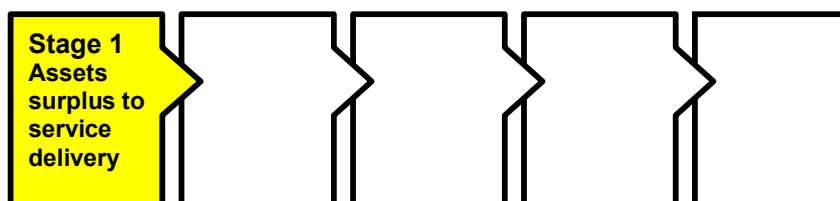
Agency Disposal Plans should cover the same period of time as the agency's Capital Investment and Asset Maintenance strategic plans, ie. a rolling detailed annual plan, a three-year predictive plan, and a longer-term projection. This will allow:

- development of cross agency perspectives on the use and redistribution of assets that may become available;
- sufficient time for the planning and implementation of asset changes; and
- ongoing evaluation of asset sales against current and future market trends to achieve the best long term financial performance.

While the accuracy of a plan reduces with time, the period of the long-term projection should be chosen to include much of an agency's asset service life expectancy and its longest service life planning cycle. In the case of real property assets, this could be up to 20 years.

The process described here is generic and covers the disposal of all types of assets. The additional aspects to be considered for the disposal of real property at each stage of the process, including information required in an agency's Property Disposal Plan (PDP), are detailed in Appendix B.

## Stage 1 Assets surplus to service delivery



The first stage in the disposal process is to assess in detail those assets identified by the Asset Strategy as surplus to service delivery needs both at the present time and over the longer planning time frame.

An asset's continuing acceptability in service must be measured against its disposal and procurement of alternative assets to provide the services specified in the agency Service Delivery Planning.

The identification of surplus assets should include the following considerations:

- assets may no longer support an agency's service objectives due to changes in the type of service or its delivery method;
- assets can have varying service life expectancies. Some are required to continue in service indefinitely with adequate maintenance, eg. civil structures such as mass gravity dams or sewerage systems;
- assets such as buildings can often be economically maintained and kept in service for prolonged periods, however some become uneconomic or cannot be economically adapted to changed operating environments or service requirements;
- some assets may still be able to perform as originally planned but have been made redundant or incompatible because of advances in technology or changed work practices; and
- the potential savings available from replacement of an asset must be weighed against the cost of that replacement, the estimated economic service life and the market value of the asset.

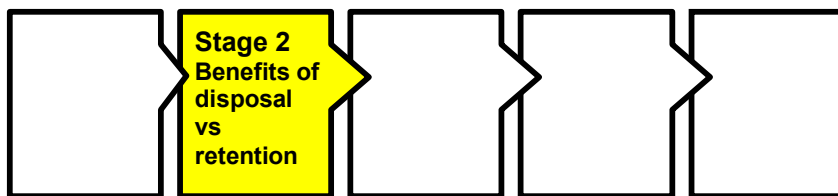
Some assets are perceived to be inferior in certain aspects (particularly when compared to more recently acquired assets) yet may still provide acceptable service. Avoid replacing assets on superficial grounds such as improved but unnecessary performance or higher prestige.

This can be challenging especially when technical experts plead the case for disposal and replacement. Sometimes, disposal may be more advantageous to the operatives than the agency's clients.

If an asset is not presently used, the likelihood of it being required within the foreseeable future should be considered. Changing demographic trends or service demands may see a renewed call for the asset in its present or altered state, or in a new location.

Agencies may have implied or secondary service obligations in addition to their core service delivery responsibilities. These could include heritage and other environmental aspects related to an asset and may affect its disposal. Agencies in these circumstances should refer to the Heritage Asset Management and Sustainable Development guidelines contained in the TAM Manual.

## Stage 2 Benefits of disposal vs. retention



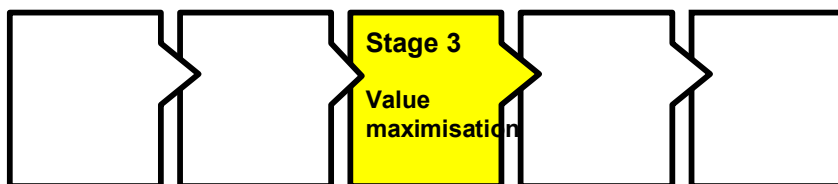
Not all assets identified as surplus will have great residual value and in some cases this will be negative when the disposal costs are included. In such circumstances, the advantages of disposing must be weighed against the cost of continued ownership.

Many assets require significant resources for their maintenance (repairs, servicing, etc) and operation (staff, energy, cleaning, security costs, etc.).

Other costs of ownership include opportunity costs on the residual value of the asset and insurance cost. Property assets may also incur various local government rates and charges as well as those levied by other rating authorities.

Retaining such assets in service when they no longer effectively support service delivery will expend resources that could otherwise be used elsewhere and could effectively constrain investment in more suitable and economic assets.

## Stage 3 Value maximisation



Maximisation of net benefits to both Government and an agency requires a whole-of-organisation and cross-agency view of the assets to be disposed of over the period under consideration. The disposal value of an asset is its sale value and the savings achieved in the cost of service delivery or other benefits.

The sale value depends on the market for the asset and the perceived advantages it offers buyers in that market.

An asset can have a range of values to potential buyers, with each valuing different aspects of the asset.

For example, a disused police station may be valued as a domestic residence, a council park or a classroom block by an adjoining school.

It may also be most highly valued as part of a site for a major office development, but this might be dependent on the acquisition of adjoining sites.

A personal computer may have one value as a trade-in, a second value if sold along with 1000 others from an agency to a reseller and yet another price if marketed individually to students.

The wider and longer term the perspective that can be taken, the greater the options for maximising the value by most appropriately marketing surplus assets.

An understanding of the property cycle allows maximum advantage to be made of rising property markets and disposal may be delayed to coincide with such cycles if a longer term perspective is taken. Care is required in attempting to predict market trends and expert advice should be sought if timing is important.

The perspective can also allow judgements to be made on the levels of maintenance applied to the asset and the best condition in which to present it for disposal.



For example, if the disused police station is to be sold along with adjoining blocks of government owned land (for re-development purposes), then the state of the building is not going to affect the value realised.

If the station is to be sold separately or disposed of for re-use (eg. as a classroom), then significant work three years prior to sale to preserve the building's fabric might prove worthwhile.

Part of value maximisation is seeking to cultivate a market for disposed assets, especially if there are many assets with short service lives or valuable items for disposal.

For example, several transport authorities have increased their returns from the disposal of buses retired from their fleets by considering non-traditional disposal options.

These have included establishing agency agreements to sell the vehicles interstate and overseas where they could be privately registered without modification.

Obviously the cost of alternative disposal processes must be weighed against the marginal increase in price received.

Disposal need not generate a financial outcome to be valuable. Often opportunities will arise including:

- swapping one asset or site for another
- joint disposal with owners of adjoining properties
- contra-deals involving construction of a facility for an agency within a development in payment for the land on which it is built

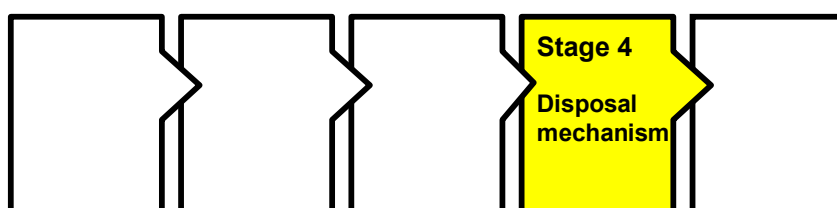
Other assets may have no value but disposal can provide benefits such as avoidance of maintenance or operating costs, staffing or insurance costs.

Agency's implied charters include consideration of heritage and environmental matters imposed by legislation. Beyond this, agencies have the general interest of the community as an implied charter.

This may lead to conflicts on disposal options especially where a large part of the community may want one disposal action while the agency's best financial and operational interests would be better served by other disposal means.

Unless directed otherwise an agency should pursue that course of disposal action that maximises benefit to itself and government. Disposal of assets from one agency to another may maximise the benefit to government. Such disposals are usually transacted at market price by means of private treaty (*see* Section 3.6).

#### **Stage 4      Disposal mechanism**



The disposal mechanism must be carefully chosen to ensure that the disposal of assets is carried out to:

- satisfy probity considerations;
- provide adequate and equal opportunity to purchase, including clear stipulation of the basis on which decisions will be made;
- achieve the best return to government; and
- avoid any adverse environmental impacts.

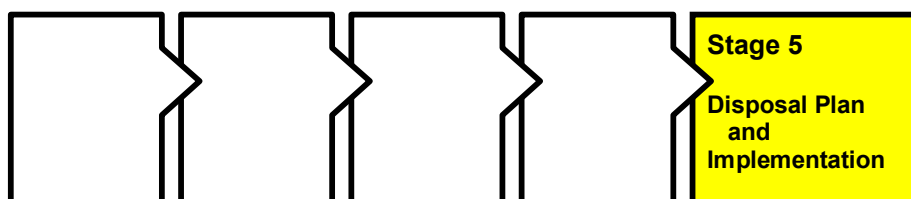
Disposal will generally be by auction, tender or private treaty. Any other proposed methods of disposal should be referred to NSW Treasury.

**Auction** is a common method of disposal that is usually more straightforward and the process is open to public scrutiny. In some circumstances the environment of an auction may generate a higher price.

**Tender** is preferred where more control over the actual disposal of the asset is required or where the credentials of the buyer need to be assessed in detail.

**Private Treaty** is a less common form of disposal. It is generally used for the disposal of real property although it may be applicable for other types of assets in certain special circumstances where there is likely to be only one purchaser. Appendix C provides further details on disposal by Private Treaty.

## Stage 5 Prepare Disposal plan



Disposal plans should cover the same time period as the agency's Capital Investment and Asset Maintenance strategic plans. That is, a:

- Rolling detailed annual plan;
- Three-year plan in moderate detail; and
- Longer-term projection.

Although Treasury has placed financial limits on the disposals that require reporting, an agency should implement a culture of regularly analysing all parts of its asset holdings to identify those no longer necessary to support delivery of services.

This ensures agencies remain focussed on service delivery rather than the assets. Linkages should be made between the capital investment and disposal plans by listing assets for disposal that have service lives within the planning time frame.

These linkages are particularly important where the proceeds of asset disposals are being relied upon to fund capital works. In such situations, it is essential to allow an adequate time and funding buffer between the disposal and acquisition events.

While disposal plans will not contain every asset under an agency's control, significant items should be listed in appropriate detail on a long-term basis to ensure agencies are properly prepared for disposals and replacements.

The one-year plan should contain asset disposal proposals that can be achieved. That is:

- they can be removed from service and if replacement assets are involved, these will become available so that service delivery is not jeopardised
- pre-disposal approval and planning (including protracted actions such as re-zoning) have or can be obtained for disposal to be completed within the year
- the state of the market being appropriate to achieve a satisfactory outcome

While annual plans should be considered to be binding on an agency to achieve the actions proposed, the longer-term disposal plans will always have some inherent flexibility to cater for changes in operating environment.

## Appendix A Example of an agency asset disposal plan

*As an example, the development of an Asset Disposal Plan is presented in an abbreviated form for the hypothetical Tarrawarra University Campus. The development of the Plan follows the five stages of the Asset Disposal Planning Process. The costs generated in this plan would be incorporated in the overarching agency Asset Disposal Plan.*

Tarrawarra University Campus is located in the Casey Valley and occupies the site of the former Tarrawarra District Hospital. The College has facilities for Science, Engineering, Agriculture, Metallurgy and Boot making.

Enrolments have grown steadily over the last ten years in line with population growth in the valley. The opening of two new mines and the establishment of a major manufacturing complex within the University's catchment have increased demand for mining, mechanical and electrical engineering courses and robotics.

The campus consists of six major buildings: Buckley Block, Gaynor House, O'Farrell Library, O'Tool Engineering Complex, Bernie Parker Union Building and the Administration Building.

The University plans to establish an annexe in nearby Abbots Glen to conduct some courses for the mining industry and another in Roscrea for process engineering. The Abbots Glen Annex replaces the present below-ground mining training facility at the Abbots Bore No 3.

No major rebuilding to the main campus is anticipated although major replacement of air-conditioning equipment to two blocks and fire protection to O'Farrell Library are planned within two years.

### Stage 1 Assets surplus to service delivery

#### **Property**

Gaynor House comprising the old hospital staff refectory and engineering laboratories is currently used to conduct bridging courses for mature aged students from industry. These courses are to be accommodated at the new Abbots Glen and Roscrea annexes making the Gaynor House property surplus to needs.

#### **Below-ground Mining Training Facilities**

The opening of the new mines in the area and the establishment of the University's new Mining Engineering Facility also at the Abbots Glen annexe will render the present below-ground mining training facilities at Abbots Bore No 3 surplus to requirements.

#### **Industrial Equipment**

In keeping with the University's policy of ensuring that industrial training equipment is similar to that currently used in local industry, the following equipment has become outmoded.

- Plasma Cutting Robotics Equipment
- 4 Abbot A3700 Turret Lathes
- 20 Miller Centre less Grinders
- 10 OCSO Spectrum Analysers
- 7 Fox Crucible Furnaces
- 4 Angelarc 600A Oil Cooled Arc Welders
- 1 Brindrop 10t Hydraulically Operated Drop Hammer

#### **Computer Equipment**

The University's ongoing program of computer equipment upgrading results in disposal of PCs on a rolling three to five year cycle.

Based on currently predicted impacts of technological change on courses offered and the rate of decline in the second hand value of the computers, it is expected that an average of 130 PCs will be disposed of annually.

## Vehicles

The University's fleet of vehicles, trucks and tractors is also upgraded on an ongoing basis resulting in the following disposal program.

Vehicle		Disposal Every
Type	Qty	
Cars	12	2 yrs
Utilities	3	2 yrs
Trucks	4	5 yrs
Tractors	5	7 yrs

## Stage 2 Determine required benefits of disposal vs. retention

### Below-ground Mining Training Facilities

The cost of salvaging these facilities (teaching spaces, spur railway lines, equipment bays, etc) would be uneconomic.

The University could make occasional use of the facility and its retention would provide a valuable training facility for the local mining industry (over and above the new facilities provided by the College at Abbots Glen).

## Stage 3 Value maximisation

### Property

Gaynor College is located on a separate site from the main campus and includes a remnant open sclerophyll eucalypt forest, which occupies 20% of the land area and connects to the forested areas of Meleray Park and Meleray Creek.

The buildings were constructed between 1950 and 1958 and, while in sound condition, are not suitable for commercial or residential reuse. The highest and best use of the site is redevelopment for residential use.

Consultations with the Tarrawarra community were undertaken which identified the following issues regarding the disposal of the site:

- The community accepted the transfer of mining engineering bridging courses to the new Abbots Glen annex since it was relatively close to the Main Campus
- However, there was concern regarding the movement of process engineering bridging courses to the new Roscrea annex because this is some 8 km from Tarrawarra
- The community also considered the remnant forest to be visually and environmentally significant and was greatly concerned that it would be destroyed

The University assessed these concerns and the community accepted the following proposals:

- Alteration of bus timetables to coincide with student course schedules at the Main Campus and Roscrea
- Rezoning, as Bushland Conservation, that part of the site containing the remnant forest

Changes to bus timetables will not incur any additional costs to the Government. The retention of the remnant forest will reduce the value of the site by 10%. This has been offset by arranging for Council to increase the allowable site coverage for redevelopment by 5%.

By accommodating these community concerns, the status of the University in the region has been enhanced. This will lead to more effective dealings with the community in the future.

## Stage 4 Disposal mechanism

### Property

The Gaynor Lodge site is to be offered for sale by tender with the identified highest and best use of residential redevelopment.

### Below-ground Mining Training Facilities

It has been decided to offer these facilities to the owners of the Abbots Bore No 3 Mine in return for occasional use of the facility.

This will effectively provide for retention of a valuable training facility for the local mining industry at no cost to government.

### Industrial Equipment

Six monthly auctions of industrial and commercial equipment in the district have consistently returned premium prices for well-maintained University equipment.

Sean O'Tool and Company, Auctioneers are under contract to the College for the disposal of its surplus industrial equipment.

The exception will be the Plasma Cutting Robotics Equipment that has a wider market that extends beyond the local area to industries located in the capital cities.

This item of equipment will be offered for sale by tender through industry advertising in Sydney, Wollongong, Newcastle and Melbourne with an expected return of \$370,000 net after disposal costs.

### Computer Equipment

An assessment of disposal methods for the University's PCs has shown that the best return is achieved by offering them for sale on a fixed price, as is/where is basis, firstly to the students and then to the community in general.

The fixed price will be set at 15% above the unit sale price received by other institutions in bulk sales of their PCs to second hand dealers.

This method of disposal has the added indirect benefit of increasing the availability of computers for student study at home, including greater use of library and tutorial information via the Internet.

### Vehicles

Surplus items in the University's vehicle fleet are disposed of through State Fleet contracts.

## Stage 5 Disposal plan and implementation

### FIVE YEAR ASSET DISPOSAL PLAN

#### Income and Expenditure from/for asset disposal

Property	YEAR 1 \$'000	YEAR 2 \$'000	YEAR 3 \$'000	YEAR 4 \$'000	YEAR 5 \$'000
Gaynor Lodge	850				
Abbots Bore	-5	0			
Tony Buckley Parade Grounds			-20	-20	1150
Industrial Equipment	120	320	40	180	
Computers	40	40	40	60	60
Vehicles	180	160	180	160	180
<b>TOTAL</b>	<b>1185</b>	<b>520</b>	<b>240</b>	<b>380</b>	<b>1390</b>

(-) expenditure to prepare for disposal

### Year 1 Asset Disposal Plan

ASSET	ACTIVITY	TIMESCALE											
		Jul y	Au g	Sep	Oct	No v	De c	Jan	Feb	Ma r	Apr	Ma y	Jun
<b>PROPERTY</b>													
Gaynor Lodge	Community Consultation				█	█	█	█					
	Tender documentation								█	█			
	Tenders called										█	█	
	Finalisation												█
Abbots Bore	Negotiations												
<b>INDUSTRIAL EQUIPMENT</b>													
Robotics Plasma Cutter	Order replacement				█								
	Call tenders				█								
	Finalise disposal					█	█						
	Remove equipment					█	█						
	Install replacement							█	█				
Centreless Grinders (20)	Order replacements									█			
	Call tenders												█
	Finalise disposal												█
Spectrum Analysers (10)	Order replacements	█											
	Call tenders		█	█									
Crucible Furnaces (7)	Finalise disposal												
Arc Welders (4)	Order replacements										█		
	Call tenders											█	
	Upgrade workshop							█	█	█	█	█	
	Finalise disposal												█
	Install replacements											█	█
Drop Hammer	Call tenders							█					
	Finalise replacement											█	
Computer Equipment PC type (130)	Advertising	█	█	█	█	█	█	█	█	█	█	█	█
	Dispose progressively	█	█	█	█	█	█	█	█	█	█	█	█
	Replace progressively	█	█	█	█	█	█	█	█	█	█	█	█
Vehicles	Dispose progressively	█	█	█	█	█	█	█	█	█	█	█	█
	Replace progressively	█	█	█	█	█	█	█	█	█	█	█	█

## **Appendix B Disposal of real property assets**

Real property assets, particularly in urban areas generally have much higher value than other asset types and usually appreciate in value. Their disposal can involve unique and complex planning, environmental and social issues.

The following sections raise some common issues under each of the five stages of the asset disposal process that may require consideration when real property is to be sold.

### **Stage 1 Assets surplus to service delivery**

#### **Property ownership and status**

Government property is either freehold or Crown Land. Freehold property is either vested in a government Minister or in the case of Public Trading Enterprises (PTEs), State Owned Corporations (SOCs) and Authorities, in the agency itself.

Land that has no legal title or status automatically reverts to the Crown and is classified as Crown Land under the control of the Department of Lands.

Crown Land can be "reserved" for a particular use (eg. Crown Road Reserves) or dedicated to a legal entity for a specified use in which case the property is legally vested in the Crown.

While a property may have been available for use by (and under the administration of) an agency, its legal ownership may be vested in another agency's Minister, whose authority must be obtained prior to disposal.

The legal status of the property and presence of any encumbrances (eg. easements, leases, etc) needs to be determined through title searches. The Department of Lands should be consulted as it is the only agency that can legally sell Crown Land following due process.

#### **Heritage properties**

The absence of a heritage listing does not automatically indicate that the site has no heritage significance. Properties identified as surplus may require assessment of their heritage significance, include any buildings, works, vegetation or relics located on the land.

A special investigation may be required where the heritage significance is unknown. For properties with possible local, regional or state significance, this investigation may involve a detailed assessment and/or a conservation study along with the preparation of a conservation plan.

Further information on heritage properties is contained in the *Heritage Asset Management Guidelines* within the *TAM Manual*.

### **Stage 2 Benefits of disposal vs. retention**

#### **Transfer to another government agency**

Surplus property of one agency may well suit the needs of another. It is the responsibility of both acquiring and disposing agencies to indicate to each other their intentions. Information on opportunities to transfer and to obtain property from another government agency is available from the Department of Commerce. This information is based on details of non-essential land provided by all government agencies.

Negotiations for transfer of surplus property can occur directly between the parties.

It is the responsibility of both agencies involved in the transfer to demonstrate that funds will be available to settle the transfer.

#### **Open Space Potential**

Agencies must undertake a preliminary assessment of the open space potential of any land currently in public ownership that is declared surplus.

In its review, the Department Infrastructure Planning and Natural Resources (DIPNR) may recommend that part or all of a surplus site should be used for open space purposes, in accordance with the State Government's Open Space Strategy.

The open space potential of a site should be assessed according to its significance both in the local area and in the wider region. The site may have potential for contributing wholly or in part to an overall open space plan.

The plan may relate to waterfront land, specific local needs (such as where the Government is promoting urban consolidation), major urban release areas on the fringe of the city, major urban centres, or it may relate to a regional network or corridor of open space.

Agencies should seek preliminary advice on open space potential from DIPNR and the Local Council (or undertake their own assessment) to determine the proposed use of surplus property.

### **Stage 3 Value maximisation**

#### **Possible Uses**

To maximise the disposal value, an assessment should be made of the likely uses of the property after disposal. The proposed use should be the "highest and best" use and the assessment includes examination of options for development of the property.

Assessment of potential uses includes investigation of the constraints on the site. Depending on the property, this may include issues such as:

- Land use controls as defined in planning instruments applying to the land;
- Services provision;
- Natural areas to be conserved;
- Site contamination;
- Traffic, noise, etc;
- Heritage considerations;
- Industrial hazards;
- Geology and soils; and
- Community concerns.

In-depth investigations of these issues are required only if it is proposed to re-zone the property or if they form impediments to disposal.

The zoning of the property must be suitable for the proposed uses. Re-zoning may be required and this should be assessed in conjunction with the relevant Local Council.

#### **Services Upgrade**

Assess whether development of new or upgraded services is required for proposed use. Then assess whether it is economical to upgrade services to permit the proposed use, compared to disposing of the property in its existing state.

In order to permit the proposed use and to maximise returns, it may be necessary to complete the following prior to disposal:

- remediation if contaminated; and
- protection of heritage items.

#### **Relocation of Existing Facilities and Vacant Possession**

Assess whether relocation of existing facilities and vacant possession will maximise the sale price. Planning for relocation of facilities will run parallel with planning for disposal to avoid undue delay.

Relocation may require construction of new facilities. Treasury should be consulted where this involves commitment of capital works funds prior to the proceeds from disposal being available.

#### **Valuation**

A valuation of the property based on market value should be obtained assuming the proposed uses. Valuations may be obtained from either the State Valuation Office or an independent Valuer.



## **Stage 4 Disposal mechanism**

Identify any legislative requirements peculiar to the agency which may affect the disposal procedure so the disposal program is not delayed.

Ministerial consent is often required and not all agencies have the legislative autonomy to dispose of real property.

Identify and resolve any overlap of responsibilities with other bodies that have legislative based roles. The disposal of properties should occur on a commercial basis. Current market value should be realised, including when transfer is to other Agencies.

Determine whether the property will be disposed of as leasehold or freehold.

Disposal as leasehold may be considered where:

- It is desirable to impose detailed conditions of use under a lease
- Heritage precincts of significance, whether or not the property has a particular heritage listing
- It is desirable for the property to remain in government ownership (eg. A site where location is unique or important for some other reason, or where there is potential for site consolidation in the future)
- The site may be required for public purposes eg. Schools or hospitals in future development areas, particularly those likely to experience increased growth as a result of urban consolidation

Market rents will normally be sought although lesser amounts may be acceptable (eg. where the lessee has entered into a maintenance or restoration contract). The total value of such arrangements should be equivalent to current market value.

Disposal as freehold is usually preferred.

In the case of disposal as freehold, an appropriate Agreement for Sale of Land (Contract of Sale) must be completed by the Government agency, its selling agent or legal adviser.

Auctions are appropriate for smaller and less complex sales. An auction is generally preferred to tender because it is usually more straightforward and the process is open to public scrutiny. In some cases an auction environment may generate a higher price.

Disposal by tender is preferred where some control over the future use of the property is required or where the credentials of the buyer need to be assessed in detail.

Disposal by Private Treaty will require special consideration and may apply where disposal is to Local Councils and community organisations for public use and in certain special circumstances where there is likely to be only one purchaser. Appendix C provides further details on disposal by Private Treaty.

In the event of a lease to a community group or other organisation that is unable to pay market rent, an explicit subsidy should be paid out of the annual State Budget. Consult Treasury if contemplating this type of an arrangement.

## **Stage 5 Disposal plan and implementation**

Whether freehold or Crown Land, the property should be unencumbered prior to disposal if possible. The actual disposal of property by selling agents, or the transfer of property to another Government agency, should be monitored to ensure that performance targets are achieved.

The proceeds of disposal should be distributed according to Treasurer's Directions. Department of Commerce should be notified of the disposal (ie, when settlement occurs) through reporting for the property disposal program.

# Appendix C Property disposal plan and assessment

The flow chart at [Attachment B](#) sets out the general Property Disposal Process and the interrelationship between strategic asset planning and asset disposal project management.

## Stage 1 Property disposal plan and assessment

The preparation of a PDP is considered an integral component of an agency's TAM Strategic planning and budgeting cycle. The PDP should:

- ❑ Separately identify properties which have strategic or non-strategic value (see Definitions);
- ❑ Identify assets that are still being used for core service delivery but are underutilised and requiring further assessment; and
- ❑ Identify assets that are vacant or formally declared surplus to core service delivery requirements.

If agencies require assistance in determining their future requirements for an underutilised asset, this should be identified in the PDP.

PDP's will be reviewed by the Property Disposal Assessment Panel (PDAP). The PDAP may request additional information to clarify issues identified in the PDP and provide feedback to agencies as appropriate. The PDAP will prepare a consolidated report and provide recommendations to the GAMC on proposed disposal activities.

Agencies seeking exemptions from PDPs are referred to the criteria detailed on the GMAC website ([www.gamc.nsw.gov.au](http://www.gamc.nsw.gov.au))

### Definitions

The following definitions are cross referenced to the Property Disposal Process flow chart at Attachment B.

#### Asset management strategy

Refer to section 3, TAM Manual for guidance on the development of a strategy. Agencies to utilise the services of a disposal property expert, if required, to provide a needs analysis on the real estate component of the strategy.

#### Service delivery

Purchasing agency's core business activity and/or to fulfil a government policy objective – excludes land development agencies engaged in commercial land development.

#### Strategic property

Suitable for use for other government objectives/requirements, including urban consolidation; and/or highest and best use value greater than \$3 million.

Properties with strategic value and whole-of-government benefits to Government can incorporate, but are not necessarily limited to, one or more of the following general criteria:

- *Adjoins other government (Federal, State and Local) owned land with opportunities for property consolidation - improved access, improved community amenity;*
- *multiple titles, another government agency has expressed an interest in the property;*
- *community and/or not for profit organisations utilise the site (or part of) for delivery of community services;*
- *heritage, environmental and cultural values (eg endangered flora/fauna/habitat, heritage buildings/elements, Aboriginal and/or European cultural heritage significance);*
- *regional open space opportunities, located near major transport routes/interchanges;*
- *located in/near town centres/business districts;*
- *potential for urban consolidation (residential use);*
- *potential as employment lands or potential highest and best use value greater than \$3 million; and*
- *any known Ministerial commitments to continuing and/or alternative uses.*

**Non-strategic property**

Not suitable for other government objectives/requirements; and/or value less than \$3 million.

Properties with non-strategic value to government can generally be considered to fall outside the above general strategic criteria and dependent on the market may have a potential highest and best use value less than \$3 million.

**Surplus property**

Asset not required for delivery of services; uneconomical to maintain and/or operate; identified as not being suitable for ongoing service delivery, formally declared surplus.

**Surplus property database**

Information available on request, maintained by Department of Commerce – State Property.

**Disposal project management**

Owner agency engages nominated disposal agency, if required. Disposal agency project manages sale process, as agreed.

Disposal project management can include, but is not necessarily limited to, the following general program of activities:

- rezoning;
- site subdivisions;
- site specific studies (eg. flora, fauna, contamination, traffic and access);
- negotiations with local government and other interested parties regarding future use or disposal;
- sale consultant engagement and management; and
- sales negotiations (eg. private treaty, post auction, tender/expressions of interest).

Department of Commerce – State Property will review proposed sale terms and conditions for proposed direct dealings with government land development agencies (eg. Landcom), where the proposed acquisition occurs on a commercial basis.

**Disposal agency**

May be owner agency or other appropriate government agency, as agreed by GAMC, with expertise in government property disposals.

**Disposal strategy changes**

If, during the course of the disposal project management, there is a substantial change in the viability of sale and/or expected outcomes, including dollar value, the matter should be referred back to GAMC for consideration.

**Agency managed disposals**

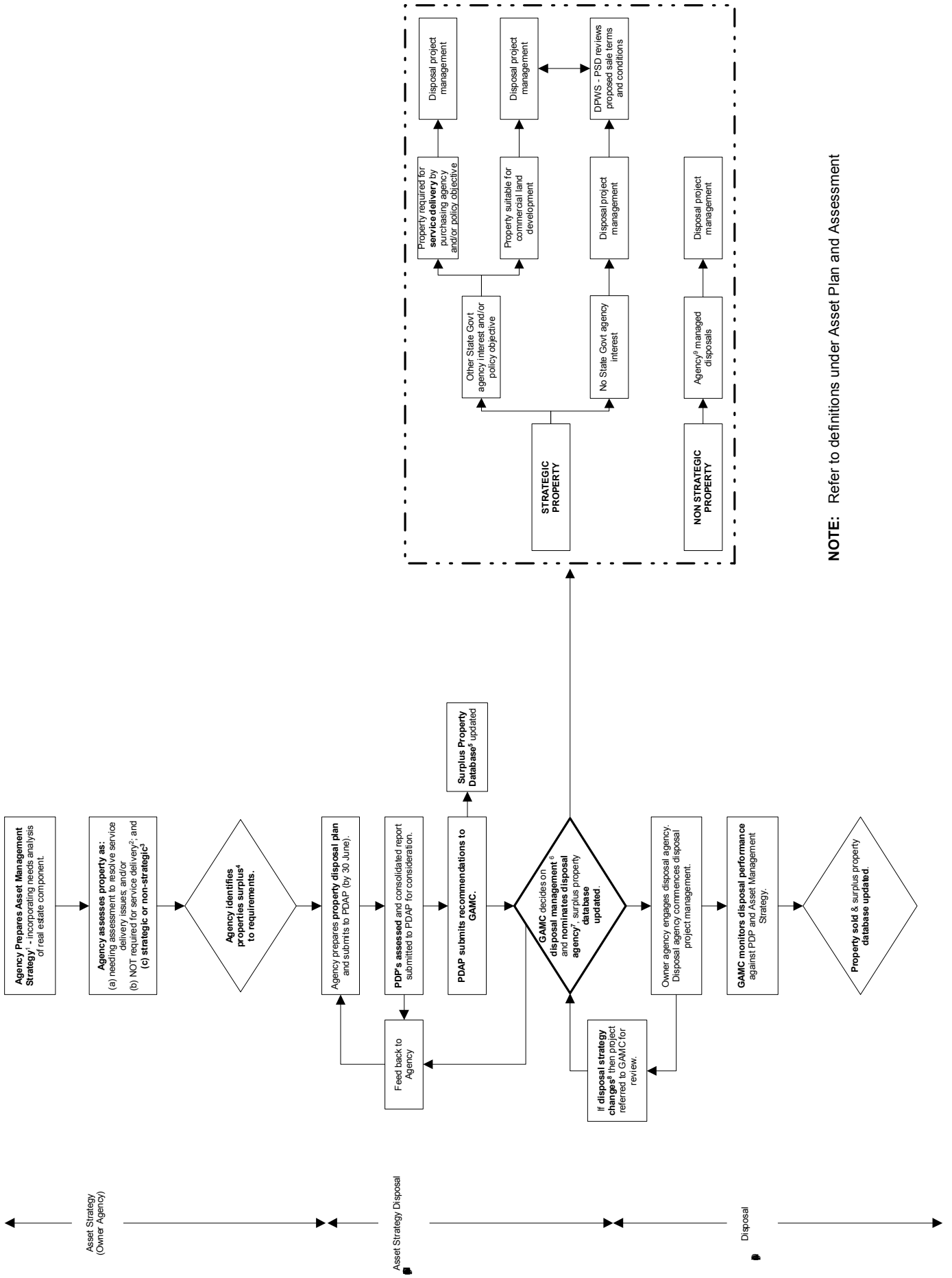
Agency utilises in-house resources, experienced in government property disposals, or engages another appropriate government agency, as agreed by GAMC, with expertise in government property disposals.

## Stage 2 Details required in agency property disposal plan

The following information should be provided for each property. Please refer to the GAMC website ([www.gamc.nsw.gov.au](http://www.gamc.nsw.gov.au)) for the appropriate template.

<b>Property Description</b>	Building and/or property/site name.
<b>Address</b>	Street Number and Name, Suburb/Town, Postcode.
<b>Current Use</b>	School, Hospital, Office, etc.
<b>Status/Utilisation</b>	Vacant/Underutilised/Identified as surplus to requirements. Include date of vacation/cessation of operations.
<b>Strategic/Non-strategic</b>	See Definitions Comment on and/or nominate the criteria used to classify the property as strategic/non-strategic.
<b>Land Title Details</b>	Lot(s), Deposited Plan(s), Folio Identifier(s).
<b>Local Government Area</b>	City/Shire.
<b>Zoning</b>	Land zoning details – brief description (eg. Residential 2A). Other applicable planning policies (if known).
<b>Site Area</b>	Approximate area in square metres or surveyed area (if available).
<b>Site Improvements</b>	Brief details of site improvements.
<b>Tenure</b>	Crown Land, freehold, details of leasehold arrangements (sub-leases, sub-licences, permissive occupancies).
<b>Property Valuation</b>	Valuation figure and basis, date of valuation.
<b>Heritage Status:</b>	Details of heritage orders and/or heritage listings (known or proposed); Native Title claims and/or Aboriginal land claims..
<b>Ecological Status</b>	Threatened/protected species, protected environment/habitat (known or proposed).
<b>Contaminated Soils/Buildings</b>	None, unknown, remediated (brief details of remediation status), contaminated (brief details of known or suspected contaminants).
<b>Ministerial Commitments</b>	Details of any known Ministerial comments/position re: land status and/or future use.
<b>Other Government Agencies</b>	Details of interest in site from other agencies, including Local and/or Federal government.
<b>Whole-of-government Issues</b>	Details of other whole of government issues such as community interest, open space potential, adjoining uses, location to amenities (eg schools, transport).
<b>General Comments</b>	Any other pertinent information.

# Property Disposal Process Chart - Attachment B



NOTE: Refer to definitions under Asset Plan and Assessment

## **Appendix D Disposal by private treaty**

### **Introduction**

Disposal by private treaty is a formal agreement between two parties concerning the exchange of an asset at a price and on terms privately agreed between them.

Disposal by Private Treaty is occasionally utilised by Government as a legitimate alternate method of disposal to the more common process of auction or tender.

### **Disposal by private treaty is the exception rather than the rule**

Agencies intending to dispose of assets, particularly real property by private treaty should ensure that the necessary legal powers to do so exist.

Agencies should also ensure that the person or body with these powers has approved of its disposal by way of private treaty.

Where the Governor's approval to a sale is required, the relevant Executive Council minute should specify that the sale is to be by private treaty.

The following provides where disposal by Private Treaty may be appropriate and the procedures to be followed.

### **Disposal to other government organisations**

The disposal of public property and assets to other Government agencies or to Local Councils is generally by private treaty.

### **Transfer to other agencies**

Agencies interested in acquiring a surplus government property may directly approach the owner agency or enquire as to the availability of surplus properties through the Government's property disposal program.

Agencies wishing to acquire an asset must ensure that the transfer and full payment is made by the expected disposal date shown in the Asset Disposal Plan. The returns to the owner agency are often crucial to achievement of the Capital Works Program.

Compensation payable on transfer should be the market value, as assessed or agreed by the State Valuation Office or independent valuer.

### **Disposal to local councils**

Disposal to Local Councils by private treaty may only occur where a Council requires an asset for its own non-profit making purposes or where a Council will contractually commit to lease a property to a community.

The basis of disposal to Councils will be the same as that relating to transfers to other Government agencies, namely the market value assessed or agreed by the State Valuation Office or independent valuer.

Where Councils propose to acquire a property for a commercial proposition or for subsequent resale, the disposal shall follow procedures laid down in Appendix B.

### **Disposal at less than market value**

It is Government policy that market values be realised on the sale or lease of Government assets, unless specific approval has been granted to the contrary (refer to the Treasurer's Directions).

Factors to be considered in such sales include the likelihood of alternative purchasers, the nature of the property including its value, the purpose to which it will be put, if the organisation is profit making and the extent of community support.

## **Disposal to the private sector**

Disposal by private treaty to the private sector should only occur when:

- public competition by auction or tender has failed to attract a purchaser, or
- It can be clearly shown that no other purchasers exist

There may be exceptional circumstances where a sale by private treaty is appropriate provided these are adequately assessed and documented.

## **Following public competition**

When sale by public competition has failed and offers received have been unacceptable and it can be established that further efforts to dispose of the asset by public competition are unlikely to succeed, a private treaty disposal may be negotiated within a reasonable time of the competitive process (up to 12 months).

## **Lack of other possible purchasers**

Direct negotiation may occur with interested parties without public competition where it can be clearly shown that there are no other possible purchasers. This may be the case where due to location, size or other factors, there is clearly only one purchaser.

This situation will often occur for minor parcels of surplus land following government works such as road widening where the adjoining owner is the only likely purchaser, but other cases may also arise. In all cases, the current market value for the asset must be assessed or agreed by the State Valuation Office or independent valuer.

## **Disposal to former owners**

Former owners of land acquired by the Government have no legal claim for preferred treatment if that land is subsequently to be disposed of by the Government.

A private treaty disposal to a former owner is justified only if it meets the listed criteria.

## **Disposal to lessees**

Current lessees may be offered an option to acquire a property where the circumstances outlined above have been met.