

## Outcome 4

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**Efficient management of the Commonwealth overseas owned estate**

**OUTPUT 4.1**

**EFFECTIVENESS**

**QUALITY AND QUANTITY**

**OUTPUT 4.2**

**EFFECTIVENESS**

**QUALITY AND QUANTITY**



*Then Australian High Commissioner-designate to Ghana, Jon Richardson (second from right) raises the Australian flag for the first time at Australia's recently established high commission in Accra. Also pictured are high commission staff, from left: Don Foley, Eddie Humado, Carolyn Gralla, Dora Torkornoo and Tamara Somers.*

## PERFORMANCE INFORMATION FOR OUTCOME 4

### **Effectiveness indicators—overall achievement of the outcome**

Indicators to assist in assessing the success of the department's contribution to the achievement of this outcome are:

- Management of the owned overseas property estate meets the Government's property needs, and achieves the agreed dividend and return on investment in accordance with the Government's overseas property principles
  - Australian Government representatives overseas provided with appropriate accommodation, including through effective management of the United Process Solutions strategic alliance contract
  - Efficient financial and physical management of assets.

TABLE 15. FINANCIAL AND STAFFING RESOURCES SUMMARY FOR OUTCOME 4

Efficient management of the Commonwealth overseas owned estate

	Budget*	Actual	Variation	Budget**
	2003–2004	2003–2004	(actual less	2004–2005
	(\$'000)	(\$'000)	budget)	(\$'000)
			(\$'000)	
<b>Administered expenses</b>	0	0	0	0
<b>Total administered expenses</b>	0	0	0	0
<b>Price of departmental outputs</b>				
Output 4.1—Property management	0	0	0	0
Output 4.2—Contract management	0	0	0	0
<b>Appropriation from government for departmental outputs</b>	0	0	0	0
Revenue from other sources	56 658	53 082	(3 576)	44 370
<b>Total price of departmental outputs</b>	56 658	53 082	(3 576)	44 370
<b>Total resourcing for Outcome 4</b> (Price of departmental outputs plus administered expenses)	56 658	53 082	(3 576)	44 370

\* Full-year budget, including additional estimates

\*\* Budget prior to additional estimates

	2003–2004	2003–2004	2004–2005
	Budget	(Actual)	(Estimate)
Average staffing level (number)*	13	18	17

\* Includes overseas locally engaged staff

## OUTPUT 4.1:

### Property management

#### Overview

The department met the Government's overseas owned property needs in accordance with the Australian Government Property Principles—the standard that ensures that the value of the Government's property assets is maintained.

Our Overseas Property Office (OPO) is responsible for the commercial management of all aspects of the Government's overseas owned property estate. In accordance with the property principles, OPO applied rigorous commercial practice to all aspects of management of the estate throughout 2003–04.

The international security environment placed additional pressures on the management of the overseas property estate in 2003–04. The Government provided additional funding of up to \$74.5 million over five years for the upgrade of security and, in some cases, the relocation of Australian missions overseas. We relocated a number of our overseas chanceries and some residential accommodation during the year in order to meet new security requirements (see output 1.2 for more information).

The department met indicative targets for maintaining the overseas property portfolio. We paid a dividend to the Government, made a return on investment and maintained a management expense ratio consistent with property industry guidelines.

Although the Government's divestment program in the overseas estate ended on 30 June 2003, we sold and bought a number of properties in 2003–04.

We maintained our practice of regular close consultation with the Department of Finance and Administration and government agencies represented at overseas posts to ensure effective interagency communication on relevant property management issues.

#### Provision of accommodation overseas

The Government meets its overseas property needs through a combination of owned property and property leased from private landlords.

In 2003–04, the department managed 132 owned properties in 55 locations, valued at \$1.3 billion at 30 June 2004. This value was assessed by a global real estate services firm engaged by the department for this purpose. We also managed more than 600 individual leases of owned estate property to the department and other government agencies overseas.

The leased overseas estate comprises property leased by the department and other agencies from private landlords. The leased estate is funded from departmental appropriations (see Section 3—Corporate management and accountability on page 240 for information about the department's leased estate).

Throughout the year, we met the wide range of office and staff accommodation requirements of agencies representing the Australian Government's interests overseas. We responded promptly to special concerns arising from the adverse international security environment.

### **Physical management of assets**

The department ensured that Government representatives overseas were provided with appropriate accommodation, including by maintaining a program of continuous assessment of all overseas property. This involved annual inspections by qualified facilities managers and consultation with post management and agencies.

Properties are assessed using a model developed by the department for measuring and monitoring their physical condition. The model is based on property industry standards including: expenditure on repairs and maintenance as a percentage of asset value; compliance with safety and storage codes; structural soundness; strategic importance of the individual properties; age of the properties with allowance for mid-life upgrades and refurbishments; and functionality and amenity of the properties.

The model applies a five-point scale (unsatisfactory, poor, satisfactory, good, very good). This provides a basis for determining priorities for upgrading, disposal or acquisition of property, and for refurbishment under a five-year rolling program for the owned and leased estates approved annually by the department's senior executive (see also quality and quantity information for output 4.1).

### **Financial management of assets**

The department operates a special account to manage the overseas owned estate. The account, which is separate from our budget appropriations, was established in May 2002 by the Minister for Finance and Administration. Revenue into the special account is derived from commercially based rents paid by agencies that occupy Government-owned property overseas.

For detailed reporting on financial management of the overseas owned estate, see Quality and Quantity Information for Output 4.1. It reports on the rate of return on investment achieved from the operation of the estate in 2003–04, the annual dividend paid to the Government, equity returned from property divestment and the management expense ratio, which measures management costs.

## Output 4.1: Quality And Quantity Information

### Quality indicators

- Portfolio condition to be maintained to industry standards
- Tenant satisfaction to be reviewed by annual survey

### Quantity indicators

- Return on investment to be compared with external industry benchmarks and the agreed annual requirement as determined each year
- Management expense ratio to be consistent with external industry benchmarks
- Pay agreed annual dividend to Government
- Return equity from proceeds of divestment program

### Portfolio condition

OPO assessed the overall condition of the overseas owned estate as good, based on the assessment model described in the overview section on output 4.1. The condition of the estate has improved steadily since 2002, reflecting a substantial forward program of construction and refurbishments and improved maintenance programs.

The condition of properties in the estate can be expected to improve further over the next five years as a result of planned refurbishments, including in relation to updated compliance with relevant Australian and local building codes, and proposed major construction projects (see output 4.2).

### Tenant satisfaction

OPO conducts twice-yearly overseas tenant surveys on property management issues. The surveys deal with the services provided through the department's overseas property management alliance with United Process Solutions (UPS) (see output 4.2). Survey results during 2003–04 were consistent with those conducted during the

past two years, and continued to reflect tenant satisfaction with services provided where UPS facilities managers were attached to posts. The results remained mixed where tenants used services coordinated through UPS's Australia-based call service, which responds to direct requests from posts on a 24-hour a day basis. Tenants were satisfied, however, with call centre access. Work undertaken throughout 2003–04 by OPO's Estate Management Group, which was set up in 2003, has strengthened arrangements for oversight of service delivery and liaison between tenants and the service provider (see also output 4.2 quality and quantity information).

### **Quantity information for output 4.1**

#### *Return on investment*

The rate of return on investment on the overseas owned estate in 2003–04 was 9.74 per cent, which was towards the higher end of the expected industry range.

#### *Management expense ratio*

The management expense ratio indicates the relationship between costs of management and value of the estate. For 2003–04 the ratio is assessed at 0.85 per cent, which was consistent with external industry benchmarks derived from data measuring the performance of listed Australian property management companies.

#### *Annual dividend*

OPO returns an annual dividend to government, the quantum being agreed between the Minister for Foreign Affairs and the Minister for Finance and Administration. The department paid to the Government an agreed dividend of \$99.05 million relating to the overseas portfolio for the financial year.

#### *Returned equity*

As noted in the Annual Report 2002–03, the divestment program established by the Government in 1997 for the owned overseas estate concluded on 30 June 2003. In consultation with the Department of Finance and Administration, OPO continues to sell and purchase property on an as-required basis. An amount of \$4.25 million from property divestments was returned to the Government in 2003–04. On 30 June 2004, OPO entered into a contract for the sale of the staff residential compound in Bangkok, income from which will be reflected in annual outcomes in 2004–05.

## OUTPUT 4.2:

### Contract management

#### Overview

Through effective management of construction projects and its outsourcing contract for the provision of property services, the department ensured that Government representatives overseas were provided with appropriate accommodation.

In managing construction and other projects in the overseas owned and leased estate, our Overseas Property Office (OPO) made extensive use in 2003–04 of contracted services. Providers of these services were selected in accordance with our competitive tendering and contracting procedures. Services provided under contract included project management, property disposal, audit and legal.

Construction services were also provided on a sub-contracted basis. In the owned-overseas estate, the department's contract with United Process Solutions (UPS) makes provision for project services to be supplied, where required, by the asset management company Multiplex Asset Management (MAM).

UPS provided a range of outsourced services to the overseas-owned estate under its contract with us.

#### Construction projects

The department managed the planning and implementation of a significant construction program in the overseas estate throughout 2003–04.

Construction began on two major new chanceries, in Colombo and New Delhi, following hearings on these projects by the Parliamentary Standing Committee on Public Works and approval by Parliament. Parliament also approved refurbishment of staff apartments at the embassy complex in Paris.

Other significant owned estate projects included completion of new staff housing in Honiara (see box below) and preparation for the construction of new consulate offices in Bali.

The department's leased estate projects included the fitting out of our new chancery in Abuja. This was completed in time for the Prime Minister's attendance at the Commonwealth Heads of Government Meeting in Nigeria in December 2003.

### **Staff housing for the Australian High Commission in Honiara**

A project to improve substantially the quality and security of housing for staff of our High Commission in Honiara was completed in June 2004. The project, managed by OPO, involved the construction of two new houses and the substantial renovation and refurbishment of four others. The six properties, all part of the Government's overseas owned estate, now provide accommodation for staff from the department and AusAID.

Australian, New Zealand and local firms participated in the project. The Brisbane-based Kramer Group provided project management. Fletcher Kwaimani Joint Venture carried out construction of the two new houses. A local Solomon Islands firm, Tatalani Builders, undertook the four renovations. There was substantial involvement by local sub-contractors.

The combination of uncertain security in the early stages, a shortage of materials associated with increased building activity after the arrival of the Regional Assistance Mission to Solomon Islands in mid-2003, and a tropical climate combined to make this project a complex one to manage. The outcome—the provision of six high-quality purpose-built residences—significantly improved the accommodation of High Commission staff in Solomon Islands.

Leased estate projects begun or completed in 2003–04 included the relocation of a number of our chanceries and the fitting out of chanceries for our newly opened posts in Accra, Kuwait and Port of Spain.

For more information, see output 4.2 Quality and Quantity information.

### **Contract with United Process Solutions (UPS)**

The department has an outsourcing contract with UPS for the provision of property services in the overseas owned estate. We maintained our regular dialogue with UPS throughout the year to ensure that services were effectively delivered under the contract.

Under the contract, UPS provides facilities management in the owned overseas estate, including servicing of plant and equipment and preventive maintenance programs in posts. In some larger posts UPS provides on-site facilities managers to oversee locally employed UPS staff. Posts report faults or problems to the company's 24-hour call service in Australia.

Posts' satisfaction with services provided by UPS was surveyed through the year to measure the contract's effectiveness. For results, see output 4.1 Quality and Quantity information, and output 4.2 Quality and Quantity information.

## Output 4.2: Quality And Quantity Information

### Quality indicators

- Efficient and effective management of construction projects for new capital works
- Ensuring measurement of contractual outcomes required of United Process Solutions
- Tenant satisfaction with United Process Solutions contract delivery

### Quantity indicators

- Number of project contracts managed
- Number of calls answered by United Process Solutions call centre and agreed response times for successful service delivery achieved

### Management of construction projects

Projects for new capital works were managed efficiently and effectively. The Overseas Property Office (OPO) completed a number of construction projects in the owned estate in 2003–04 including new staff housing in Honiara (see box on page 213) and extension of the representational areas of the head of mission residence in Tokyo. Work commenced on three major projects approved by Parliament after consideration by the Joint Standing Committee on Public Works. These projects are for the construction of new chanceries in Colombo and New Delhi, and refurbishment of staff apartments in the embassy complex in Paris.

Several other owned estate projects are in the planning stages. These include plans for refurbishment of the chanceries in Wellington and Singapore, and work on the head of mission residence in Washington. We began planning for the construction of new chanceries in Bali, Phnom Penh and Rangoon.

## Contractual outcomes required of United Process Solutions (UPS)

The performance of UPS is measured against contractual indicators relating to financial and business processes, tenant satisfaction, portfolio condition, divestments and capital works. Overall, the contract delivered acceptable outcomes.

### Tenant satisfaction with UPS

The level of tenant satisfaction with the provision of UPS services is measured by tenant satisfaction surveys conducted twice a year. The survey result for 2003–04 reflected general satisfaction with the provision of services and was consistent with the outcome for 2002–03. In general, those locations where UPS facilities managers are attached to posts recorded the highest satisfaction responses. UPS provides some services to tenants outside the scope of the contract on a fee for service basis.

### Quantity information for output 4.2

#### *Number of project contracts managed*

During 2003–04 OPO had oversight of over 30 substantial construction and refurbishment projects in the overseas owned and leased estate (see above and under output 4.2).

Leased estate projects completed in 2003–04 included the relocation of our chanceries in Beirut and Dublin and the fitting out of a new chancery and head of mission residence in Abuja following the relocation of our High Commission from Lagos. Other chancery relocations commenced in Ankara, Athens, Harare and Rome. Work proceeded on establishing chanceries for our new posts in Accra, Kuwait and Port of Spain, and on providing more suitable accommodation for the Australian Representative Office in Baghdad. A major refurbishment of the Australian Commerce and Industry Office in Taipei was completed. Projects are under way on new chanceries in Port Vila and Tehran, to provide improved protection against local seismic risk. We are well advanced with negotiations for relocation of the chancery in Brunei.

#### *Number of calls answered and response times*

A total of 7193 calls were made to the call centre. 99.21 per cent of calls were responded to within key performance indicator response times.