

Outcome 4

Efficient management of the Commonwealth overseas owned estate

OUTPUT 4.1

**EFFECTIVENESS
QUALITY AND QUANTITY**

OUTPUT 4.2

**EFFECTIVENESS
QUALITY AND QUANTITY**

BELOW: The Prime Minister Mr John Howard and US President Mr George Bush shake hands after planting two trees to commemorate the refurbishment of the official residence of the Australian Ambassador to the United States. The trees were transplanted from the White House gardens nursery. The residential refurbishment project, managed by the department's Overseas Property Office, was delivered on schedule and within budget. Also pictured are (left to right): Ambassador Dennis Richardson AO, Mrs Janette Howard and Mrs Laura Bush. Photo: AUSPIC/Michael Jones



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 Australian Government Property Ownership Framework
- Australian Government representatives overseas provided with appropriate accommodation, including through effective management of the United Group Services strategic alliance contract
- Efficient financial and physical management of assets.

TABLE 14. FINANCIAL AND STAFFING RESOURCES SUMMARY FOR OUTCOME 4

Efficient management of the Commonwealth overseas owned estate

	2005-06 Budget and Supplementary Additional Estimates (\$'000)	Actual 2005-06 (\$'000)	Variation (actual less budget) (\$'000)	Budget 2006-07 (\$'000)
Administered expenses				
Total administered expenses	0	0	0	0
Price of departmental outputs				
Output 4.1—Property management	47 675	48 837	1 162	50 081
Output 4.2—Contract management	0	0	0	0
Total price of departmental outputs	47 675	48 837	1 162	50 081
Appropriation from government for departmental outputs	0	0	0	0
Revenue from other sources	47 675	48 837	1 162	50 081
Total resourcing for Outcome 4 (Price of departmental outputs plus administered expenses)	47 675	48 837	1 162	50 081
	2005-06 Budget and Supplementary Additional Estimates	2005-06 Actual	2006-07 Estimate	
Average staffing level (number) *	21	18	21	

* Includes overseas locally engaged staff.

OUTPUT 4.1:

Property management

Overview

The department fully met the Government's overseas property requirements and maintained the value of its property assets.

The department's Overseas Property Office (OPO), which is responsible for managing all aspects of the Australian Government's overseas owned property estate, continued to apply rigorous commercial practice to all aspects of property management, in accordance with principles outlined in the Australian Government Property Ownership Framework.

The department met the indicative targets under output 4.1 relating to the maintenance of 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.

The department consulted closely with the Department of Finance and Administration and government agencies represented at our overseas posts, ensuring regular and effective interagency communication on relevant property management issues.

The international security environment continued to place significant additional pressures on the department's management of the overseas property estate, especially in ensuring that all new projects fully met enhanced security requirements.

Provision of accommodation overseas

The department fully met the wide range of office and staff accommodation requirements of agencies representing the Government's interests overseas.

In 2005–06, the department **managed owned properties in 58 locations, commercially valued at \$1.3 billion** at 30 June 2006.

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 267 for information about the department's leased estate).

Physical management of assets

The department maintained a program of continuous assessment of all overseas property, involving annual inspections by qualified facilities managers and consultation with post management and agencies.

We **assessed properties using a model developed by the department**, based on property industry standards, for measuring and monitoring physical condition. The model provided 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).

We continued to develop and manage a major construction and refurbishment program in the owned overseas estate, enhancing the overall quality and long-term value of the estate.

Financial management of assets

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

For reporting on financial management of the overseas owned estate, see quality and quantity Information for output 4.1.

Outlook

We will manage a significant construction program in the overseas property estate in 2006–07. This will include ongoing construction works on our new chancery in New Delhi and new chanceries in Rangoon and Vientiane, refurbishment of the chanceries in Wellington and Singapore, and major works at Australia House in London. We will maintain our program of post inspections and assessments to enhance the value of the estate and ensure compliance with appropriate standards.

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

Portfolio condition

The condition of the overseas owned estate continued to improve, maintaining the trend since 2002 and reflecting the Overseas Property Office's major new construction, refurbishments and maintenance programs. The department assessed the overall condition of the estate in 2006 as good against the industry-based assessment model we use.

The condition of properties in the estate can be expected to improve further in the next five years, as a result of planned refurbishments, updated compliance with relevant Australian and local building codes and current and proposed major construction projects foreshadowed in the department's forward property program (see output 4.2 for more information).

Tenant satisfaction

OPO conducts surveys each year to measure tenant satisfaction with the delivery of property management services in the overseas estate by United Group Services (UGS) (see output 4.2 for more information). The department ensured the service provider maintained close liaison with tenants and delivered services to agreed standards (see also quality and quantity information under output 4.2). OPO assessed the performance of UGS as good throughout the year.

Quantity information for output 4.1

Return on investment

The rate of return on investment on the overseas owned estate was 3.88 per cent, reflecting the high level of capital expenditure currently being undertaken by OPO in response to the Government's program of construction and property acquisitions in the overseas property estate.

Management expense ratio

The management expense ratio indicates the relationship between costs of management and value of the estate. For 2005–06 the ratio was assessed at 0.89 per cent, which was consistent with external industry benchmarks.

Annual dividend

The department paid to the Government a dividend of \$76.973 million from the operations of the overseas owned estate in 2005–06, as agreed between the Minister for Foreign Affairs and the Minister for Finance and Administration. The department also paid \$2.758 million to the Government in property divestment proceeds.

OUTPUT 4.2:

Contract management

Overview

In effectively managing the overseas estate, the department made extensive use of contracted services, including project management and construction, property purchase, audit and legal. We selected service providers in accordance with the Government's competitive tendering and contracting procedures.

A range of outsourced property services was provided to the overseas owned estate under the department's long-term contract with United Group Services (UGS)—formerly United Process Solutions.

Construction projects

The department **managed a significant construction program in the overseas estate** throughout 2005–06. A major new chancery building was completed in Colombo (see box below). Work continued on the new chanceries in New Delhi and Harare and project works proceeded on refurbishment of the high commission offices in London, Singapore and



High Commissioner to India John McCarthy (third from left) initiates the final concrete pour to top out works on the new chancery building in New Delhi.

Wellington. We obtained Parliamentary approval for new chancery projects in Phnom Penh and Rangoon. Substantial refurbishment works were completed on the head of mission residence in Washington.

In addition to projects in the owned estate, OPO managed the department's leased estate projects, including premises for our new mission in Kuwait and relocation of our chancery in Brunei. Work continued in 2006 on the relocation of the consulate-general offices in Guangzhou and Los Angeles, construction of new offices in Port Vila and fit-out of new offices in Taipei.

Details of projects undertaken in 2005–06 are provided under output 4.2 quality and quantity information.

New chancery for the Australian high commission in Colombo

The department's Overseas Property Office (OPO) completed construction of our new chancery in Colombo, Sri Lanka in April 2006. The chancery, which was built on land acquired for the purpose, replaced an ageing building that was no longer suitable for Australia's representational requirements in Sri Lanka.

The new chancery provides efficient purpose-built office accommodation for the department, as well as the Department of Immigration and Multicultural Affairs, Austrade and AusAID.

This was the first major owned chancery project to be conceived, planned and delivered by OPO since the Office's establishment in 2001. The new chancery is a two-storey, high-quality building providing modern, secure and efficient office space for staff and visitors with a strong focus on health and work safety. In design and presentation the new building projects a contemporary image of Australia.

Parliament approved construction of the new chancery in 2003 following consideration by the Parliamentary Joint Standing Committee on Public Works. On-site works began in August 2004. Additional security works were undertaken during construction, reflecting continuous reviews of security requirements of our overseas missions.

OPO and strategic alliance partner United Group Services managed the project in close consultation with the post and other agencies represented in Colombo.

For information on other chancery construction projects managed by OPO in 2005–06, see output 4.2.

Contract with United Group Services (UGS)

The department has an outsourcing contract with UGS for the provision of property services in the overseas owned estate. The department maintained continuous dialogue with UGS to ensure effective delivery of contract services.

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

The department surveyed posts' satisfaction with services provided by UGS through the year as a measure of the contract's effectiveness. In general, survey results demonstrated a good level of performance by UGS (see output 4.1 quality information and output 4.2 quality and quantity information).

Outlook

The department will continue to manage the Government's substantial construction and refurbishment program in the overseas property estate through 2006–07 in accordance with legislative and governance requirements. We will maintain the existing close dialogue with UGS to ensure the continued effective provision of property services under the outsourcing contract.

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 Group Services
- Tenant satisfaction with United Group Services contract delivery

Quantity indicators

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

Management of construction projects

Projects in the overseas owned estate continued to be managed within time and cost targets. We completed major construction works—the new chancery in Colombo, a significant refurbishment and upgrading of the head of mission residence in Washington and refurbishment of staff apartments in the embassy complex in Paris.

Construction of our new chancery and associated compound works in New Delhi continued, as did work on relocation of our chancery in Harare. Projects began to refurbish the chanceries in Wellington and Singapore and preparation continued for works on Australia House in London. Works began on new premises for our embassy in Vientiane and our consulate-general in Bali. New chanceries for our embassies in Phnom Penh and Rangoon were approved by Parliament following consideration by the Parliamentary Joint Standing Committee on Public Works.

Work on leased estate projects completed in 2005–06 included the relocation of our embassy in Brunei and premises for our new embassy in Kuwait. Construction began on a new chancery in Port Vila and project planning continued on a new chancery in Tehran, to provide improved protection to both missions against seismic risk. Work continued on new premises for our consulates-general in Guangzhou and Los Angeles and our offices in Taipei.

Contractual outcomes required of United Group Services (UGS)

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

Tenant satisfaction with United Group Services

See output 4.1 quality and quantity information.

Quantity information for output 4.2

Number of project contracts managed

During 2005–06 the department had oversight of 27 substantial construction and refurbishment projects in the overseas owned and leased estate.

Number of calls answered and response times

A total of 5826 calls were made to the UGS call centre, with 98.5 per cent of calls responded to within key performance indicator response times.