



Tasmanian
Audit Office



**Report of the Auditor-General
No. 6 of 2023-2024**

Management of major
office accommodation

20 June 2024



Our Role

The Auditor-General and Tasmanian Audit Office are established under the *Audit Act 2008* and *State Service Act 2000*, respectively. Our role is to provide assurance to Parliament and the Tasmanian community about the performance of public sector entities. We achieve this by auditing financial statements of public sector entities and by conducting audits, examinations and investigations on:

- how effective, efficient, and economical public sector entity activities, programs and services are
- how public sector entities manage resources
- how public sector entities can improve their management practices and systems
- whether public sector entities comply with legislation and other requirements.

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2024
PARLIAMENT OF TASMANIA

Management of major office accommodation

20 June 2024

Presented to both Houses of Parliament pursuant to
Section 30(1) of the *Audit Act 2008*

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20 June 2024

President, Legislative Council
Speaker, House of Assembly
Parliament House
HOBART TAS 7000

Dear President, Speaker

Report of the Auditor-General No. 6 of 2023-24 – Management of major office accommodation

This report has been prepared consequent to examinations conducted under section 23 of the *Audit Act 2008*. The objective of the audit was to express an opinion on whether the Department of Treasury and Finance is efficiently, effectively, and economically managing major office accommodation.

Yours sincerely

Martin Thompson
Auditor-General

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Foreword

As the demands and dynamics of the modern workplace evolve, so too must our approach to office accommodation within the Tasmanian State Service (TSS). The Independent Review of the Tasmanian State Service (the Review) notes that the term ‘workplace’ now refers to an environment that is both physical and digital, and not simply an office with 4 walls. It considers a key component of the future workplace to be its decentralisation, distribution, and remoteness. As such, the Review recommends the government consider the creation and promotion of office hubs as part of a strategy to increase regionalisation of the TSS.¹

The Treasurer’s Instruction C-2 *Contracts for Major Office Accommodation Leases* (TI C-2) establishes the current requirements for the management of major office accommodation in the TSS.² These requirements aim to embed a strategic whole-of-government approach which maximises occupation and utilisation. Centralised management is delivered by the Department of Treasury and Finance (Treasury), which is intended to ensure this strategic objective is achieved.

My aim for this report is to make recommendations that improve compliance with the existing Treasurer’s Instructions and ensure processes are in place to support the kinds of initiatives and opportunities identified in the Review.

Unsurprisingly, expenditure on office accommodation is also materially significant and growing. The annual rental payments for major office accommodation totalled approximately \$42 million in to 2022-23 financial year.³ This has increased to approximately \$47 million in the current financial year. Given the long-term commitment of most leases and inflationary pressures, it is critical for the TSS to ensure effective negotiation of leases, in addition to developing a strategic approach.

I thank Treasury for its cooperation throughout the audit. I also thank the Department of State Growth, the Department of Health, the Department of Natural Resources and Environment Tasmania, the Office of the Crown Solicitor, and the Office of the Valuer-General for their input.

Martin Thompson

Auditor-General

20 June 2024

¹ DPAC (Department of Premier and Cabinet) (2021) [Independent Review of the Tasmanian State Service](#), p213-214, DPAC, accessed 3 May 2024.

https://www.dpac.tas.gov.au/__data/assets/pdf_file/0026/136934/TSSR_Final_Report.pdf

² Treasury (2020) [Treasurer’s Instruction C-2 Contracts for Major Office Accommodation Leases](#), Treasury, accessed 3 May 2024. <https://www.treasury.tas.gov.au/Documents/C---2-Major-Office-Accommodation-Leases.PDF>

³ Treasury (2023) [Routine Disclosure of Key Details of All Major Office Accommodation Leases as Defined Under Treasurer’s Instruction C-2](#), accessed 3 May 2024.

<https://www.treasury.tas.gov.au/Documents/Routine%20Disclosure%20Major%20Office%20Accommodation%20Leasing%20for%202022-23%20FY-2.pdf>

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Independent assurance report

This independent assurance report is addressed to the President of the Legislative Council and the Speaker of the House of Assembly. It relates to my performance audit on the management of major office accommodation by the Department of Treasury and Finance (Treasury).

Audit objective

The objective of the audit was to express an opinion on whether Treasury is efficiently, effectively, and economically managing major office accommodation.

Audit scope

The audit focused on Treasury's role in centrally managing office accommodation and was limited to leases defined as 'major office accommodation leases'. These are defined in the Treasurer's Instructions C-2 (TI C-2) as leases for office accommodation that:

- comprise a net lettable area of 400m² or more within the Hobart CBD
- comprise a net lettable area of 150m² or more for all other areas in Tasmania.

TI C-2 states the size of the lease includes but is not limited to:

- any area, office accommodation, storage, or other related space
- all floors leased within a building regardless of whether they are subject to different lease arrangements
- multiple buildings on the same land title or conjoined titles, where the lease is effectively over one area.

TI C-2, and this audit, also excluded ancillary office accommodation attached to medical consulting suites and clinical facilities, hospitals, police and ambulance stations, electorate offices, schools, research establishments and laboratories, field stations, warehouses, storage and garaging facilities and shopfronts.

The audit also examined the sale of office accommodation managed by Treasury and owned by the Government within the last 5 years. We did not examine other property disposals, such as the disposal of schools, hospitals, laboratories, or parcels of Crown land.

The audit included engagement with a sample of agencies other than Treasury to support an overall assessment of the audit objective. These were the Department of State Growth, the Department of Health, and the Department of Natural Resources and Environment Tasmania. It also included engagement with the Office of the Crown Solicitor (OCS) and the Office of the Valuer-General (OVG).

The audit's scope was limited to the management activities related to office accommodation over the past 5 financial years, however earlier activities were considered as relevant background information.

Audit approach

The audit was conducted in accordance with the Australian Standard on Assurance Engagements ASAE 3500 *Performance Engagements* issued by the Australian Auditing and Assurance Standards Board, for the purpose of expressing a reasonable assurance opinion.

The audit evaluated the following criteria:

1. Is Treasury strategically managing departmental office accommodation needs?
 - Has Treasury established processes to identify and address agencies office accommodation needs?
 - Has Treasury established processes which effectively optimise occupation and utilisation?
2. Has Treasury established processes to manage office accommodation leases?
 - Does Treasury effectively negotiate major office accommodation leases and seek appropriate advice?
 - Has Treasury effectively managed office accommodation relocations, terminations, and disposals?

Responsibility of management

The framework for the management of major office accommodation is contained within TI C-2, *Contracts – Major Office Accommodation Leases*, issued under the *Financial Management Act 2016*. It states that agencies must, in conjunction with Treasury, liaise and co-ordinate office accommodation strategies to achieve the following whole-of-government office accommodation management objectives:

- maximisation of occupation and utilisation of existing Crown owned office accommodation
- maximisation and occupation and utilisation of existing Crown leased office accommodation
- compliance with the above for the take up of lease options and end of lease renewals.

Treasury must negotiate and sign all major office accommodation leases, seek advice from the OCS and the OVG, approve sub-leasing arrangements, and authorise all Agency relocations.

Responsibility of the Auditor-General

My responsibility was to express a reasonable assurance conclusion on the efficiency, effectiveness and economic management of major office accommodation by Treasury.

Independence and quality control

I have complied with the independence and other relevant ethical requirements relating to assurance engagements, Auditing Standard ASQM 1 – *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* in undertaking this audit.

Conclusion

It is my conclusion that Treasury, as measured against the criteria, was partially effective in centrally managing major office accommodation because it has:

- not established a whole-of-government strategy which maximises occupation and utilisation
- established largely appropriate operational processes to manage leases, with room to improve engagement with other agencies.

Martin Thompson

Auditor-General

20 June 2024

Executive summary

Summary of findings

Treasury has designed an internal strategy, developed (and shared with agencies) 2 discreet guidelines for major office accommodation leases, and has established processes to engage with agencies to understand their needs. In addition, Treasury engages with other State and Territory jurisdictions, property agents and building owners to gain insights into the market and management of major lease accommodation. Agencies and other stakeholders provided positive feedback on the centralised management role by Treasury.

However, Treasury has not supported agencies in developing leasing strategies that would better inform whole-of-government decision making. Data on how office accommodation was being utilised was also not being captured by or reported to Treasury to enable them to maximise utilisation across the major office accommodation portfolio. This data was also not being captured by agencies included in the sample, and therefore no data on current utilisation of office accommodation is available.

While evidence showed occupation was well managed, the lack of whole-of-government strategies and utilisation data has resulted in Treasury being unable to embed a strategic approach to the management of major office accommodation, particularly in the post-COVID environment which has accelerated the adoption of more flexible working arrangements.

Treasury has established processes to ensure input and assistance is obtained from the Office of the Valuer-General (OVG) and the Office of the Crown Solicitor (OCS). These processes have ensured Treasury appropriately uses advice and obtains input from a valuation and legal perspective during the lease negotiation process. Treasury has also established and complied with market approach processes to maximise value-for-money.

Within agencies, the maturity level of property management capability varies considerably. Treasury plays a key role in major office accommodation leasing regardless of agency maturity and capability. One agency we consulted expressed an interest in more visible milestones, points of agency involvement, and a defined pathway to escalate any concerns.

We noted there were minimal examples of relocations (and no disposals or terminations) during the period under audit. Where these did occur, Treasury managed them effectively. A more strategic approach to management and utilisation data would enable Treasury to manage major office accommodation more proactively, and could result in more examples of relocation as space is optimised across the whole-of-government.

Recommendations

We made two recommendations to Treasury, which are noted in the table below with Treasury’s response.

Table 1: Recommendations and entity response

Recommendation	Treasury’s response
<p>1. Treasury adopt a strategic whole-of-government approach for managing major office accommodation by:</p> <ul style="list-style-type: none"> a. developing and sharing amongst agencies a whole-of government leasing strategy b. supporting agencies to develop their own leasing strategies c. establish processes to track utilisation data (see Recommendation 2 below) d. documenting leasing process milestones and escalation pathways for clients in the Guidelines. 	<ul style="list-style-type: none"> a. AGREED - Treasury will review and share its current Leasing Strategy by 30 November 2024. b. ONGOING - Treasury will review its current support to agencies by 30 November 2024. c. AGREED - Treasury will establish processes in conjunction with agencies by 30 January 2025. d. AGREED - Treasury will review its current guidelines and internal processes by 30 January 2025.
<p>2. Treasury use and analyse utilisation data to inform strategic planning to facilitate efficient management and use of major office accommodation.</p>	<p>AGREED - Treasury will review its suite of guidelines, policies and instructions relating to major office accommodation, using utilisation data, by 30 September 2025.</p>

Submissions and comments received

In accordance with section 30(2) of the *Audit Act 2008* (Tas) (Audit Act), a copy of this Report was provided to Treasury, and other persons who in our opinion had a special interest in the report, with a request for submissions or comments.

Submissions and comments that we receive are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of these comments rests solely with those who provided the response.

Section 30(3) of the Audit Act requires that this Report include any submissions or comments made under section 30(2) or a fair summary of them. Submissions received are included below.

Response from the Department of Treasury and Finance

I refer to your letter regarding the independent audit assurance report conclusions and offer the following observations:

- I consider Treasury’s management of major office accommodation to be consistent with the objectives of Treasurer’s Instruction C-2 Major Office Accommodation

Leases (TI C-2), however Treasury will review current policies and procedures having regard to the recommendations in the Report. I note the developing maturity of Treasury in working collaboratively with agencies, who have differing ranges of capabilities and resources, in response to meeting the objectives of TI C-2. Treasury has developed a suite of internal processes and procedures to support agencies. Together with regular stakeholder engagement and the creation of clear guidelines outlining lease management responsibilities, this ensures effective support for lease management.

- Treasury has and will continue to collaborate with agencies as they fulfill their requirements relative to TI C-2. Treasury accepts it has part of a centralised role in the administration of the TI. However, the wording of the TI and specifically ‘Agencies must, in conjunction with the Department of Treasury and Finance, liaise and co-ordinate office accommodation strategies....’ suggests that agencies have a level of ownership in initiating this, which is reflected in Section 34 of the Financial Management Act 2016. Additionally, I note that Treasury has limited visibility of agency-owned and agency non-office leased accommodation, which further places the responsibility on agencies to initiate the development of their own leasing strategies with support from Treasury.
- Regarding data capture collection for the utilisation of leases, Treasury has recognised the potential strategic benefits of this data to inform future whole-of-government decision making regarding leases. Treasury regularly liaises with other jurisdictions on their approach to this and notes the difficulty and complexity of obtaining reliable and consistent data.
- I would also highlight that any strategic decision-making regarding whole-of-government accommodation, informed by lease utilisation data, must consider cultural and technological factors within individual and central government agencies.

Thank you for the opportunity to comment on this audit report.⁴

Gary Swain
Secretary

Response from the Office of the Valuer-General

The OVG provided comment in relation to paragraph 3.6 of this report. The paragraph states that “Treasury advised market rental assessments can cause delays, and that the assessments are often more comprehensive than Treasury requires. OVG advised that their reports are conducted in accordance with their professional standards. During the audit, Treasury and the OVG (and the OCS) began discussions to better align needs, reporting and resourcing to ensure the OVG do not provide unnecessary information which may lead to inefficiencies.”

⁴ Treasury’s response to the recommendations is noted in the above ‘Recommendations’ section of this report.

Regardless of the final presented format of any full valuation report or summarised valuation advice to Treasury, to make an evidence based and supportable market rental valuation (or advice), the Office of The Valuer-General must still follow a process to expend adequate labour resources to gather market and leasing evidence for comparison, analyse data and then rationalise any valuation or valuation related advice. This process is adhered to by the OVG to ensure all advice provided by the OVG to Treasury under Treasury Guidelines is supportable, defensible and robust enough to withstand public scrutiny.

Guy Naish
Valuer-General

Response from the Department of Natural Resources and Environment Tasmania

The report has been further reviewed by NRE Tas and the Department continues to support the proposed recommendations without additional comments at this time.

I would also like to take this opportunity to highlight an example of successful strategic office accommodation planning and development, exemplified by the Lands Building Refurbishment. Through careful planning and execution, the refurbished spaces now offer a contemporary presentation that aligns with modern standards. This has led to increased user satisfaction among both employees and visitors alike.

A notable highlight of the refurbishment is the integration of Services Tasmania at the base of the Building. The strategic design has improved accessibility for the public, making essential government services more readily available to Tasmanians.

Overall, the Lands Building Refurbishment serves as a positive case study of the value of investing in infrastructure to create a high-functioning public service. By prioritising quality and innovation, we have not only revitalised a key government facility but have also enhanced our ability to meet the needs of our community effectively.

Jason Jacobi
Secretary

Response from the Department of Health

Thank you for the opportunity to formally comment on the Draft Report for the audit of the management of major office accommodation.

As noted in the Draft Report, the post-COVID environment has accelerated the adoption of more flexible working arrangements. The Department would welcome:

- a whole-of-government leasing strategy being developed and shared amongst agencies
- Treasury support to Agencies in the development of specific leasing/accommodation strategies consistent with, and complementary to, the whole of government strategy

- strategic planning to facilitate efficient management and use of major office accommodation, including principles for shared spaces and hot-desking
- a process for the collection of utilisation data, including a whole-of-government system for managing leases and occupancy.

The Department also continues to welcome Treasury sharing insights gained through its engagement with other states and territory jurisdictions.

Shane Gregory
Associate Secretary

1. Introduction

Framework for managing major office accommodation

Treasurer's Instruction for major office accommodation lease management

- 1.1 Treasurer's Instruction C-2 *Contracts for Major Office Accommodation Leases* (TI C-2) establishes the broad framework for the management of office accommodation in the Tasmanian State Service.⁵ It applies to agencies defined in the *Financial Management Act 2016* and is limited to major leases.
- 1.2 Major office accommodation leases are defined as office accommodation leases that:
 - comprise a net lettable area of 400m² or more within the Hobart CBD
 - comprise a net lettable area of 150m² or more for all other areas in Tasmania.
- 1.3 TI C-2 excludes from this definition ancillary office accommodation attached to facilities, including medical consulting suites and clinical facilities, hospitals, police and ambulance stations, electorate offices, schools, research establishments and laboratories, field stations, warehouses, storage and garaging facilities and shopfronts.
- 1.4 TI C-2 section 2.1 of the TI C-2 establishes the general intent, and states that:

'Agencies must, in conjunction with the Department of Treasury and Finance, liaise and co-ordinate office accommodation strategies to achieve the following whole-of-government office accommodation management objectives:

 - 2.1.1 *maximisation of occupation and utilisation of existing Crown owned office accommodation*
 - 2.1.2 *maximisation and occupation and utilisation of existing Crown leased office accommodation*
 - 2.1.3 *compliance with clauses 2.1.1 and 2.1.2 in the take up of lease options and end of lease renewals.'*
- 1.5 The remainder sets out detailed and operational requirements.
- 1.6 TI C-2 section 2.2 requires Treasury to negotiate (with the support of the tenant agency) all major office accommodation leases, including extensions, variations or the exercise of any rights pursuant to the lease. Section 2.3 states all major office accommodation leases must be signed by Treasury.

⁵ The Treasurer issues binding instructions to agencies under section 51 of the *Financial Management Act 2016*. TI C-2 was publicised in July 2020, and followed the 2019 Australian Accounting Standards Board (AASB) implementation of a unified lessee accounting model for the treatment of lease liabilities in financial statements.

- 1.7 There is a requirement contained in TI C-2 section 2.4 for Treasury to obtain advice from the Office of the Crown Solicitor (OCS) and the Office of the Valuer-General (OVG) before entering into major office accommodation leases.⁶ Treasury then assign agencies to designated tenancies (section 2.5) and must be provided with all supporting documentation associated with the lease (section 2.6).
- 1.8 Where agencies sub-lease office accommodation from another agency, approval of the formal arrangement must be obtained from Treasury.
- 1.9 Treasury's major office accommodation role is undertaken within the Property Services Unit. The Unit is a small team of approximately 4 to 5 full time equivalent staff. It is dedicated to supporting agencies with major office accommodation leases and with meeting the requirements of TI C-2.
- 1.10 The major office accommodation leasing process is outlined in Appendix A.
- 1.11 The audit examined Treasury's centralised management activities related to major office accommodation over the past 5 financial years.

Major office accommodation portfolio

- 1.12 As reported in its 2022-23 routine disclosure, Treasury managed 63 leases totalling \$42m in annual payments.⁷ At time of reporting, Treasury now manages 71 major office accommodation leases, totalling approximately \$47 million in annual rental payments. Treasury's committed non-current (long term) lease liability for major office accommodation was reported to be \$478m in the 2022-23 financial year.⁸
- 1.13 As detailed in Figure 1, the Department of Justice, Department of Health, and the Department for Education, Children and Young People occupy approximately half of the major office accommodation spaces.

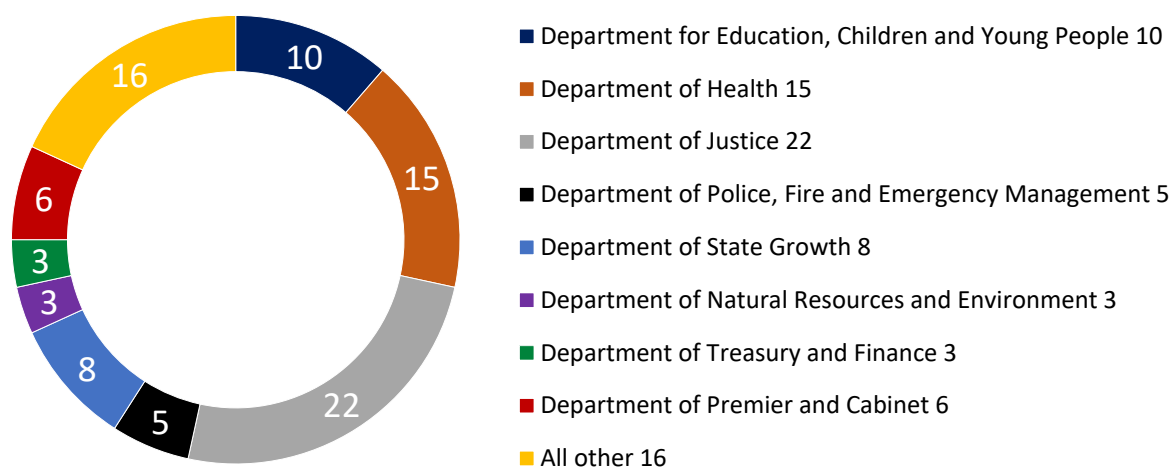
⁶ Advice from the OVG is enabled by section 51 of the *Valuation of Land Act 2001*. It states that the Valuer-General may provide required advice to agencies, for which fees are paid as determined by the Valuer-General.

⁷ Treasury (2023) [Routine Disclosure of Key Details of All Major Office Accommodation Leases as Defined Under Treasurer's Instruction C-2](https://www.treasury.tas.gov.au/Documents/Routine%20Disclosure%20Major%20Office%20Accommodation%20Leasing%20for%202022-23%20FY-2.pdf), accessed 3 May 2024.

⁸ Treasury (2023), [Annual Report 2022-23](https://www.treasury.tas.gov.au/Documents/FINAL%20Department%20of%20Treasury%20and%20Finance%20Annual%20Report%202022-23.PDF), Treasury, p102, accessed 3 May 2024.

<https://www.treasury.tas.gov.au/Documents/FINAL%20Department%20of%20Treasury%20and%20Finance%20Annual%20Report%202022-23.PDF>

Figure 1: Number of spaces occupied by entities under a major office accommodation lease (2022-23 financial year)



Source: Treasury (2023) [Routine Disclosure of Key Details of All Major Office Accommodation Leases as Defined Under Treasurer's Instruction C-2](#), accessed 3 May 2024.

Note: Some leases cover multiple spaces occupied by different agencies. This graphic counts spaces and not the leases. For example, Treasury has leased the whole Henty House which is occupied by three agencies. The Henty House lease is therefore included three times in the above.

Sample agencies and other stakeholders

1.14 The following sample of agencies were selected as stakeholders to this audit:

- Department of State Growth
- Department of Natural Resources and Environment Tasmania
- Department of Health.

1.15 The performance of these agencies was not assessed. They were selected to:

- provide a comprehensive view of Treasury's performance as clients to Treasury's centralised management of office accommodation
- ensure an appropriate spread of agencies, varying in complexity and size
- capture agencies affected by recent machinery of government changes, and therefore those with changing office accommodation needs.

1.16 TI C-2 also directs Treasury to seek advice from the OVG and the OCS. These offices were also included as stakeholders. Currently, no fees are charged to Treasury by these offices for their services in relation to major office accommodation leases.

Findings from the Independent review of the Tasmanian State Service – Final Report (July 2021)

1.17 The Tasmanian Government's Review of the Tasmanian State Service (the Review) assessed the suitability of the current governing framework for Tasmania's present and future needs. The scope of the Review, guided by a terms of reference refined in

September 2020 and January 2021, aimed to instigate transformative changes in structures, services, and practices within the public service.⁹

1.18 There were 2 recommendations from the Review related to the management of office accommodation. They were:

'Recommendation 62 (Interim Report Recommendation 13)

That the Department of Premier and Cabinet prepare a business case for developing regional office hubs in consultation with the Department of Treasury and Finance as a priority, including consideration of potential regional locations.'

'Recommendation 72

That the Department of Treasury and Finance undertake an audit to map the premises that are owned or leased by the TSS and identify options for improved integration of services and programs and the co-location of TSS employees over time.'

1.19 The Government Response to the Independent Review of the Tasmanian State Service classified both recommendations as 'Stage 2' with expected completion dates of December 2024.¹⁰ Given this timeline, while recommendations are referred to in this report, progress on implementing the recommendations was not assessed.

⁹ DPAC (2021) [Independent Review of the Tasmanian State Service Final Report](https://www.dpac.tas.gov.au/__data/assets/pdf_file/0026/136934/TSSR_Final_Report.pdf), DPAC, p25 & 27, accessed 3 May 2024. https://www.dpac.tas.gov.au/__data/assets/pdf_file/0026/136934/TSSR_Final_Report.pdf

¹⁰ Tasmanian Government (n.d.) [Government Response to the Independent Review of the Tasmanian State Service](https://www.dpac.tas.gov.au/__data/assets/pdf_file/0022/161734/Government_Response_to_the_Independent_Review_of_the_Tasmanian_State_Service.pdf), DPAC, p8, accessed 3 May 2024.

https://www.dpac.tas.gov.au/__data/assets/pdf_file/0022/161734/Government_Response_to_the_Independent_Review_of_the_Tasmanian_State_Service.pdf

2. Treasury's strategic management of departmental office accommodation needs

In this chapter, we evaluate Treasury's approach to strategically managing the office accommodation needs of government agencies. We assessed whether Treasury has implemented a cohesive strategy that aligns with whole-of-government goals of optimised occupation and utilisation, while supporting the requirements of government agencies.

Chapter summary

We anticipated Treasury would have established processes to identify and manage the office accommodation needs of government agencies, and to provide agencies with guidance on managing major office accommodation. These processes would ideally prioritise efficiencies and provide oversight of whole-of-government accommodation, while also addressing the specific needs of each agency.

Further, we expected Treasury to efficiently initiate, oversee and manage the occupation and utilisation from the agency and whole-of-government level. We expected Treasury to support agencies to be active participants in these processes.

Agencies and other stakeholders noted positive outcomes from the centralised management by Treasury. We found Treasury has established processes for meeting Tasmanian Government agencies accommodation needs. However, Treasury has not established an effective whole-of-government strategy. Treasury has not fully implemented processes to strategically manage and monitor office accommodation needs, as agency strategies and formal processes to maximise utilisation have not been fully developed or embedded within guidance or current practice.

Treasury is addressing agency identified needs, but has not embedded a strategic approach to management of major office accommodation leases

2.1 Treasury centrally manages major office accommodation leases in accordance with TI C-2. The aim is to both centralise management of office accommodation needs, and to maximise occupation and utilisation of major office accommodation across the whole-of-government. To support this aim, it requires Treasury to:

- oversee negotiations, extensions, variations, and seek advice from the OCS and OVG on proposed leases
- sign all major office accommodation leases and designate agencies to specific tenancies
- be provided with all relevant supporting documentation.

- 2.2 To achieve this policy aim, it is essential that Treasury both establish an effective whole-of-government strategy with the aim of maximising occupation and utilisation, and appropriately monitor and support its implementation.

Treasury has developed an internal Major Office Accommodation Leasing Strategy and Guidelines for agencies

- 2.3 Treasury has established an Office Accommodation Leasing Strategy (the Strategy) for Major Office Accommodation Leases which assists Treasury employees when negotiating leases or managing lease expiry. However, the Strategy is an internal document only which does not expressly address utilisation strategies for whole-of-government and rather refers to published guidelines.
- 2.4 The published guidelines referred to are the Major Office Accommodation Leases Guideline and the Office Accommodation Fit Out Guideline (the Guidelines). These provide information and a framework to agencies when seeking to enter major office accommodation leases.
- 2.5 Treasury has issued the Guidelines to all agencies with current government-owned and leased major office accommodation managed by Treasury, as per TI C-2, to gather feedback for monitoring and improvement in line with current trends, changing needs, and practical considerations.

A lack of a whole-of-government leasing strategy impacts Treasury's ability to manage major office accommodation efficiently

- 2.6 Currently agencies request leases for major office accommodation after considering their needs and reviewing guidelines. However, Treasury is unable to consider these requests with reference to the broader needs across the Tasmanian government as utilisation is not being tracked centrally and there is no shared strategy. While there have been examples of Treasury identifying and designating agencies to underutilised spaces, this is not systematic because utilisation data is not captured.
- 2.7 As a result of not having utilisation data, Treasury cannot know whether a leased space is being appropriately utilised, nor can they use the data to inform a whole-of-government approach. This results in inefficiencies that could be addressed through a greater use of space, cohabitation, or other innovations across government.
- 2.8 Recommendation 72 from the Review recommends Treasury identify options for improved integration of services and programs and the co-location of TSS employees. A shared strategy allows for the implementation of policies and infrastructure that support flexible work arrangements leading to more efficient utilisation of office space. If this occurs, technology infrastructure could be implemented that enables capturing and reporting of utilisation data. Treasury could then monitor and strategically manage utilisation in these spaces.
- 2.9 Sharing a whole-of-government strategy that addresses changing workplace arrangements provides agencies with information to consider the potential whole-of-government outcomes when requesting a new or renewed major accommodation request.

The development of agency leasing strategies is ad hoc

- 2.10 Treasury does not support agencies to develop their own office accommodation strategies, and many agencies have not prepared them.
- 2.11 The purpose of TI C-2 is to maximise occupation and utilisation through strategic centralised coordination. Without an overarching strategy developed by Treasury or individual agencies developing and sharing their own leasing strategies, there is a lack of information and collaboration across the whole-of-government. When Treasury is not leading and guiding the strategy formulation it cannot effectively manage the overall government major office accommodation portfolio. This hinders efforts to optimise space utilisation, meet the requirements of TI C-2, and align the portfolio with state government goals.
- 2.12 Developing agency level leasing strategies allows agencies to contribute to strategic portfolio planning and align with broader government-wide strategies. Agencies can outline their long-term space requirements, growth projections, impacts of the changing workplace, and considerations for consolidating or expanding office spaces, providing valuable information across the whole sector to Treasury.

Treasury conducts its approaches to market in accordance with policy and appropriately considers value for money

- 1.20 The Tasmanian rental market for major office accommodation is limited to a small number of buildings with sufficient lease space, and a small number of building owners and property agents. As noted above, Treasury managed 63 leases totalling \$42m in annual payments in 2022-23.¹¹ At time of reporting, Treasury now manages 71 major office accommodation leases, totalling approximately \$47 million in annual rental payments. Treasury's committed non-current (long term) lease liability for major office accommodation was reported to be \$478m in the 2022-23 financial year.¹²
- 2.13 Treasury's Strategy establishes 2 main processes for awarding leases to drive value for money. These are an open approach to market or a direct negotiation. Treasury notes in its Strategy that leases generally should be subject to an open approach to market, but that they retain discretion to determine which approach is appropriate.
- 2.14 The Strategy states that Treasury will document its rationale for using either an open approach to market or direct negotiation. This rationale must be endorsed by the relevant delegate.

¹¹ Treasury (2023) [Routine Disclosure of Key Details of All Major Office Accommodation Leases as Defined Under Treasurer's Instruction C-2](https://www.treasury.tas.gov.au/Documents/Routine%20Disclosure%20Major%20Office%20Accommodation%20Leasing%20for%202022-23%20FY-2.pdf), accessed 3 May 2024.

¹² Treasury (2023), [Annual Report 2022-23](https://www.treasury.tas.gov.au/Documents/FINAL%20Department%20of%20Treasury%20and%20Finance%20Annual%20Report%202022-23.PDF), Treasury, p102, accessed 3 May 2024.

- 2.15 Treasury signed 8 leases from January 2023 to April 2024, and the delegate was appropriately informed of the approach taken for each lease. Of these leases, 6 were the result of direct negotiation and 2 were the result of open approaches.
- 2.16 In each instance of a direct negotiation, the reasons provided to the delegate aligned with the possible reasons for taking a direct negotiation identified in the Strategy. These variously included:
- recent unsuccessful open approaches to market
 - alignment with agency accommodation strategies or other uniqueness requirements
 - advice from the OVG on the value for money in the absence of an open approach
 - broader Government interests.
- 2.17 In addition, while the balance seems to be in favour of direct approaches, the vacancy rate for commercial accommodation in Hobart is reportedly the lowest in the country at around 2.8%.¹³ Treasury advised that this likely drives the early identification of individual properties that may be suitable for Government accommodation.

Treasury's external stakeholder engagement is effective

- 2.18 Treasury engages with other states and territory jurisdictions to gain insights into their leasing approaches, challenges and ideas. Treasury then considers, refines, and adopts successful strategies resulting in enhanced leasing processes and improving overall efficiency. Comparing leasing approaches and performance metrics with other jurisdictions provides a benchmark for evaluating the Treasury's own performance. Strategies for risk mitigation can be shared and implemented. Coordination with other jurisdictions helps align leasing policies and practices on a federal and regional scale.
- 2.19 Treasury has established productive and positive relationships with property agents and building owners. This has ensured Treasury is aware of the events within the market (new developments, private sector impending lease terminations, building sales, changes in property management, etc.). These relationships enable Treasury to be proactive in their management of aspects of major office accommodation across the Tasmanian public sector because they are informed of significant market changes and developments. These relationships result in insights and information that enable Treasury to deliver a leasing process for current and future state government accommodation needs.

Lease management remains in spreadsheet form

- 2.20 While Treasury is currently evaluating options to implement a lease management system, the day-to-day management of major lease accommodation is being maintained in a spreadsheet. Implementing a dedicated lease management system is

¹³ The Mercury (2024) [Property Council Office Market Report: Hobart office space at a premium, lowest vacancy rate in country](#), accessed 21 May 2024.

a core component of Priority 3 outlined in the 2023–24 Treasury Corporate Direction.¹⁴ Treasury note that this will lead to improved administration of the Treasury managed office accommodation.

2.21 Treasury initially commenced an implementation program for a dedicated lease management system in 2020. During user acceptance testing in 2022, it was identified that the proposed system would not meet business needs, and implementation was therefore paused. In January 2024 during the audit, a new business case for a leasing management system was developed, with a go-live date of quarter 1 for the financial year 2025.

2.22 It is envisaged the new system would include functionality for:

- storing and managing lease data
- automating initiation of workflow activities
- enabling system driven lease payments and cost recoveries
- providing the ability to analyse data to support budgeting and financial reporting.

Treasury has established processes which effectively optimise occupation but not utilisation

2.23 As noted above, the intention of the TI C-2 was to maximise occupation and utilisation across the major office accommodation portfolio. Occupancy rates measure whether people are in a space, whereas utilisation rates measure how efficiently the space is being used.

Treasury is effectively managing occupation rates, but could improve transparency in its reporting

2.24 Treasury reported a major office accommodation vacancy rate of 1.5% in its Annual Report 2022–23,¹⁵ which was confirmed by this audit. The vacant properties are 2 Government-owned buildings which Treasury has advised are not fit for occupation. This indicates that Treasury has effectively sustained high levels of occupation while minimising vacancy rates.

2.25 However, the 1.5% vacancy rate refers only to the percentage of leases or buildings for which there is no accountable authority for that lease or building. That is, it is not a report of how many buildings were unoccupied or unused, but only those buildings

¹⁴ Treasury (n.d) [Corporate Direction 2023-24](https://www.treasury.tas.gov.au/Documents/Department%20of%20Treasury%20and%20Finance%20Corporate%20Direction%202023-2024.PDF), Treasury, accessed 3 May 2024.

<https://www.treasury.tas.gov.au/Documents/Department%20of%20Treasury%20and%20Finance%20Corporate%20Direction%202023-2024.PDF>

¹⁵ Treasury (2023) [Annual Report 2022-23](https://www.treasury.tas.gov.au/Documents/FINAL%20Department%20of%20Treasury%20and%20Finance%20Annual%20Report%202022-23.PDF), Treasury, accessed 3 May 2024.

<https://www.treasury.tas.gov.au/Documents/FINAL%20Department%20of%20Treasury%20and%20Finance%20Annual%20Report%202022-23.PDF>

which were not being paid for by an accountable authority. This relates to Treasury's tracking of utilisation discussed in the section below.

- 2.26 Nonetheless, centralisation of the management of major office accommodation leases has resulted in the effective optimisation across the whole-of-government. This is evidenced by the low vacancy rates, as well as positive feedback from the OVG, OCS and agencies in relation to the central management role played by Treasury. Stakeholders advised Treasury was aware of the market, upcoming office space, and major accommodation needs across government.

Treasury has not established processes to track and manage utilisation

- 2.27 While occupation is well managed, utilisation of major office accommodation is not.
- 2.28 Treasury has established density rates within its Office Accommodation Fit Out Guideline. It defines the general density planning benchmark target for Tasmanian Government Departments within standard office accommodation at a maximum of 12m² per full time equivalent staff member. Treasury analyses proposed leases for compliance with this density benchmark.
- 2.29 As noted above, utilisation data is not tracked or analysed by the sampled agencies or by Treasury. Treasury has not established mechanisms to track compliance with these rates over time and have therefore not established strategies to maximise utilisation.
- 2.30 The Strategy – which is internal to Treasury only – contains an objective of 'When significant benefits to the Crown, such as cost savings, can be demonstrated through a whole-of-government approach, this approach will take precedence over individual agency preference'. Further, the Strategy stated that 'Agencies will advise Treasury of any vacant, underutilised or surplus office accommodation in owned or leased buildings.' However, in the Guidelines for agencies, it is stated that 'Agencies are encouraged to provide Treasury with updated lease information to assist in accurate and timely record keeping and reporting'. The Guidelines also state that Departments are 'encouraged to carry out a utilisation study and determine the most effective use of space.' In the absence of any tracking and reporting mechanism, Treasury is not able to gather necessary utilisation information required to enable well informed decisions from whole-of-government perspective or meet the above objective.
- 2.31 Treasury advised it reviews agencies compliance with the density target when they make leasing requests, based on information the agency provides. However, Treasury does not add expertise by critically analysing their net lettable area request or work point density (for example, due to increasing hybrid work arrangements) when assessing compliance, and are unable to refer to historic utilisation data to inform decisions.
- 2.32 Monitoring utilisation would allow Treasury to adapt to changing needs of agencies and staff. A whole-of-government strategy, guided by utilisation insights, would outline how the government plans to respond to shifts in office space requirements, current and future, helping to identify opportunities for cost savings and increased efficiency, and better comply with TI C-2.

3. Treasury's processes for managing office accommodation leases

In this chapter, we evaluated whether Treasury had mature processes to effectively negotiate major office accommodation leases and actively sought and leveraged appropriate advice from the OCS and the OVG before entering major office accommodation leases. Additionally, we assessed how effectively Treasury managed office accommodation relocations, terminations, and disposals when they occurred.

Chapter summary

We expected that Treasury would leverage government resources by actively seeking appropriate advice from the OCS and OVG to enhance the effectiveness of negotiations, in accordance with TI C-2. We expected that Treasury would have a systematic process for effective and consistent management of the major office accommodation leasing process.

We anticipated Treasury would have established processes for the proactive and efficient identification and management of office accommodation relocations, terminations, and disposals.

Treasury has established processes for effective negotiation of major office accommodation leases, including applying advice from the OCS and OVG, with some inefficiencies in communication and coordination among stakeholders. Where applicable, Treasury effectively manages accommodation relocation, terminations, and disposals related to major office accommodation leases, noting occurrences of these events are minimal.

Treasury applies appropriate advice but could better define its process for stakeholders

- 3.1 TI C-2 states that advice must be obtained from the OCS and the OVG before entering into major office accommodation leases. This is to ensure accurate and impartial assessments of the value of office accommodation, and appropriate legal guidance to ensure lease agreements comply with relevant laws, regulations, and government policies.
- 3.2 Involving specialist government advisors utilises existing valuation and legal expertise within Government and avoids duplication of these skills within Treasury. Treasury has established processes that require advice to be obtained from, and all lease agreements to be prepared by, the OCS.
- 3.3 The audit found that Treasury does actively seek and appropriately apply advice received from the OCS and the OVG, as required by TI C-2.

Treasury has begun coordinating with the OVG to refine the market rental assessment process

- 3.4 Treasury's Strategy states that, 'Treasury must obtain advice from the Office of the Valuer General on the 'value-for-money' over the term of the lease. This can either be a full valuation report, which includes market analysis and forecasts, or written advice relating to the lease agreement. Treasury can use its discretion on the level of detail or advice required for each lease.'
- 3.5 In relation to OVG reporting, we noted that:
- valuation reports must adhere to International Valuation Standards, regulated by the Australian Property Institute
 - the OVG provides market rent advice to Treasury without receiving a fee, leading to resource competition with other requests
 - during the course of the audit, the offices have begun negotiation on a fee schedule, but no agreement has been reached as of the date of this report
 - due to OVG workload peaks, certain major office accommodation market rental assessments had been delayed, impacting properties in Burnie, Battery Point, and Hobart
 - the time taken to conduct market rental assessments vary based on complexity, ranging from 1 to 15 hours for average assessments and up to 40 or more hours for complex assessments
 - over the past 3 years, approximately 72% of market rental assessments were classified as average, while 28% were considered complex.
- 3.6 Treasury advised market rental assessments can cause delays, and that the assessments are often more comprehensive than Treasury requires. OVG advised that their reports are conducted in accordance with their professional standards. During the audit, Treasury and the OVG (and the OCS) began discussions to better align needs, reporting and resourcing to ensure the OVG do not provide unnecessary information which may lead to inefficiencies.

Lease agreements contain required clauses, these are not always user friendly

- 3.7 The OCS, in collaboration with Treasury, has develop a lease template with standard terms, which OCS uses to draft all agreements.
- 3.8 Variable or lease specific items tend to be embedded into the detailed lease agreement. Some of the sampled agencies reported a preference for this information, where possible, to be included in appended schedules to a standardised OCS lease agreement. They advised this would reduce the risk of errors and allow them to compare multiple leases at the agency level. OCS advised in response to this report that its renewed templates now include information tables, and that the feedback had been positive overall.

Major office accommodation milestones are not included within the Strategy or the Guidelines

- 3.9 The Guidelines and the Strategy established by Treasury do not include expected timelines for critical phases of the leasing processes, or avenues for escalation if agencies are unhappy with performance, timing or outcomes.
- 3.10 Treasury does maintain checklists and other documentation for various aspects of the leasing process. However, these also do not include indicative timelines or (agency) visible milestones detailing the status and stage of the leasing process. One agency we consulted expressed an interest in more visible milestones, points of agency involvement, and a defined pathway to escalate any concerns.
- 3.11 Negotiations with landlords do not always involve the prospective or sitting tenant at key stages. One sampled agency advised this may cause some key requirements to be missed in negotiations, leading to additional work or delays. During the audit, no issues of this kind were identified in the tested leases, likely because any issues with missing tenant requirements were resolved prior to signing.
- 3.12 In addition, some agencies advised that the role of Treasury in the day-to-day management of leases after they are executed was not always defined, and varied on a lease-by-lease basis. Treasury established clearer guidance on roles and responsibilities for the day-to-day management of leases in its March 2023 Guidelines.
- 3.13 Acknowledging that timelines cannot be exact, and several aspects of leasing process are not within Treasury’s control, estimates or a process flow highlighting major stages and milestones would provide greater transparency in the process. Establishing visible milestones, points of agency involvement, and a defined pathway to escalate any concerns would also assist with minimising risks and assist agencies in monitoring progress, understanding delays, and identifying additional information they can provide to ensure the process is as efficient as possible.

Crown-owned buildings are minimal and OVG advice is obtained

- 3.14 For Crown-owned buildings, Treasury engages with the OVG to determine suitable rental rates, similar to leased premises. Agencies must sign a letter of formal confirmation to lease these premises. As at the date of this report, Treasury manages the below Crown-owned properties.

Table 2: Crown-owned office accommodation managed by Treasury

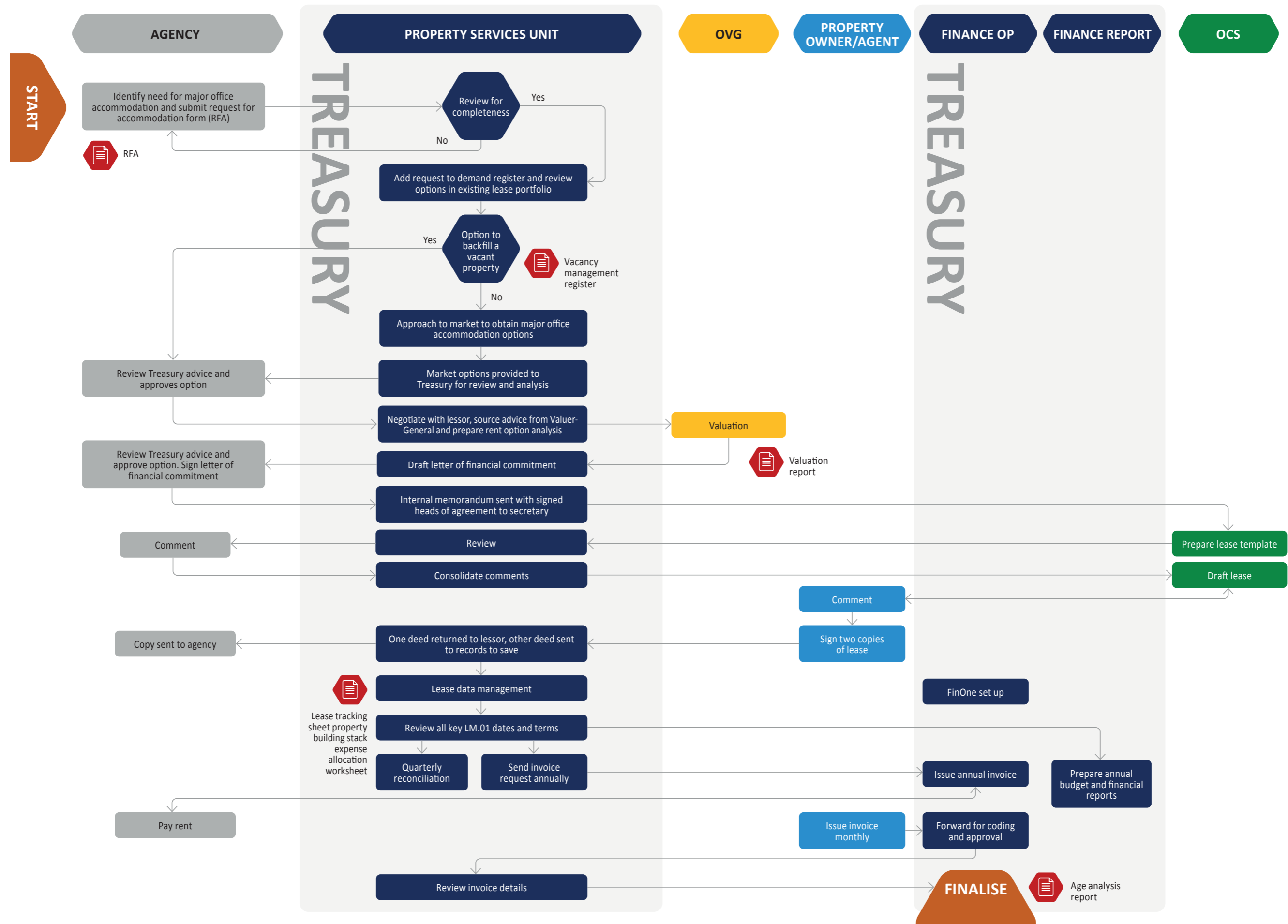
Address	Leased by
21 Kirksway Place, Battery Point	Department of Premier and Cabinet Department of Treasury and Finance Department for Education, Children and Young People Private sector tenancy

Treasury Building Complex, 21 Murray Street, Hobart	Department of Treasury and Finance Department of Premier and Cabinet Private sector tenancy
Public Buildings, 53-59 St John Street, Launceston	Department of Premier and Cabinet Department for Education, Children and Young People Department of Natural Resources and Environment Tasmania

Treasury effectively manages office accommodation relocations, terminations and disposals

- 3.15 We observed Treasury has effectively managed the limited number of accommodation relocations. This includes the identification of prospective opportunities for agencies, initiation of office fit outs due to relocation, negotiation of appropriate timelines for agencies involved, and timely communication of available spaces to matching agencies actively seeking new accommodation. However, as an end of lease premises move or the expiration of a lease that is not renewed are not considered to be relocations or terminations (but rather, new leases), we noted relocations and terminations during active leases were minimal.
- 3.16 In addition, and as noted in chapter 1, Treasury has not established a process for tracking the utilisation of office accommodation space. As a result, there have only been ad hoc examples of Treasury identifying ways to occupy space and designate agencies more efficiently to it. A more systematic approach to managing utilisation could result in an increase in mid-lease relocations.
- 3.17 For the purposes of this section, a termination refers to the cessation of a lease by a landlord. We anticipated that Treasury may have needed to manage this kind of termination over the audited five years. However, no leases were terminated. Therefore, termination processes were not able to be assessed. Treasury advised it surrendered three leases as agencies consolidated in other locations. Treasury advised these were managed in accordance with the standard leasing processes outlined above.
- 3.18 The portfolio of Crown-owned properties is small (as noted in the above section), and most premises are leased long-term. As a result, no disposals occurred within the scope of the audit. Therefore, disposal processes were not able to be assessed.

Appendix A – Summary of lease management process



Acronyms and abbreviations

AASB	Australian Accounting Standards Board
ASAE	Australian Standard on Assurance Engagements
ASQM	Australian Standard on Quality Management
CBD	Central Business District
OCS	Office of the Crown Solicitor
OVG	Office of the Valuer-General
TSS	Tasmanian State Service

Audit Mandate and Standards Applied

Mandate

Section 23 of the *Audit Act 2008* states that:

- (1) The Auditor-General may at any time carry out an examination or investigation for one or more of the following purposes:
 - (a) examining the accounting and financial management information systems of the Treasurer, a State entity or a subsidiary of a State entity to determine their effectiveness in achieving or monitoring program results;
 - (b) investigating any matter relating to the accounts of the Treasurer, a State entity or a subsidiary of a State entity;
 - (c) investigating any matter relating to public money or other money, or to public property or other property;
 - (d) examining the compliance of a State entity or a subsidiary of a State entity with written laws or its own internal policies;
 - (e) examining the efficiency, effectiveness and economy of a State entity, a number of State entities, a part of a State entity or a subsidiary of a State entity;
 - (f) examining the efficiency, effectiveness and economy with which a related entity of a State entity performs functions –
 - (i) on behalf of the State entity; or
 - (ii) in partnership or jointly with the State entity; or
 - (iii) as the delegate or agent of the State entity;
 - (g) examining the performance and exercise of the Employer's functions and powers under the *State Service Act 2000*.
- (2) Any examination or investigation carried out by the Auditor-General under subsection (1) is to be carried out in accordance with the powers of this Act

Standards Applied

Section 31 specifies that:

'The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to -

- (a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and
- (b) the Australian Auditing and Assurance Standards.'

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.



*Front cover image: Office environment
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