Western Australian Auditor General's Report

Follow-on Performance Audit to 'Room to Move: Improving the Cost Efficiency of Government Office Space'

Report 2 – April 2013



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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Follow-on Performance Audit to 'Room to Move: Improving the Cost Efficiency of Government Office Space'

Report 2
April 2013

THE PRESIDENT
LEGISLATIVE COUNCIL

THE SPEAKER
LEGISLATIVE ASSEMBLY

FOLLOW-ON PERFORMANCE AUDIT TO 'ROOM TO MOVE: IMPROVING THE COST EFFICIENCY OF GOVERNMENT OFFICE SPACE'

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

Performance audits are an integral part of the overall audit program. They seek to provide Parliament with assessments of the effectiveness and efficiency of public sector programs and activities, and identify opportunities for improved performance.

The information provided through this approach will, I am sure, assist Parliament in better evaluating agency performance and enhance parliamentary decision-making to the benefit of all Western Australians.

COLIN MURPHY
AUDITOR GENERAL
17 April 2013

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Auditor General's Overview

In late 2006 I reported to Parliament on government's management of its office space. The report identified opportunities for savings from improving the use of office space, gathering reliable information and addressing the lack of strategic planning. Over six years on, there has been improvement but some key changes are still needed.

A solid start was made in addressing my recommendations. A clear plan was endorsed under the Works Reform initiative to implement a more strategic whole-of-government approach to office space and to review key policies. However, implementation of a whole-of-government approach then slowed. In part this was because of a need to deal with operational issues such as moving 5 000 people into new accommodation in the CBD and CBD fringe. The moves were generally well managed and delivered benefits in terms of improved usage, better buildings and avoided costs.

The loss of momentum towards a whole-of-government approach is also due to constraints. Complete whole-of-government accommodation data is still not available, policies have not been revised and key questions such as who should plan and manage office accommodation across government have not been resolved. I am encouraged that the Department of Finance is seeking to address those constraints, and has plans to realise more of the benefits I identified in 2006. Those benefits are still available, and government would be more likely to realise them if all agencies focus on the bigger picture.

Executive Summary

Background

Office accommodation is a major expense for government. After staff salaries, accommodation is often the largest item of expenditure in an agency budget. Perth CBD has experienced an increased demand for office space and the cost per square metre of leased accommodation has more than doubled over the last 10 years. Planning office accommodation is therefore an essential activity if government is to manage building maintenance and control increasing lease costs.

The Building Management and Works (BMW) division of the Department of Finance (Finance) is the government agency primarily responsible for the management of the state government's office accommodation portfolio. It manages government's centrally owned, multi-tenanted buildings (such as Dumas House and Albert Facey House) and centrally managed leased accommodation. In August 2012 Finance reported that the centrally managed portfolio included 404 buildings covering 547 200m^2. This accommodation was leased to government agencies through 537 separate leases with a net annual rental cost in August 2012 of $181.2 million.

Government owned office accommodation that is occupied by a single government agency is typically vested in the responsible Minister and managed by the agency. Some agencies also lease office accommodation directly from building owners.

In November 2006 we reported on the cost efficiency of government office space[1]. We found that office accommodation policies were not effectively monitored, that decision-making was based on limited strategic planning and that government office space did not meet space efficiency standards, with average space per person at 21m^2, 40 per cent more than the policy standard of 15m^2.

Since 2006 the government has sought to establish a whole-of-government approach for the management of government office accommodation. The 2009 Works Reform program aimed to improve the strategic management of office accommodation and replace the piecemeal approach that had limited government's ability to make use of its significant purchasing power.

This follow-on audit sought to confirm if the management of government office accommodation had improved since 2006. We assessed changes in the management of office accommodation and focused on three questions:

- Is the management of office accommodation being planned effectively?
- Is the implementation of the office accommodation strategy on time and to budget?
- Is the office accommodation strategy delivering anticipated outcomes?

1 (Auditor General's) Report Number 11, November 2006. *Room to Move: Improving the Cost Efficiency of Government Office Space*.

We also looked at progress made against our 2006 audit recommendations which focused on government improving the analysis of reliable, comprehensive information and ensuring that office space more consistently achieves the mandatory occupancy density ratio of 15m^2 per person.

Rather than revisiting the analysis and modelling from 2006, this audit has analysed existing practice and process. It has also adopted the terms and descriptions currently used by agencies and government.

Audit Conclusion

Some progress has been made to improve the management of government office accommodation but a strategic whole-of-government approach recommended in our 2006 report and planned under Works Reform in 2009 has not been fully implemented. Finance does not have a mandate to manage all government office accommodation and there is still no comprehensive whole-of-government data. The total size, cost and density rates of government office space are not known. This lack of baseline information limits Finance's ability to plan for whole-of-government long term office accommodation and makes it less likely that government will derive maximum benefit from the Works Reform program. It also makes it difficult to demonstrate the achievement of strategic objectives and outcomes or for us to offer any opinion on whether the management and use of office accommodation is more efficient or cost effective than in 2006.

Finance has improved the management of the government office accommodation that is within its remit. It has adopted a staged transition from a piecemeal to a master planning approach. Operationally, Finance has prioritised and successfully relocated around 5 000 staff in the CBD. In doing so it applied some of the principles set out in Works Reform to the parts of government office accommodation that are centrally managed. It has consolidated accommodation in the Perth CBD and CBD fringe into fewer buildings and over 13 000m^2 of space has been moved out of the Perth CBD and CBD fringe. Capital investment of $163 million on fit outs, upgrades and changes to meet building code requirements were required. However, the result was improved office space usage and mitigated increases in the cost of leasing office accommodation estimated at $18.1 million a year.

Key Findings

- The Government approved *2009 Works Reform Business Solution Plan* provided a whole-of-government master planning approach to the management of office space. The plan addressed many of the issues raised in our 2006 audit. The plan aimed to replace the piecemeal approach that limited government's ability to make use of its significant purchasing power and put government in a better position to achieve its overall office accommodation objectives.
- A strategic whole-of-government approach recommended in our 2006 report and planned under Works Reform in 2009 has not been fully implemented. Finance does not have a mandate to manage office accommodation for all 167 government agencies and there is still no comprehensive whole-of-government data. The total size, cost and density rates of government office space are not known. This limits Finance's ability to plan for whole-of-government long term office accommodation or to demonstrate the achievement of strategic objectives. There is also a risk that government will not derive maximum benefit from the Works Reform program.
- A number of issues are impeding a strategic whole-of-government approach:
  - Finance does not have a clear mandate to bring about a whole-of-government solution to office accommodation. Finance advised that its authority for managing office accommodation is limited to the 75 agencies listed in the *2004 Office Accommodation Policies* but that even some of these have legislative powers enabling them to own office accommodation in their own name. Our analysis shows that Finance manages office accommodation for 66 agencies and 547 000m^2 of office space. Although Finance has comprehensive data in terms of the centrally managed office portfolio, the lack of whole-of-government data means that we do not know how much office space falls outside of Finance's oversight.
  - The *2004 Office Accommodation Policies* have not been updated as required by the Works Reform Plan. The existing policies support the old piecemeal approach to procurement of office accommodation, and refer to approvals and rationale requirements that are out-dated. Updating the policies is also an opportunity for Finance to seek clarification from the government on its whole-of-government mandate.
  - Finance has not received the 10 year office accommodation plans required from all government agencies. Finance has only sought plans from 66 of the agencies named in the *2004 Office Accommodation Policies*. At December 2012, 58 agencies (35 per cent of all agencies) had provided plans. The lack of these plans severely hampers Finance's capacity to establish a comprehensive office accommodation database and to develop whole-of-government strategies.

- Finance has improved the management of the government office accommodation that is within its remit. It has adopted a staged approach to transition from a piecemeal to a master planning framework. This has included aligning the cessation date on leases to minimise termination costs, and to better assess the impact of portfolio movement.
- Between 2011 and 2012 Finance successfully relocated around 5 000 staff in the CBD, into new and refurbished office accommodation. In doing so it applied some of the principles set out in Works Reform to the parts of government office accommodation that are centrally managed. The moves have consolidated CBD accommodation into fewer buildings and over 13 000m^2 of office space has been moved out of the CBD and CBD fringe. This has improved the use of office space.
- The relocation of agencies avoided estimated increases in the cost of leasing office accommodation. Finance has calculated that these avoided costs totalled $18.1 million per annum and were achieved through improved negotiating power from consolidating into larger leases, improved occupancy density and sharing information and communication technology. The method used by Finance was a reasonable estimate of avoided costs. However the relocations were achieved at a capital investment cost of $163 million. This expenditure was required to upgrade government owned buildings to ensure they met building codes, were maintained to an acceptable standard and to install new office fit outs. Other costs included $1.5 million over five years paid as part of the Gordon Stephenson House Development Agreement and estimated removal costs of over $600 000.
- We calculate that the difference between absolute total lease costs paid before and after these specific relocations resulted in savings of $1.5 million per annum. We could not determine if the overall cost of government office accommodation was reduced. This is because a number of other agencies required additional office space and so backfilled six of the buildings vacated in the moves.
- Finance plans to continue to consolidate office space within the Perth CBD and decentralise 80 000m^2 of office space from the CBD and CBD fringe to metropolitan centres. Finance has identified three agencies that are willing to consider moving to non-CBD sites and has aligned them with metropolitan areas that satisfy government's strategic direction. This plan requires detailed costing and the financial implications and options to be submitted to government for approval. However, unless Finance resolves the key issues that impede the progress of a whole-of–government approach, government will not derive maximum benefit from the Works Reform program.

Recommendations

The Department of Finance should:

- confirm its mandate for managing whole-of-government office accommodation
- update the *2004 Office Accommodation Policies*
- obtain 10 year accommodation plans for all government agencies and establish comprehensive data for whole-of-government office accommodation as a base for effective strategic decision-making.

Agency Response

Over recent years, the Department of Finance (the Department) has strengthened its leadership role, and manages its office accommodation portfolio that is within its remit from a strategic and whole-of-portfolio approach. This approach was validated by Government in 2010 when it approved the principles and objectives of master planning for government office accommodation, and endorsed the implementation of the master planning strategy. Between 2010 and 2012, the Department successfully relocated around 5 000 staff from 23 agencies and 18 locations into nine buildings, which avoided costs of $18.1 million per year. The Department is also currently developing nine business cases which will focus on the further consolidation and decentralisation of agencies in the metropolitan region, and the co-location of agencies in regional towns.

Although the Department currently manages the office accommodation for the majority of medium to large general Government agencies, it does not have a clear mandate to manage all government office accommodation. In this regard, the Department strongly supports the OAG's recommendation that the Department confirms with Government the scope of its mandate for managing whole-of-government office accommodation. In mid 2013, the Department intends to submit to Government the revised Government Office Accommodation Policy which will propose a wider scope of its application. Although the Department maintains comprehensive data with regard to its current portfolio, a clear mandate from Government that reflects a whole-of-government scope will contribute towards a more complete data set to inform strategic decision making.

Introduction

Office accommodation is a major expense for government. After staff salaries, accommodation is often the largest item of recurrent expenditure in an agency budget and planning office accommodation is an essential government activity. Done well, it can:

- ensure that government accommodation requirements are consistent with service delivery needs
- reduce exposure to increasing building maintenance and leasing costs.

The Building Management and Works (BMW) division of the Department of Finance (Finance) is the government agency primarily responsible for the management of the state government's office accommodation portfolio. It manages government's centrally owned, multi-tenanted buildings (such as Dumas House and Albert Facey House) and centrally managed leased accommodation. This is known as centrally managed office accommodation. In August 2012 Finance reported that the centrally managed office accommodation included 404 buildings covering 547 200m^2. This accommodation was leased to government agencies through 537 separate leases with a net annual rental cost in August 2012 of $181.2 million.

Government owned office accommodation that is occupied by a single government agency is typically vested in the responsible Minister and managed by the agency. Some agencies also lease office accommodation directly from building owners.

It is estimated that over 90 per cent of government office space is in the Perth metropolitan area, with the main concentration being in the Perth CBD and East and West Perth precincts. The collection of owned and leased office space that government occupies has mostly been created over a long period of time. Making significant changes to that mix takes time. Leases cannot be altered or buildings sold on a whim, and the costs involved are large.

Demand for Perth CBD office space has caused the cost per square metre of leased accommodation to more than double over the last 10 years. In 2005 average CBD rents ($/m^2) were between $150 and $350 a year. By 2012 the estimated average yearly rent had increased to between $420 and $850.

In November 2006 we reported on the cost efficiency of government office space[2]. We found that office accommodation policies were not effectively monitored, that decision-making was based on limited strategic planning and information and that government office space did not meet space efficiency standards, with average space per person of 21m^2, 40 per cent more than the policy standard of 15m^2.

2 Auditor General's Report (Number 11, November 2006) *Room to Move: Improving the Cost Efficiency of Government Office Space*.

Audit Focus and Scope

The objective of this follow-on audit was to confirm if the management of government office accommodation had improved since 2006. We assessed changes in the management of office accommodation and focused on answering three questions:

- Is the management of office accommodation being planned effectively?
- Is the implementation of the office accommodation strategy on time and to budget?
- Is the office accommodation strategy on target to deliver anticipated outcomes?

We also looked at what progress had been made against our four audit recommendations. They were:

- The responsible agency should gather and analyse reliable and comprehensive information on accommodation cost efficiency and, at regular intervals assess the impact of policy to identify and target opportunities for efficiency improvements.
- That agency, supported by all agencies, should seek to ensure that government office space more consistently achieves the mandatory occupancy density ratio of $15m^2$ per person. This would achieve efficiencies and offset rising rent costs.
- The agency should ensure its strategic planning includes:
    - a comprehensive, bottom-up, longer term, definition of cross-government requirements
    - all government office space assets
    - explicit coverage of the balance of leased and owned space
    - identification and management of risks.
- The agency should better communicate the potential effectiveness as well as the efficiency benefits of moving to open plan layouts and provide advice on key strategies to achieve this policy objective.

In conducting this audit we reviewed legislation, and policies, and documents held by Finance. We confirmed office space data with Finance and where possible, verified if recent office relocations resulted in any significant savings for the state.

The audit was conducted in accordance with Australian Auditing and Assurance Standards.

Findings

The 2009 Works Reform Business Solution Plan addressed many of the issues raised in our 2006 audit

Following our 2006 audit, the government endorsed a whole-of-government, master planning approach to the management of office accommodation. The June 2009 *Works Reform Business Solution Plan* (hereafter referred to as the Works Reform Plan) addressed many of the issues raised in our audit. The plan sought to replace the piecemeal approach that limited government's ability to use its significant purchasing power and put it in a better position to achieve its overall objectives to:

- reduce the overall cost of government office accommodation
- support government service delivery
- support the *Western Australian Planning Commissions Directions 2031 Draft Spatial Framework for Perth and Peel*
- support future machinery of government reforms.

The Works Reform Plan relied on all government agencies with building asset requirements to embrace the new approach and required agencies to establish 10 year office accommodation plans. It also recommended that Finance should:

- lead the development of business cases and office accommodation programs, using a master planning approach
- review existing government office accommodation policies and develop a policy suite that aligned with the total portfolio approach
- review the approach to non-office property leases and develop a more comprehensive database.

The plan detailed a governance framework to guide the planning, delivery and management of government office accommodation. It also proposed measures to evaluate performance and report to the project board and to the project sponsors (the Treasurer and the Under Treasurer).

The planned whole-of-government approach to the strategic management of office accommodation has not been fully implemented

While some progress has been made to improve the management of government office accommodation a strategic whole-of-government approach as recommended in our 2006 report and planned under Works Reform in 2009 has not been fully implemented.

Finance does not have a mandate to manage office accommodation for all 167 government agencies. Although it maintains comprehensive data in terms of the centrally managed office portfolio there is still no whole-of-government data and the total size, cost and density rates of government office space are not known.

The intention of the Works Reform Plan was to move government from its historic piecemeal approach to managing office accommodation to a master planning approach. This new approach was to be based on overall analysis of need drawn from comprehensive data. However, progress made towards this whole-of-government goal has been restricted to Finance's management of the centrally managed office portfolio. As a result, government will not yet have derived maximum benefit from the Works Reform program and Finance lacks much of the data needed to enable an overall analysis of need and reconciliation against strategic goals.

Adopting a whole-of-government approach requires comprehensive whole-of-government office space data. We had expected that this would have been achieved through the 2010 Government direction that all agencies provide 10 year Office Accommodation Plans. However, at the time of audit, only 58 agencies (35 per cent of government agencies) had provided their plans.

As a result, Finance is constrained in its ability to:

- plan for whole-of-government long term office accommodation
- demonstrate how strategic objectives and outcomes are being achieved
- report on the total size of government office accommodation or cost and office density rates
- report on or have a view about the balance of owned versus leased accommodation
- update the 2004 *Office Accommodation Policies* to align with a whole-of-government approach.

Without this baseline information it is not possible for us to offer any opinion on whether the management and use of office accommodation is more efficient or cost effective than in 2006.

A number of issues continue to impede a strategic whole-of-government approach to the management of office accommodation

The following issues continue to impede a strategic whole-of-government approach to the management of office accommodation:

- Finance lacks the mandate to drive a whole-of-government solution to office accommodation
- *2004 Office Accommodation Policies* have not been replaced and do not align with a whole-of-government approach
- Finance has not received the required 10 year Office Accommodation Plans from all government agencies.

Finance lacks the mandate to manage whole-of-government office accommodation

Finance lacks the mandate to drive a whole-of-government solution to office accommodation. It needs to resolve with government whether it is expected to take this role and if so, the changes that need to be made to its mandate.

The Works Reform Plan recognised that a fragmented approach to office accommodation limits government's ability to make use of its purchasing power. To address this, the Plan gave the BMW division of the then Department of Treasury and Finance responsibility for developing a master planning approach, a policy suite that aligns with a total portfolio approach and a more comprehensive whole-of-government database.

The Plan also provided for the Government Accommodation Advisory Group to take a more active role in planning an overall approach as well as specific agency relocations. This Group was established in 2008 to advise the Minister on the overall management of office accommodation. Its membership was made up of senior representatives from the departments of the Premier and Cabinet, Planning and Infrastructure, and Treasury and Finance.

Since 2009, the Department of Treasury and Finance has split with BMW becoming part of Finance. The Government Accommodation Advisory Group has ceased and has been replaced by a Government Office Accommodation Steering Committee that includes senior representatives from Finance, the Public Sector Commission, the Department of the Premier and Cabinet and the Department of Treasury.

Finance advised that its authority for managing office accommodation is limited to the 75 agencies listed in the *2004 Office Accommodation Policies* but that even some of these have legislative powers enabling them to own office accommodation in their own name. With this restricted mandate, Finance is severely limited in its capacity to bring about a whole-of-government approach to office accommodation.

Our analysis shows that Finance manages all or some accommodation for 66 agencies which represent approximately 40 per cent of all departments and statutory authorities.

Some of the buildings that are not centrally managed are significant in size. Examples include Main Road's Don Aitken Centre, and the Department of Mines and Petroleum's Mineral House, both in East Perth.

Finance has not asked the Government to clarify its mandate or address any gaps in its authority to deliver on the desired outcomes of the 2009 Works Reform Plan. We have recommended that Finance clarify with the Government its expectations and obtain any necessary resolution to gaps in its mandate. Finance has advised that it intends to seek clarification on its mandate in mid-2013, and confirm which agencies fall under its mandate.

2004 Office Accommodation Policies have not been updated and do not align with a whole-of-government approach

Government accepted the Works Reform recommendation that Finance should "*review existing (2004) government office accommodation policies (to) align with the total portfolio approach*". However, these policies have still not been replaced.

Finance has advised that it is reviewing the policies and that their review should be completed by May 2013. In the meantime, the existing policies provide direction that supports the old piecemeal approach to procurement of office accommodation, and refer to approvals and rationale requirements that are out-dated. This has delayed the implementation of a whole-of-government approach.

Updating the policies will also be important to obtaining clarification from the government on the extent of Finance's whole-of-government mandate. Completing the policy updates should therefore be a priority for Finance.

Only 35 per cent of all government agencies have provided their 10 year office accommodation plans

Every agency is required by the Works Reform Plan to develop 10 year office accommodation plans that give details of all owned and leased office accommodation as well as future office requirements over a five and 10 year horizon. The plans are intended to be part of each agency's capital investment plan. They are critical to enabling government to understand the total size, cost and density rates of government office space and to informing future office accommodation strategy, medium to long term planning and operational priorities.

Finance has only sought 10 year accommodation plans from 66 agencies named in the *2004 Office Accommodation Policies*. Finance first wrote to agencies in 2009 to request that they develop and provide them with the 10 year office accommodation plans. At December 2012, 58 agencies had forwarded their plans to Finance. This represents just 35 per cent of the 167 agencies we understand need to prepare the plans, though there is some uncertainty about this number.

We also found from our sampling of the submitted plans that information provided was often incomplete. Of the 1 906 offices listed in the plans, 977 (51 per cent) did not provide details of the size of the building or leased office. In 890 cases (47 per cent), the agency did not confirm who managed the building or lease.

The lack of plans for all government agencies severely hampers Finance's capacity to develop a comprehensive office accommodation database and to develop whole-of-government strategies. We have recommended to Finance that they give priority to obtaining this information from agencies.

Finance has improved the management of government office accommodation that is within its remit

Finance has improved the management of government office accommodation that is within its remit and has taken a staged approach to transition from a piecemeal to a master planning framework. This has included consultation with agencies and the alignment of lease expiries to minimise the cost of terminating leases, and assessing the impact of portfolio movement.

In March 2010 Cabinet approved the objectives, principles and first steps in the implementation of the master planning approach to Finance's centrally managed office accommodation portfolio. First steps aimed to:

- minimise government's footprint in the CBD
- consolidate and reduce the number of buildings occupied by government
- set fit out standards including open plan
- improve public and disabled access
- enhance agency collaboration
- increase use of public transport
- develop metropolitan activity centres
- implement more efficient and cost effective agency restructuring and associated office relocations.

This strategy addressed Finance's immediate operational priorities which included the pending expiry of the Governor Stirling Tower lease and resulted in the relocation of around 5 000 staff into new and refurbished office accommodation.

Following significant consultation and planning with more than 23 government agencies Finance plans to further consolidate and decentralise government office accommodation in its next step to implement master planning. In March 2012 Cabinet approved the *Master Planning Implementation Plan 2012-18* which aims to continue the consolidation of government office accommodation within the Perth CBD and to decentralise 80 000m^2 of office space from the CBD and CBD fringe to strategic metropolitan centres. In July 2012 the program was extended to include regional towns.

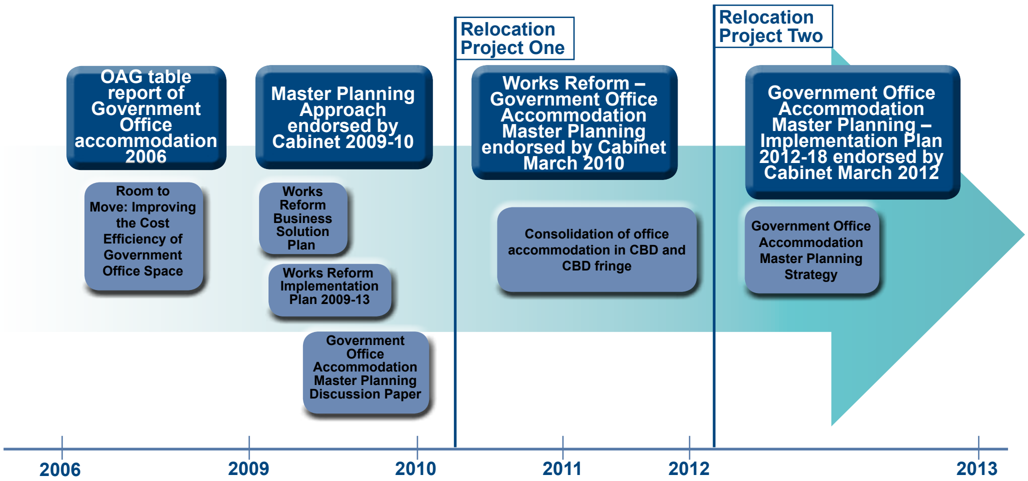


Figure 1: Changes in the management of office accommodation since 2006

The relocation of around 5 000 staff into new and refurbished office accommodation has delivered benefits

Between 2011 and 2012 Finance successfully relocated around 5 000 staff from 18 locations and 23 agencies into new and refurbished office accommodation. In doing so it applied some of the principles set out in Works Reform to the parts of government office accommodation that are centrally managed. The moves have consolidated CBD accommodation into fewer buildings and over 13 000m^2 of office space has been moved out of the CBD and CBD fringe. This has improved the use of office space. These moves included:

- moving a number of agencies out of Governor Stirling Tower because their lease was ending and could not be renewed. This included the $25.5 million relocation of the Premier's office to Hale House, which at the time of this audit is expected to be delivered on time and on budget
- leasing 35 400m^2 of Gordon Stephenson House in the Perth CBD to accommodate 2 500 public sector employees from eight agencies. Government had pre-committed in 2006 to lease 23 000m^2 and leased the remaining 12 400m^2 in 2010
- leasing 13 000m^2 of new office accommodation at the Optima Centre in Osborne Park to accommodate 900 employees, including BMW and Government Procurement business units, along with the headquarters of the Department of Training and Workforce Development
- maintaining and refurbishing Albert Facey House and Dumas House. Both these multi-tenanted Perth CBD buildings are owned by government.

Finance has also introduced a new approach to office accommodation fit out that emphasises open planning and sharing facilities, such as reception and meeting rooms for all the agencies in a building. These changes aim to reduce office space usage from an average of around 19m^2 per person to 15m^2 per work point, a reduction of around 20 per cent. The new fit-out standards have been applied to Gordon Stephenson House, Optima Centre, Albert Facey House, Dumas House, 140 William Street Heritage Buildings and part of 151 Royal Street.

Source: Department of Finance

Figure 2: Example of the new open plan fit out

The relocations avoided costs of $18.1 million per annum but required significant capital investment on refurbishment and fit out

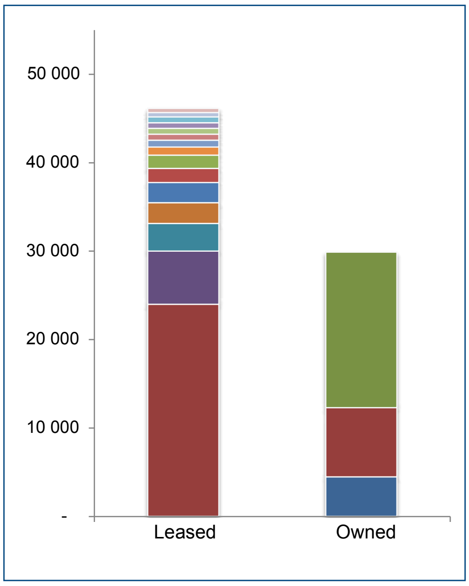
Finance reported that the relocations involved about 5 000 staff from 23 agencies, and that after the move the number of occupied buildings dropped from 18 (15 leased buildings and three government-owned buildings) to nine (five leased, four owned).

BEFORE RELOCATION

	Area (m²)
Location	**Before**
108 Adelaide Terrace	651
169 Hay Street	3 129
2 Mill Street	471
200 Adelaide Terrace	492
441 Murray Street	6 014
553 Hay Street	1 519
565 Hay Street	642
74 Wittenoom Street	784
823 Wellington Street	652
Governor Stirling Tower	23 978
Landgate Building – Midland	2 331
Law Chambers Building	1 596
QBE Building	900
Shefield House	675
St Martins Tower	2 282
Total Leased	**46 116**
151 Royal Street	4 460
Albert Facey House	7 833
Dumas House	17 578
Hale House	
Total Centrally Owned	**29 871**
TOTAL	**75 987**

AFTER RELOCATION

	Area (m²)
Location	**After**
Bairds Building	954
Globe Building	492
Gordon Stephenson House	35 943
Optima	13 339
Wellington Building	928
Total Leased	**51 658**
151 Royal Street	3 310
Albert Facey House	8 306
Dumas House	17 082
Hale House	1 797
Total Centrally Owned	**30 495**
TOTAL	**82 151**



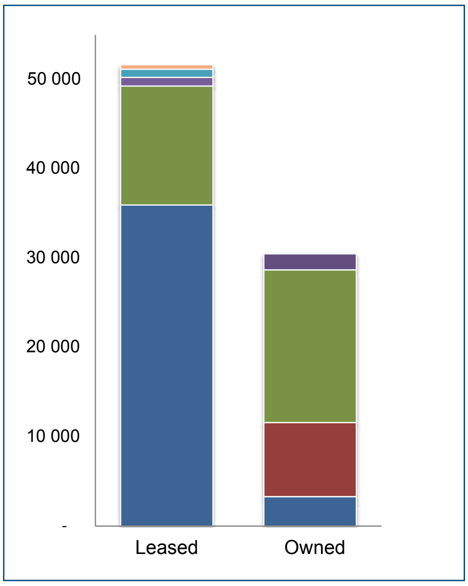


Figure 3: Buildings included in agency relocations

Although the overall footprint has increased Finance has consolidated the agencies into half the number of buildings and has reduced the number of lease agreements. Prior to the moves Hale House was not included in the centrally managed office portfolio.

The relocation of agencies enabled government to avoid likely increases in the cost of leasing office accommodation. Finance has calculated that these avoided costs totalled $18.1 million per annum and were achieved by:

- improved negotiating power from consolidating into larger leases, and lower rental costs and from decentralisation from the Perth CBD and CBD fringe – valued at $12.4 million per annum
- improved occupancy density which resulted in government avoiding a need for additional space – valued at $4.3 million per annum in rental costs
- enhancing and sharing information and communication technology systems – valued at $1.4 million per annum.

Finance's method of calculating these avoided costs involved:

- calculating the amount of space occupied after the shift, and pricing it at $750 per square metre. The determination of this square metre rate was based on a market assessment from 2010 for open market lease costs for appropriate government accommodation in the CBD
- less the actual cost of the accommodation occupied after relocation from this theoretical figure
- = the avoided cost.

The method used by Finance was a reasonable estimate of avoided costs. However avoided costs reflect only part of the whole picture. Also relevant is that the moves were achieved at a capital investment cost of $163 million. This expenditure was required to upgrade government owned buildings to ensure they met building codes, were maintained to an acceptable standard and to install new office fit outs. Other lesser costs were:

- $1.5 million over five years paid as part of the Development Agreement to hold Gordon Stephenson House
- estimated removal costs of over $600 000.

The absence of clear business cases also makes it very difficult to effectively assess project outcomes. Hale House was the only project supported by a business case. We calculated that the difference between absolute lease costs paid before and after the moves (for these specific relocations) was a saving of $1.5 million per annum. We could not determine if the overall cost of government office accommodation had reduced. This is because a number of other agencies required additional office space and so backfilled six of the buildings vacated in the moves:

- 441 Murray Street
- 74 Wittenoom Street

- QBE Building
- 108 Adelaide Terrace
- 200 Adelaide Terrace
- 169 Hay Street.

We did not assess the decisions to backfill these buildings. Finance informed us that in some cases more room was needed to overcome crowding. In others there were new operational needs.

There is a cost implication in the decisions around backfilling these buildings. Finance decided to move agencies into those buildings in part because it reduced the need to go to market. However it also avoided any break-lease costs that would have come from not occupying the buildings, or paying lease costs for unoccupied sites.

Further consolidation and decentralisation is planned

The *Master Planning Implementation Plan 2012-18* aims to continue the consolidation of government office accommodation within the Perth CBD and to decentralise 80 000m^2 of office space from the CBD and CBD fringe to strategic metropolitan centres. In July 2012 the program was extended to include regional towns.

Under the plan Finance seeks to take advantage of lower rental costs outside the Perth CBD and will work with agencies to develop business cases for the decentralisation of:

- the head office functions of the Department of Commerce to the City of Stirling
- the head office functions of the Department of Housing to the City of Fremantle
- the Corporate Services and Crime and State Intelligence functions of the WA Police to Murdoch.

Additional consultation is also taking place to develop a business case for relocating up to 10 000m^2 of office space to Joondalup.

Changes to accommodation practices are also planned for regional centres. Government agencies in regional towns are typically located across a number of small buildings. Master planning in regional towns will focus on the co-location of multiple agencies into suitable accommodation with the aim to:

- improve community access to government agencies
- promote inter-agency collaboration
- provide more efficient and effective workplaces.

Northam, Busselton and Mandurah have been identified as priority towns which would benefit from consolidation of office accommodation.

These goals meet government's strategic objective to move services out of the city and into metropolitan areas and are in line with the overall objectives of the whole-of-government approach. If carried out, they will decrease the amount of office space in the CBD, and increase the presence of government services in metropolitan hubs. While the approved plan has identified the agencies likely to be involved, and their destinations, all proposals are at a concept stage. Estimates of the cost and timing of the recommended options are preliminary. The plan requires detailed costing and financial implications and options to be submitted to Cabinet for approval.

Finance has put in place a strategic implementation plan that identifies agencies that are willing to consider moving to metropolitan sites that satisfy government's strategic direction. Finance has already called for expressions of interest to provide government office accommodation options for one site. The information collected will be used to build business cases to assess the feasibility of the proposed agencies to be moved. This process is expected to be required for all sites, and will provide a clear basis for assessing outcomes and decisions. This will be an improvement on the processes in place for the 'First Steps' projects.

While the controls over projects have improved, the new plan does not outline an overall way forward for the implementation of a whole-of-government approach. There is no plan on how to assess which agencies or leases or owned buildings should be considered in future moves. Nor are there indicators of what a successful accommodation portfolio mix should look like in the long run. However, unless Finance resolves the key issues that impede the progress of a whole-of–government approach, there will continue to be a risk that government will not derive maximum benefit from Works Reform.

Auditor General's Reports

REPORT NUMBER	2013 REPORTS	DATE TABLED
1	Management of the Rail Freight Network Lease: Twelve Years Down the Track	3 January 2013

REPORT NUMBER	2012 REPORTS	DATE TABLED
15	Managing the Road Trauma Trust Account	14 November 2012
14	Audit Results Report – Annual 2011-12 Assurance Audits	7 November 2012
13	Implementation of the National Partnership Agreement on Homelessness in Western Australia	24 October 2012
12	Major Capital Projects	17 October 2012
11	Second Public Sector Performance Report 2012 – Business Continuity Management by Port Authorities – Western Australian Natural Disaster Relief and Recovery Funding – Housing's Implementation of the Head Contractor Maintenance Model	26 September 2012
10	Information Systems Audit Report	28 June 2012
9	Public Sector Performance Report 2012 – Regional Procurement – Department of Commerce Support to the Plumbers Licensing Board – Ministerial decision not to provide information to Parliament on the amount of funding tourism WA provided for the Perth International Arts Festival	28 June 2012
8	New Recruits in the Western Australia Police	20 June 2012
7	Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals	13 June 2012
6	Victim Support Service: Providing assistance to victims of crime	16 May 2012
5	Audit Results Report – Annual Assurance Audits completed since 31 October 2011 including universities and state training providers and Across Government Benchmarking Audits: Accuracy of Leave Records; Act of Grace and Like Payments; and Supplier Master Files	16 May 2012
4	Supporting Aboriginal Students in Training	2 May 2012
3	Beyond Compliance: Reporting and managing KPIs in the public sector	19 April 2012
2	Opinion on Ministerial decisions not to provide information to Parliament on the amount of funding Tourism WA provided for some events	22 February 2012
1	Working Together: Management of Partnerships with Volunteers	22 February 2012

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