

The Auditor-General
Audit Report No.35 2010–11
Performance Audit

Management of the Overseas Leased Estate

Department of Foreign Affairs and Trade

Australian National Audit Office

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of Australia 2011

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Canberra ACT
30 March 2011

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Foreign Affairs and Trade in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to *Senate Standing Order 166* relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Management of the Overseas Leased Estate*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee'.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations and Glossary

A-based	Australia-based—a member of the Australian Public Service, Australian Defence Forces or other Australian Government agency who has been posted or deployed overseas in an official capacity for a fixed term.
AGPOF	Australian Government Property Ownership Framework
ANAO	Australian National Audit Office
ARO	Australian Representative Office
Attached	Australian Government agency or its staff, either A-based or LES, working in the diplomatic chancery or chancery annex.
CMD	DFAT's Corporate Management Division
Defence	Department of Defence
DFAT	Department of Foreign Affairs and Trade
DIAC	Department of Immigration and Citizenship
DOPB	Departmental Overseas Property Budget
Finance	Department of Finance and Deregulation
HOM/HOP	Head of Mission/Head of Post. The senior A-based Australian Government representative at posts.
LA Act	<i>Lands Acquisition Act 1989</i>
LES	Locally engaged staff
OH&S	Occupational health and safety
OPMG	Overseas Property Management Guide
OPMS	Overseas Property Management System

OPO	Overseas Property Office
PLV	Post Liaison Visit
Post	Recognised diplomatic or consular premises (also defined as a mission, chancery, or chancery plus annex).
Posting	A period exceeding six months for which an A-based officer is accredited to an Australian diplomatic or consular post.
PM's Directive	Prime Minister's Directive: Guidelines for the Management of the Australian Government Presence Overseas
SLA	Service Level Agreement
Sub-standard	Where office and/or residential accommodation is below the department's building, OH&S or security standards.
Unattached	Australian Government agency (and their staff) working outside the recognised diplomatic chancery or annex either in the same country or in a country to which the overseas post is diplomatically accredited.

Summary and Recommendations

Summary

Introduction

1. The effective management of overseas property is important to the successful operation of Australia's overseas representative offices (posts) and the achievement of Australian Government overseas objectives. Overseas properties facilitate the representational role of posts by projecting a positive image of Australia, enabling good working relationships between Australian agencies at posts, and providing safe and secure working and living accommodation for staff and their families.

2. The Department of Foreign Affairs and Trade (DFAT) is responsible for the management of the majority of the Australian Government's overseas estate, which comprises both owned and leased properties across 93 locations in 77 countries. The overseas estate includes 925 properties as of August 2010, of these 58 per cent are leased, while the remaining 42 per cent are owned. Of the 534 leased properties, there are 57 chanceries, 39 Head of Mission (HOM) residences, 407 staff residences and 31 other property types. DFAT's estimated annual rent for the leased estate in 2010–11 is \$53.4 million.

3. The Australian Government's approach to the overseas estate is underpinned by the principle that government's core business excludes property ownership unless it is justified in the need to support specific requirements, or where ownership delivers the best value for money outcome.¹ This allows DFAT flexibility to lease or own property depending on the particular property requirements, availability of suitable property and value for money considerations.

4. Under the Government's financial management and accountability arrangements, each agency is responsible for the funding and oversight of its leased property overseas. However, at an operational level DFAT, as the lead agency overseas, is responsible for the leasing of chanceries—including the sub-leasing to other agencies operating at posts under Memoranda of

¹ Department of Finance and Deregulation, *The Australian Government Property Ownership Framework* [Internet]. Department of Finance and Deregulation, Canberra, July 2005, available from <www.finance.gov.au/property/property/the-australian-government-property-ownership-framework.html> [accessed 11 January 2011].

Understandings (MOUs)—and residences on behalf of other agencies under service level agreements (SLAs).

5. Within DFAT, the strategic management of the leased estate is shared between the Overseas Property Office (OPO) and the Corporate Management Division (CMD), while the financial and budget management of the leased estate is the sole responsibility of CMD. The day-to-day property management responsibility is devolved to individual posts, with technical advice provided by OPO on request from posts or CMD.

Audit objective

6. The objective of the audit was to assess the effectiveness of DFAT's management of the overseas leased estate. In particular, the audit examined whether DFAT:

- (a) has effective governance, reporting and funding arrangements in place to support the sound management and oversight of the overseas leased estate;
- (b) effectively manages overseas leased chancery and residential property on a day-to-day basis; and
- (c) manages relationships with landlords and attached agencies effectively and adequately consults with stakeholders.

7. The audit focused on the management of the overseas leased estate, as a companion to ANAO Audit Report No.32 2009–10 *Management of the Overseas Owned Estate* (previous audit). The audit of the overseas owned estate included elements that are common to the leased estate, including: strategic planning; property guidance and training; management of property projects; and performance reporting.

Overall conclusion

8. Managing a leased property estate is a key task for Australian Government agencies, as property facilitates the achievement of agencies' objectives. Agencies are required to effectively match their property estates with current needs, whilst planning for future requirements and adapting to changing policy and operational requirements.

9. The Department of Foreign Affairs and Trade (DFAT) manages the majority of the Australian Government's overseas leased property estate. The diversity and geographic spread of the estate poses management challenges for

DFAT as the estate comprises multiple property types—including commercial office space, representational residences, staff residences and other facilities—spread across a global network of 93 posts in 77 countries. Additionally, DFAT is presented with different leasing requirements and standards of property at each post, along with an evolving security environment. DFAT must also consider the property needs of, and provide appropriate support to, attached agencies operating at posts.

10. Within the context of this environment, the ANAO concluded that DFAT has been largely effective in the provision of leased property overseas. The basic elements for leased office and residential property are working effectively. Lease arrangements are in place between landlords and DFAT, and these arrangements are supported by adequate assurance and funding mechanisms. Management of Australia-based (A-based) officers' overseas residences is devolved to post management, providing flexibility for each post to apply leasing strategies that best suit their local leasing environment and post needs.

11. However, the audit identified some elements of DFAT's administration where improvements would strengthen the overall management of the overseas leased estate. These elements include: the review of the governance arrangements to better support the leased estate, with the intent of more clearly delineating roles and responsibilities within DFAT; and a focus on improved long-term planning for leased chanceries to better manage lease life cycles and changes to post requirements.

12. At the time of the audit, work was underway to strengthen some of the shared management elements of the overseas estates, which were identified by a previous ANAO audit of the owned overseas estate. DFAT has identified other areas for ongoing improvement in order to strengthen its management arrangements. Together, these improvement activities will require ongoing management attention so that the desired benefits are achieved.

13. Considering the findings and recommendations from the previous audit to strengthen the management of the overseas estate, and the improvement activities underway, the ANAO made one further recommendation aimed at clarifying DFAT's governance arrangements for the overseas leased estate.

Key findings

Governance arrangements

14. The governance and management arrangements for the overseas owned and leased property estates differ. The OPO has prime responsibility for the management of the owned estate, while the leased estate is shared between OPO, CMD and post management.

15. Corporately, CMD has carriage of the leased estate funding, while OPO, in consultation with CMD, has oversight of the overseas leased estate and provides technical advice. The split in responsibility for the management oversight and funding of the leased estate largely reflects historic arrangements.

16. A consequence of the governance approach is that no single area at a functional level is accountable for the overall management of the leased estate, which limits each area in exercising its functions effectively. This has resulted in leasing policies not being updated and departmental staff, particularly at posts, not sharing a clear view of responsibility structures. Additionally, responsibility for the long-term planning of leased chanceries, which covers the planning of leased chancery refurbishment and relocation options, is unclear.

17. Elements of the current approach work well, particularly devolving management responsibility for the leasing of residences to posts. The devolved approach is effective as it allows post management to adopt leasing strategies that better meet local leasing practices and provide flexibility to meet A-based officers' particular circumstances.

Planning for future needs

18. Effective long-term planning is an important factor when managing a leased property estate over a diverse network. In particular, the long-term nature of acquiring leased chancery property means long-term planning needs to occur early so that projects are scheduled for the critical points of a tenancy.

19. The ANAO previously found that the department's strategic planning for its overseas owned estate was largely reactive in nature, focusing on projects that addressed current needs. The current audit also found weaknesses in the long-term planning and decisions for leased chanceries. Decisions about chancery refurbishment or relocation were also largely reactive rather than planned. Improving the long-term planning for the

refurbishment or relocation of leased chanceries would assist the departmental executive in making strategic decisions about the best allocation of limited resources.

20. In response to the overseas owned estate audit findings, the department has initiated actions to enhance its strategic and long-term planning approach for owned properties. This work also includes leased chanceries and HOM residences. These improvements, when fully implemented, should facilitate an improved awareness of chanceries' future needs and assist the department to better prioritise and schedule projects on an informed basis.

Summary of agency response

21. The proposed report was provided to DFAT for comment. The ANAO made one recommendation aimed at improving DFAT's management of the overseas leased estate. DFAT agreed with this recommendation.

22. DFAT's full response to the audit is at Appendix 1. A summary of the response is as follows:

The proposed report notes that DFAT has been largely effective in the provision of leased property overseas, and that the basic elements for leased office and residential property are working effectively. The report recognises the diversity and geographic spread of the estate over 77 countries poses management challenges by virtue of the multiple property types that make up the leased portfolio, including commercial office space, representational residences, staff residences, and other facilities.

DFAT welcomes the ANAO's acknowledgement that the department has initiated actions to enhance its strategic and long term planning for both owned and leased chanceries and Head of Mission and Head of Post residences. The report further acknowledges that DFAT's devolved approach to leasing residential property is effective in allowing each overseas post to adopt leasing strategies that best meet the needs of posted officers and their families, and local leasing market requirements.

DFAT considers the report's recommendation to be constructive in identifying opportunities for strengthening DFAT's existing internal governance processes and procedures.

Recommendation

Recommendation No.1

Para 2.17

To better meet current and future needs for the management of the overseas leased estate, the ANAO recommends that DFAT review the current governance arrangements for the overseas leased estate, with the intent of more clearly delineating roles and responsibilities within the department.

DFAT Response: *Agreed.*

Audit Findings and Conclusions

1. Introduction

This chapter provides an overview of the arrangements for the management of the overseas leased estate and outlines the audit objective, scope and methodology.

Background

1.1 The effective management of overseas property is important to the successful operation of Australia's overseas representative offices (posts) and the achievement of Australian Government overseas objectives. Overseas properties facilitate the representational role of posts by projecting a positive image of Australia, enabling good working relationships between Australian agencies at posts, and providing safe and secure working and living accommodation for staff and their families.

1.2 The Department of Foreign Affairs and Trade (DFAT) is responsible for managing the majority of the Australian Government's overseas estate, which comprises both owned and leased properties across 93 locations in 77 countries. The overseas estate includes 925 properties as of August 2010, of these 58 per cent are leased, while the remaining 42 per cent are owned. Of the 534 leased properties, there are 57 chanceries, 39 Head of Mission (HOM) residences, 407 staff residences and 31 other property types. DFAT's estimated annual rent for the leased estate in 2010–11 is \$53.4 million.

1.3 Within this context the management of the overseas leased estate is challenging. The properties are dispersed across a global network, where local property markets can be limited and standards vary, making sourcing properties of the required standards difficult and expensive. In addition, some posts are located in challenging and sometimes volatile security environments that require careful consideration of leasing decisions.

Overseas property framework

1.4 The Australian Government operates an overseas estate of both owned and leased properties. The decision to lease or own property is governed by a

set of property principles contained in the Australian Government Property Ownership Framework (AGPOF).²

1.5 The AGPOF states that the Government's core business excludes property ownership unless it is justified in the need to support specific requirements, or where ownership delivers the best value for money outcome.³ The AGPOF allows DFAT the flexibility to lease or own property depending on the particular property requirements and circumstances, availability of suitable property and value for money considerations.

1.6 DFAT's role as the lead agency overseas is outlined in the Prime Minister's Directive: Guidelines for the Management of the Australian Government Presence Overseas (PM's Directive).⁴ The PM's Directive sets out DFAT's responsibilities for managing the owned and leased overseas property estates to meet the Australian Government's overseas diplomatic representational requirements.

1.7 Under the Government's financial management and accountability arrangements, each agency is responsible for the funding and oversight of its leased property overseas. However, at an operational level DFAT, as the lead agency overseas, is responsible for the leasing of chanceries—including the sub-leasing to other agencies operating at posts under Memoranda of Understanding (MOUs)—and residences on behalf of other agencies under service level agreements (SLAs).

1.8 Each agency operating overseas has its own devolved property budget and portfolio of properties, leasing property from either the owned estate, or

² Department of Finance and Deregulation, *Australian Government Property Ownership Framework* [Internet]. Department of Finance and Deregulation, Canberra, July 2005, available from <www.finance.gov.au/property/property/the-australian-government-property-ownership-framework.html> [accessed 16 December 2010].

³ The AGPOF was introduced from 1 July 2005. The circumstances for when property ownership is warranted are based on one or more factors, including: symbolic, heritage or environmental requirements; specialised nature of the property; national security requirements; or it delivers better value for money.

⁴ The PM's Directive sets out the principles and responsibilities for the operation of the Australian Government's overseas operations, including: policy coordination; post management; relationships management between agencies at posts; opening and closure of posts; staff conditions of service; management of owned and leased property; management of locally engaged staff; management of A-based staff; administrative and financial management and services at posts; security; and information and communication technologies.

The PM's Directive applies to all agencies overseas and aims to promote an effective and co-ordinated approach to overseas representation, and the efficient use of public resources.

the local property market. Agencies must meet property management costs attributable to them from within their property budget.

Managing the leased estate

1.9 Within DFAT, the strategic management of the leased estate is shared between the Overseas Property Office (OPO) and the Corporate Management Division (CMD), while the financial and budget management of the leased estate is the sole responsibility of CMD.⁵ The day-to-day property management responsibility is devolved to individual posts, with technical advice provided by OPO on request from posts or CMD.

1.10 DFAT provides a range of property management, administrative and financial services to agencies at overseas posts, on a fee for service basis. These services are provided to agencies under a Service Level Agreement (SLA). The services include: assisting agencies' Australia-based (A-based) staff find leased residences; undertaking building and security inspections; signing lease documentation; paying rents; and ongoing administrative support. The services provided under the SLA differ between posts and agencies.

1.11 The management and allocation of space and provision of services in leased office accommodation (chanceries) is undertaken by DFAT as the lead agency, in consultation with relevant agencies. DFAT manages chancery leases with landlords as the head lessee, sub-leasing space to agencies at posts under MOUs.

1.12 Relationships between DFAT and other agencies at posts are governed by MOUs and the SLA. Post management primarily manages the relationships with both private and commercial landlords for all leased property at posts.

Previous ANAO audit

1.13 The ANAO has previously undertaken a performance audit of the overseas owned estate, which specifically focused on overseas properties owned by the Australian Government and managed by OPO within DFAT.

⁵ OPO is the landlord for the overseas owned estate. As landlord of the owned estate, OPO leases owned space and properties to Australian Government agencies overseas, including DFAT. OPO manages and funds its operating expenses, repairs and maintenance programs, construction projects, including new chanceries, chancery refurbishments and relocations for the owned estate through revenue generated by agency rents.

1.14 The audit, ANAO Audit Report No. 32 2009–10 *Management of the Overseas Owned Estate* (*Overseas Owned Estate* audit) was completed and tabled in the Parliament on 28 April 2010. The audit examined DFAT’s management of the overseas owned estate, in particular: the planning and oversight arrangements; day-to-day property management; repair and maintenance systems; and the information reporting and stakeholder consultation arrangements. Four recommendations were made to improve the management of the overseas owned estate, focusing on improving the: tenancy arrangements; maintenance systems; performance indicators; and to review the overseas property framework.

1.15 Although focused on the management of the owned estate, the previous audit did examine property management elements that are common to the leased estate. The common elements examined include: strategic planning; property guidance and training; management of property projects; and performance reporting.

The audit

Audit objective and scope

1.16 The objective of this audit was to assess the effectiveness of DFAT’s management of the overseas leased estate. In particular, the audit examined whether DFAT:

- (a) has effective governance, reporting and funding arrangements in place to support the sound management and oversight of the overseas leased estate;
- (b) effectively manages overseas leased chancery and residential property on a day-to-day basis; and
- (c) manages relationships with landlords and attached agencies effectively and adequately consults with stakeholders.

1.17 The audit focused on the management of the overseas leased estate, as a companion to the *Overseas Owned Estate* audit. The audit did not duplicate elements that had been addressed in the overseas owned estate audit. The audit team used evidence gathered in the previous audit that related to the leased estate.

Audit methodology

1.18 The audit fieldwork involved the examination of DFAT's processes and procedures for the leasing of property overseas and the implementation of these by posts. The ANAO undertook fieldwork at DFAT's head office in Canberra and at overseas posts. In Canberra this involved:

- (a) interviews with relevant DFAT staff from OPO and CMD;
- (b) examining and reviewing DFAT processes, procedures, documents, advice and reports; and
- (c) analysis and collection of data from OPO, other agencies and posts.

1.19 Overseas fieldwork included visiting four medium and small sized posts: the Australian Embassy in Brussels and Tel Aviv; the Australian Representative Office in Ramallah; and the Australian Consulate-General in Hong Kong (an outline of each post is shown at Appendix 2). The overseas fieldwork at each post involved:

- (a) interviews with relevant management and property staff, and a range of attached agency staff;
- (b) examination of posts' property leasing processes and procedures, including the review of related property files;
- (c) physical inspection of each chancery building, including parking, storage and other facilities; and
- (d) the inspection of leased HOM/HOP residences, and a selection of A-based staff residences at each post.

1.20 Advice and views were sought from overseas property stakeholder agencies, including the Australian Agency for International Development (AusAID), Australian Trade Commission (Austrade), Department of Defence (Defence) and Department of Immigration and Citizenship (DIAC), in Canberra and with their A-based officers at posts. Advice was sought from the Department of Finance and Deregulation on the *Lands Acquisition Act 1989* (LA Act) and Australian Government property management policies.

1.21 The audit was conducted in accordance with ANAO auditing standards at a cost of \$290 000.

2. Governance Arrangements

This chapter assesses the governance arrangements supporting DFAT's management of the overseas leased estate, including the management framework, the adequacy of funding for leased property at posts, assurance and reporting of new overseas leases and relationship management.

Introduction

2.1 Governance refers to the framework by which organisations are directed, structured, controlled and held to account. It encompasses authority, accountability, stewardship, leadership, direction and decision-making exercised in the organisation. The ANAO outlines these issues in the Australian government context in the Better Practice Guide, *Public Sector Governance*.⁶

2.2 The ANAO assessed the effectiveness of DFAT's governance arrangements for the management of the overseas leased estate. In particular, this included examining the management structure, funding mechanisms, reporting and assurance arrangements, and arrangements to manage key relationships.

Management structure

2.3 Strong governance and management structures assist transparent and effective management of organisational functions. They also support the achievement of clear objectives and facilitate transparency in agencies' operations.

2.4 The governance and management arrangements for the two overseas property estates differ. The owned estate, as outlined in the *Management of the Overseas Owned Estate* audit⁷, is managed by DFAT's Overseas Property Office (OPO). OPO was created in 2001 with prime responsibility to manage the owned estate when it was transferred from the then Department of Finance and Administration (Finance)⁸ to DFAT.

⁶ ANAO Better Practice Guide—*Public Sector Governance*, July 2003, Canberra.

⁷ ANAO Audit Report No.32 2009–10 *Management of the Overseas Owned Estate*.

⁸ The Department of Finance and Administration became the Department of Finance and Deregulation in the Administrative Arrangements Order of 3 December 2007. This report uses 'Finance' to denote both.

2.5 By contrast, the responsibility and management of the overseas leased estate has, since 2002, been shared between OPO, Corporate Management Division (CMD) and post management, as illustrated in Table 2.1.⁹

Table 2.1

Leased estate roles and responsibilities

	Strategic Management and Planning	Day-to-day Management	Funding*
Chanceries	CMD/OPO	Post/OPO	CMD
HOM Residences	CMD/OPO	Post/OPO	CMD
Staff Residences	Post	Post	Post/CMD

Source: ANAO Analysis.

Note: *Funding for chancery, HOM residence and staff residence rents is devolved to post budgets. Any supplementation, additional, or project funds need to be sought from CMD by post management.

2.6 Day-to-day management of leased chanceries, HOM and staff residences is the responsibility of DFAT post management.¹⁰ Post management has particular responsibility at posts for ‘ensuring that staff accommodation meets appropriate standards, and that tenant obligations are met and rents paid.’¹¹

2.7 CMD has overall responsibility for the leased estate funding. This includes responsibility for approving, or seeking approval from the departmental executive, for DFAT expenditure on the leased estate including new post openings, renovations, refurbishments and relocations.

2.8 OPO, in consultation with CMD, has oversight of the overseas leased estate, including providing technical property advice to posts, other areas in DFAT, and to attached agencies’ head office. OPO is also responsible for delivering most large leased chancery refurbishments and fit-outs on behalf of DFAT.

2.9 OPO and CMD are responsible for providing administrative policy—in the form of the Overseas Property Management Guide (OPMG) and

⁹ The overseas security and ICT branches of the department also have responsibilities in relation to leased property within the context of their respective specialised areas.

¹⁰ DFAT post management provides day-to-day management services for other agencies’ overseas leased property as outlined in the Service Level Agreement.

¹¹ Department of Foreign Affairs and Trade, *Annual Report 2008–2009*, p. 245.

administrative circulars—and advice to posts on the management of leased property overseas.

2.10 The ANAO considers that the overall approach of devolving the day-to-day management of leased property to posts is sound. It allows posts the flexibility to adopt differing strategic and management approaches to suit local property markets, as compared to a centralised approach that may not suit property markets in all locations.

Shared understanding of roles and responsibilities

2.11 As discussed, the overseas leased estate governance arrangements are clear at a high level. However, in situations where, as in the management of the leased estate, responsibilities are also shared between functional areas, it is important that specific roles and responsibilities are clearly understood by stakeholders. Such a shared understanding assists with consistency in the management of the leased estate and in preventing any issues from ‘falling between the cracks’.

2.12 The ANAO examined the extent to which the specific roles and responsibilities were clear and widely understood. For example, posts require adequate support if they are to be effective in performing their role. Support to posts includes administrative policy and advice on residential leasing. The ANAO observed that the leased residential policy function has no clear owner in DFAT Canberra. This is a longstanding deficiency that was highlighted in a 2007 internal review conducted on overseas private leasing arrangements.

2.13 The review noted there is no clarity about which area in Canberra is responsible for the review of overseas leasing policy. This resulted in policies being overdue for review and update. During the audit OPO advised that their role is to update the OPMG, but the content of some policies—such as the lease estate policies on funding—was the responsibility of other areas in the department. Consequently, there is no clear line of responsibility for updating DFAT’s overseas residential leasing policy and guidance, as discussed further in Chapter 3.

2.14 Furthermore, staff from OPO, CMD and posts did not share the same understanding of their roles and responsibilities for the leased estate. At times, this has caused confusion and tensions within the department about which area is responsible for different elements that support the leased estate.

2.15 A consequence of the governance approach is that no single area at a functional level is accountable for the overall management of the leased estate,

which limits each area in exercising its functions effectively. This has resulted in leasing policies not being updated and departmental staff, particularly at posts, not sharing a clear view of responsibility structures. Additionally, responsibility for the long-term planning of leased chanceries, which covers the planning of lease chancery refurbishment and relocation options, is unclear.

2.16 Overall, the ANAO considers that there would be benefit in DFAT reviewing the governance arrangements for the overseas leased estate, with a view to more clearly delineating the roles and responsibilities. While the decision is one for DFAT management to make, one potential solution would be to assign one area with overall responsibility for the overseas leased estate.

Recommendation No.1

2.17 To better meet current and future needs for the management of the overseas leased estate, the ANAO recommends that DFAT review the current governance arrangements for the overseas leased estate, with the intent of more clearly delineating roles and responsibilities within the department.

DFAT Response

2.18 DFAT agrees with this recommendation. As the proposed report notes, DFAT has already undertaken steps to review and update its guidance to posts and managers through the Overseas Property Management Guide and has initiated actions to enhance strategic and long term planning. DFAT will review its internal governance arrangements for overseas property in light of this audit, the previous performance audit of the overseas owned estate, and the outcomes of the DFAT /Finance review of the Overseas Property Office.

Funding mechanisms

2.19 The overseas leased estate is funded through annual departmental appropriations, with the funding for DFAT leased property being devolved to posts and forming part of their budget.¹² DFAT Canberra expects each post to manage their leased property commitments from within their post's budget.

2.20 There are inevitable pressures on DFAT in managing its budget for the leased estate, and in posts managing their local budgets. These pressures can

¹² Attached agencies use different funding models; some agencies devolve funds to posts while others hold the funds centrally.

arise from changes in property market rents or unexpected costs for property repairs. In the first instance post management would be expected to use the flexibility available in their post budgets to meet any additional costs, before seeking supplementation to their budget from DFAT Canberra.¹³ Ultimately, decisions about the allocation of post funding to property can impact on the standard of properties leased and on expenditure for other operations at the post.¹⁴

2.21 Consequently, there is a need for post management and DFAT Canberra to monitor and evaluate posts' property funding needs and to have in place mechanisms to support management in making decisions about adjustments to funding allocations for posts.

2.22 Against this background, the ANAO reviewed the:

- trends and factors influencing rent expenditure over time;
- processes to review funding for posts' leased property costs; and
- the impact of the efficiency dividend on overseas leased property.

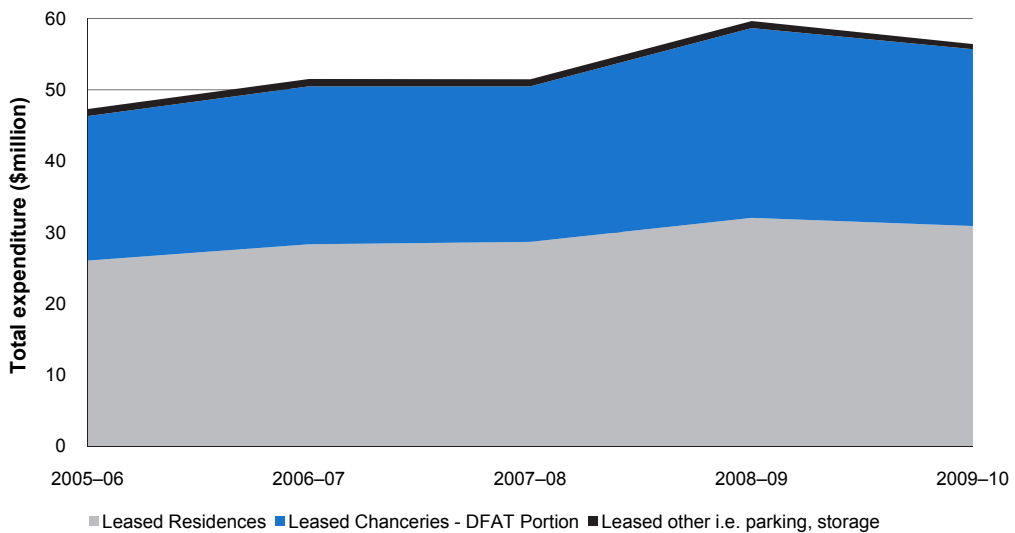
Trends in leased property expenditure

2.23 DFAT's overseas rental expenditure for 2009–10 was \$56.4 million. Over the previous five years (since 2005–06) it has increased by \$9.1 million (as shown in Figure 2.1).¹⁵

¹³ Posts have flexibility to adjust the allocation of funds within their budgets to meet changing priorities at the post.

¹⁴ The standard of property leased to accommodation A-based officers must meet OH&S, security and building safety requirements.

¹⁵ DFAT's overseas leased property costs are paid in local currency at posts. This complicates the actual expenditure due to foreign exchange fluctuations, therefore comparisons between years should be treated with caution.

Figure 2.1**DFAT overseas leased property rent expenditure**

Source: ANAO analysis of DFAT data.

2.24 The increase noted above generally reflects the increase in property markets over this period. However, the diversity of Australia's overseas diplomatic network means that the property markets in these locations cannot be generalised, as one market may increase while another decreases.

2.25 The ANAO reviewed commercially compiled data on average commercial office occupancy costs from May 2009 to May 2010 in 56 cities out of the 93 locations where Australian posts are located (shown at Appendix 3).¹⁶ Analysis of the data showed that around 50 per cent of these locations experienced an increase in commercial office costs while the other 50 per cent had a decrease in cost, resulting in an average 0.4 per cent increase across the 56 locations in 12 months. Changes to costs varied considerably between locations, from a 33 per cent increase recorded in Seoul, to a decrease of 30 per cent in Ho Chi Minh City. Variations of 15 to 40 per cent were recorded for a quarter of the 56 locations over the past 12 months. The variations in cost

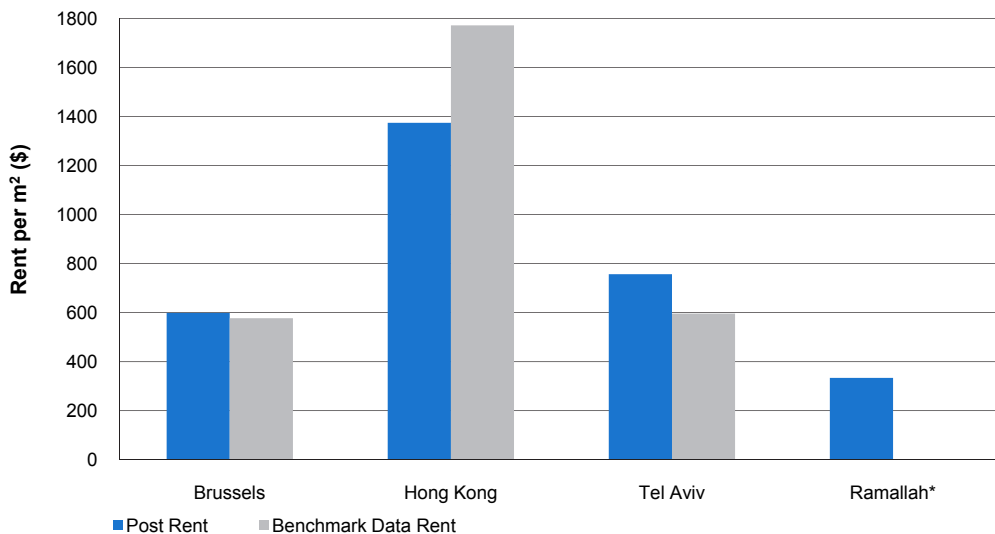
¹⁶ CB Richard Ellis, *Global Office Rents*, May 2010. Commercial comparative data was not available for all cities where the Australian Government operates a post. The 56 cities included posts where the chancery property is owned. It also includes nine cities where Austrade operates the post. Data for Canberra is included for comparative purposes.

increases illustrate the volatility of the commercial property markets within which posts operate.

2.26 The data also shows that commercial office costs (per square metre per annum) vary considerably from \$262 (AUD) in Lima to \$1785 (AUD) in Hong Kong. The ANAO compared the occupancy cost data for the four posts visited—Brussels, Hong Kong, Tel Aviv and Ramallah—against the commercial data of average occupancy costs, as shown at Figure 2.2.

Figure 2.2

Comparison of posts’ rent per square metre per annum



Source: ANAO analysis. Comparison data: CB Richard Ellis, *Global Office Rents*, May 2010.

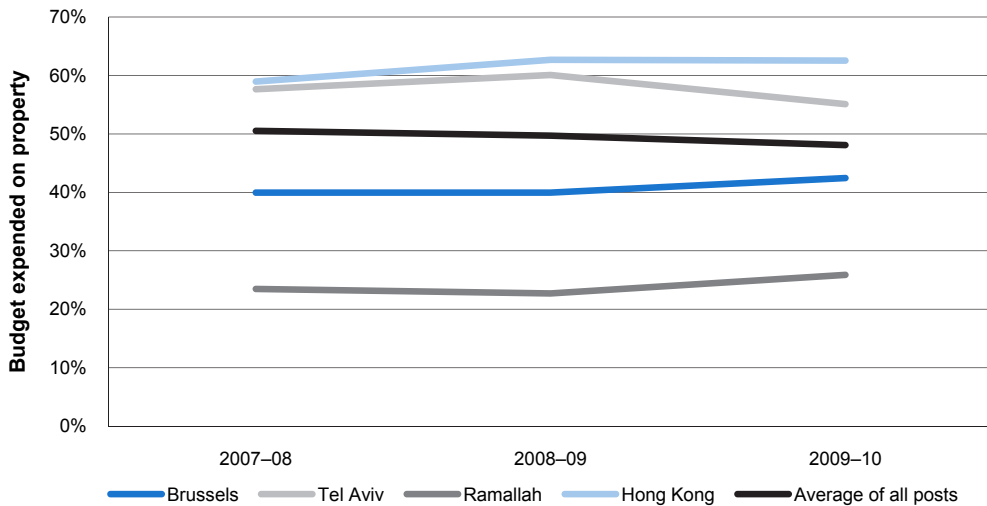
Note: *No comparison data was available for Ramallah.

2.27 The above graph shows that the cost per square metre per annum in Brussels is consistent with the comparative data. Post rent in Tel Aviv is 20 per cent higher than the comparative data, which is most likely due to the new high-grade building that the chancery occupied in August 2008. The Hong Kong post’s rent is lower than the comparative data, supporting post management’s view that the current chancery rent is below current market rates.

2.28 ANAO analysis shows that property expenses are generally a post’s single biggest expense.¹⁷ For example, across all posts the average percentage of post budget spent on property was around 50 per cent; while for the four posts visited, the figures ranged from 60 per cent (Hong Kong and Tel Aviv) and 40 per cent (Brussels) to a low of 25 per cent at Ramallah—a very small post. Figure 2.3 below compares trends in the four posts’ budgets being expended on property.

Figure 2.3

Percentage of post-controlled budget expended on property



Source: ANAO analysis of DFAT financial data.

2.29 While leases provide some certainty to posts in terms of their rental commitments for the life of the lease, the volatility of local property markets impacts on post budgets when leases are being negotiated or renewed.¹⁸

2.30 Consequently, changes to a post’s leased property costs will have a substantial impact on the post’s overall budget. On this basis, it is important that post management and DFAT Canberra continue to monitor and evaluate

¹⁷ Posts’ budgets do not include some operating costs, like A-based salaries and other one-off costs, which are controlled centrally and therefore do not represent the entire cost of running the post. The data reviewed by the ANAO represents the budget as it is controlled at post.

¹⁸ Leases can include rental increases and rental reviews at predetermined points, depending on local requirements and standard commercial practices. These practices can differ between commercial and residential property.

posts' property funding needs in order to support the departmental executive in making decisions about adjustments to post funding allocations.

Funding reviews and supplementation

2.31 The department undertakes an annual budget allocation review (BAR) process that allows posts to review the suitability of their annual operating budget and seek funding adjustment either as a one-off or on a permanent basis.¹⁹

2.32 The review process also provides an opportunity for each post to review its proposed capital investment needs for the coming years. Through this second mechanism, the Capital Management Plan (CMP), posts may seek one-off capital funds for specific projects and asset replacement.

2.33 Three specialised subset funding pools support the CMP, each involving separate processes. These include:

- Departmental Overseas Property Budget (DOPB) bids;
- Post Physical Security Capital Purchase bids; and
- ICT Capital Project bids.

2.34 Each of these funding bids is reviewed by the relevant DFAT business unit. The business units provide subject matter expertise and quality assurance on post funding bids and this advice leads to a more informed assessment and prioritisation by the departmental executive. In the case of the DOPB, OPO provides property expertise and quality assurance advice on posts' property funding bids.²⁰

2.35 Both the BAR and CMP processes occur annually in May/June with a mid-year review in October/November that is coordinated by the Finance Management Branch (FMB) and considered by the departmental executive. All bids considered by DFAT business units and departmental executive must be supported by a strong business case which clearly demonstrates the essential need for the funding.

¹⁹ Posts can also seek adjustments to A-based officer levels through this process.

²⁰ DOPB is for property-related expenditure over \$20 000. All bids below this amount are submitted through the normal CMP bid.

2.36 Discussions with post management at the four posts visited indicated that the BAR and CMP were effective mechanisms for posts to seek additional funds or adjustment to operating budgets for leased property. One post visited had submitted a successful property-related BAR bid at the time of audit fieldwork, while another post had submitted a successful DOPB bid, as outlined below.

Case Studies

Funds to improve standard of residences—BAR bid

An OPO inspection in 2009 revealed that two residences in Tel Aviv were sub-standard. The post had noted that the local rental market had increased in recent years and the post property budget was not sufficient to meet the increased costs of more suitable accommodation. The OPO inspection report noted that:

the accommodation is not comparable to other posts and suggested to the post it needs to prepare a case for supplementation of their property budget to provide available and suitable standard of staff residential accommodation in Tel Aviv.

At the time of audit fieldwork, the post had sought and leased alternative residences of a suitable standard. It had submitted a funding supplementation bid through the BAR process to meet the additional cost of more suitable residences. The funding supplementation bid was approved.

In this case the post management felt it had a much stronger case submitting a bid to request additional funding to cover the increased residences costs, based on the OPO inspection report.

Office expansion—DOPB bid

At the time of audit fieldwork, the Australian Representative Office (ARO) in Ramallah was operating at full capacity with original staff numbers of four full-time equivalent (FTE) having increased to six and a half FTE. This had resulted in staff working in cramped and unsatisfactory conditions and the post being unable to accommodate visiting delegations.

To address the space limitations in the chancery, the post proposed to expand the chancery through the conversion of a section of the terrace into office space. This proposal was outlined in a DOPB bid business case, which was subsequently recommended by OPO and approved by the DFAT departmental executive.

2.37 While these cases illustrate successful BAR and CMP outcomes, a 2009 ANAO survey of DFAT posts highlighted that the current supplementation process can lack timeliness for posts when unexpected circumstances arise. For example, DFAT may approve an additional bid for funds in an emergency situation, but the BAR and CMP process can take months, which often means that posts have to pay for the works ahead of receiving additional funds. DFAT advised that genuine emergency situations can be addressed either by posts submitting funding requests supported by a business case or by formal safety net mechanisms, like the Central Contingency Fund, both of which can be activated quickly.

2.38 Overall, the ANAO found that funding for leased property at the four posts was adequate, in the context of DFAT's resource constraints. DFAT has effective periodic mechanisms in place for posts to seek additional funds to meet increases in their leased property costs, either as ongoing adjustments or for one-off capital projects.

Reporting and assurance arrangements

2.39 Effective reporting and assurance activities support an organisation's governance arrangements by assisting in meeting legislative requirements, and by providing for accountability and openness.²¹

2.40 The ANAO examined DFAT's compliance with legislative requirements through the reporting of overseas leases and arrangements to provide assurance that overseas residential leases provide value for money and are of a suitable standard.

Meeting legislative obligations

2.41 The Minister for Finance and Deregulation administers the *Lands Acquisition Act 1989* (LA Act), which covers Australian Government interests in property overseas, including leased property. The LA Act requires that the Minister approve the acquisition—including leases—of any property and is required to report overseas leased property to Parliament.

2.42 In practice, the approval powers for the acquisition of overseas leased office and residential property has been delegated to agencies by the Minister. In the case of DFAT, the LA Act delegation for leased office accommodation is held in Canberra, while the delegations for residential leases have been devolved to the Ambassador, Consul-General, High Commissioner, and/or the Chief Account Officer at post.

2.43 ANAO audit fieldwork at the four posts visited found that the posts had met the requirement for the LA Act delegate to appropriately authorise the residential lease acquisitions.

2.44 However, the ANAO also noted that the guidance in the OPMG on the LA Act approval and reporting process was unclear for residential leases. For example, it was not clear when and in what circumstances an *Application for*

²¹ ANAO Better Practice Guide—*Public Sector Governance*, July 2003, Canberra.

Authorisation of Property Leasing Proposal form was required to be completed by posts.

2.45 The ANAO considers that assurances about the understanding of LA Act requirements by posts would be enhanced by the preparation and use of consistent and clear guidance. The ANAO discusses residential property guidance in the OPMG further in Chapter 3.

Reporting new overseas leases

2.46 Agencies are required under the LA Act to report all new or renewed overseas leases to Finance for tabling in Parliament. As such, it is important that the information reported is both accurate and presented in a way that provides useful insights into the overseas leased estate.

2.47 DFAT posts report leases to OPO when a lease is signed. OPO then acts as a clearing house for all agencies at DFAT managed posts by collating and forwarding new leases from posts to Finance on a monthly basis.²² Finance reports the information from DFAT and other agencies to Parliament within 15 sitting days after the acquisition takes place in a LA Act Tabling Report.²³ A sample of the information included in the report for each lease is at Table 2.2.

Table 2.2

Sample of LA Act Tabling Report submitted to Parliament

Country	City	Description	Price per annum	Leasing agency	Date authorised
Vietnam	Hanoi	New lease for 12 months over staff accommodation located in Hanoi	\$80 118	DFAT	23/10/09

Source: Department of Finance and Deregulation, May 2010.

2.48 The information contained in the Tabling Report is limited. However, analysis of the May 2010 LA Act Tabling Report, covering authorised leases from 5 August 2009 to 3 May 2010, shows that 95 per cent of the 201 reported leases were for A-based officer residences, with the remaining five per cent being office accommodation, a HOM residence, parking space and

²² Under the Service Level Agreement (SLA) with attached agencies, post management reports other agencies' leases where the post has provided property services.

²³ Austrade reports their new leases separately to Finance. Finance noted that attached agencies will occasionally report new leases, resulting in some duplication where DFAT posts have reported the same leases.

warehousing. DFAT made up 37 per cent of the reported new leases, with Defence, AusAID, Austrade, Australian Federal Police (AFP) and DIAC making up the remaining bulk of new leases.

2.49 Overall, new and renewed overseas residential leases at posts are being reported to Finance, which is responsible for reporting to Parliament under the LA Act.

Assurance arrangements for overseas residential leases

2.50 Efficient, effective and ethical use of public resources is an important element of government administration.²⁴ It encompasses the assessment of an agency's spending proposals to ascertain confidence that the proposal represents value for money for the Australian Government.

2.51 Given that the day-to-day management of leased property is devolved to post management, it is important DFAT has mechanisms in place to assure itself that the leased residences at posts represent value for money. Additionally, assurance mechanisms can make sure leased residences are of a suitable building, OH&S, security and functional standard for A-based officers and their families.

2.52 The ANAO assessed the effectiveness of DFAT's assurance arrangements. The assessment found that post management and DFAT head office employed a range of informal and formal assurance mechanisms in relation to value for money and appropriateness of residences. These mechanisms include:

- post management conducting surveys of 'friendly' country posts leased property—two of the posts visited indicated that they had informally undertaken a survey of 'friendly' posts leased property to use for benchmarking;
- OPO Estate Manager visits to posts²⁵—OPO estate managers undertake a program of visits to posts. These visits include a review of leased properties, including the inspection of staff residences and highlighting any potential issues;

²⁴ *Financial Management and Accountability Act 1997*, s. 44.

²⁵ At the time of the audit OPO had four Estate Managers divided into four groups: South East Asia; North Asia, Middle East and South America; North America, Pacific and South Asia; and Europe and Africa.

- posts seeking budget increases to fund increased rents are subject to a central bidding process, which requires a sound rationale and the submission business case to support any funding increase (as discussed in the prior funding arrangements section); and
- Post Liaison Visits (described below).

Post Liaison Visits

Post Liaison Visits (PLVs) are undertaken by senior DFAT executives to a selection of posts each year. The visits are a comprehensive review of the posts' policy and corporate operations and cover a range of issues at posts, including inspection of the chancery, residential properties and meeting with A-based officers.

PLV reports include action items to address issues identified during the visit. This is a useful assurance mechanism for the department and allows posts and A-based officers to raise issues, including property issues, with DFAT departmental executive.

2.53 Both post management and DFAT head office indicated that the above mechanisms provided sufficient assurance over the leasing of residential accommodation. The ANAO observed that, on occasions, there would be potential benefit in DFAT using commercially compiled data on leased property costs at posts. For example, such data could be used to assess post bids for additional property funding and verify changes in property rental costs at a particular post.²⁶

2.54 Overall, the ANAO considers that DFAT has mechanisms in place to provide assurance that overseas leased residences represent value for money and they are of a suitable standard.

Relationship management

2.55 A recent focus of the Australian Government has been on agencies operating more effectively across traditional organisational boundaries by working collaboratively to implement whole-of-government policies, sharing of information and in the delivery of services.

2.56 In many cases agencies work together successfully on an informal basis, however formal written agreements are frequently used to facilitate productive

²⁶ DFAT has access to a commercial provider of information and data on the assignment of employees overseas. DFAT uses this data to calculate Overseas Living Allowances, but does not use the data for any leased property benchmarking. The provider does produce location-specific accommodation reports that include details of preferred expatriate and diplomatic suburbs in cities and the corresponding rental range.

cross-agency relationships by establishing and clarifying the way in which agencies will work together. The ANAO examined these issues in the ANAO Audit Report No.41 2009–10 *Effective Cross-Agency Agreements*.²⁷

2.57 In relation to the overseas leased estate, the Australian Government has outlined the whole-of-government approach in the PM's Directive. The PM's Directive outlines the principles, which apply to all government agencies overseas, to promote an effective and coordinated approach to overseas representation.

2.58 Under the PM's Directive DFAT is recognised as the lead agency overseas, and as such it provides services on a user-pays basis to agencies with overseas representational operations.

Service Level Agreement

2.59 The services provided to agencies overseas by DFAT are formalised and outlined in a Service Level Agreement (SLA) with agencies, which sets out DFAT's and agency obligations, services to be provided and agreed delivery standards.²⁸ Services provided under the SLA include human resources, financial services and property management services at posts managed by DFAT.

2.60 DFAT has reported that feedback throughout the 2008–09 year from SLA agencies was positive. Feedback from attached agencies during the audit fieldwork²⁹ also noted that those agencies were generally satisfied with the provision of property services to their A-based officers at posts.³⁰ However, all agencies indicated to the ANAO that the level of service provided varied between posts, with some posts providing excellent services, while other posts showed room for improvement.

²⁷ ANAO Audit Report No.41 2009–10 *Effective Cross-Agency Agreements*, p. 29.

²⁸ Austrade's SLA arrangements with DFAT are unique, as it includes provision of 'essential services' only at 36 posts where Austrade employ its own support staff. Essential services do not include property, finance or HR services. Full management services are provided at the remaining posts with an Austrade presence.

²⁹ As part of fieldwork the ANAO met with relevant property sections in AusAID, Austrade, DIAC and Defence.

³⁰ Some pressing issues were identified by agencies at particular posts. An example is Port Moresby, where the majority of residential property is owned, but due to increasing agency A-based numbers (both attached and unattached), agencies are needing to seek leased residential property from the limited and expensive property market, which is presenting issues.

2.61 OPO and post management acknowledged that the services, including property services, provided under the SLA did vary between posts, largely due to resource and staff limitations at some posts. Awareness of property policies by post management was also raised as a concern by agencies, which in some cases led to agency compliance problems—such as compliance of pool fences with appropriate standards—when entering overseas residential leases. During a May 2010 agency forum, OPO requested that agencies report these issues to the estate management section in OPO, who would work with post management to address any issues identified by attached agencies.

2.62 The current SLA with agencies is in its final year and, as such, DFAT advised that it will be undertaking a review of the existing SLA in consultation with agencies. The review will inform the development of a new SLA, which is expected to take effect from July 2011.

2.63 The development of the new SLA provides an opportunity for DFAT to formally consult with agencies on the provision of property services to attached agency A-based staff at posts. Consultation with agencies should seek to address existing concerns and improve the property-related service arrangements under the SLA.

3. Leased Property Management

This chapter assesses the arrangements in place to manage leased chanceries and residential property on a day-to-day basis, including chancery relocations and residential accommodation standards.

Leased chanceries

3.1 DFAT leases commercially available office accommodation to use as a chancery in order to support the overseas diplomatic network where no chancery property is owned. Leased property types include free-standing buildings, compounds and, most commonly, level(s) in high-rise office buildings.

3.2 On the 30 June 2010, 55 commercial properties were leased for use as chanceries, while a further three properties were leased as chancery annexes. The Australian Government paid \$42.3 million rent for these properties, with DFAT paying the largest share among attached agencies (\$29.4 million).

3.3 Leasing commercial property provides DFAT with flexibility to match the needs of the post and to change property in the future when post requirements or size profile have changed. Given the cost of establishing a chancery, due to specialised fit-out costs, a 15 to 30-year outlook is generally applied when leasing chancery property.

Future leased chancery planning

3.4 Effective long-term planning is critical when managing a leased property estate over a diverse network. It allows an organisation to be alert to future important dates and projects, enabling it to more effectively plan, prioritise, allocate resources and make informed decisions. The long-term nature of acquiring leased property means long-term planning needs to occur to ensure funding and projects are scheduled at the significant life cycle points of property.

3.5 The ANAO has previously found that OPO's strategic planning approach for its overseas owned estate was largely reactive in nature, focusing on projects that addressed current needs.³¹ The risk of such an approach was that crucial review points and projects for chanceries would not be addressed

³¹ ANAO Audit Report No.32 2009–10 *Management of the Overseas Owned Estate*, pp. 33–35.

until they became urgent. Further negative impacts can be delays in projects or insufficient planning that inhibits informed decision-making.

3.6 The current audit identified similar shortcomings in relation to the leased estate. For example, one the chanceries visited by the audit team had not been included in DFAT's long-term planning for refurbishment. This example, below, highlights the effect of a post not being included in long-term planning, as the departmental executive had not been in a position to consider or prioritise the needs of this post against other required works or funding.

Case Study

Brussels Chancery

The chancery in Brussels has been in the same building for 25 years, since it was occupied in May 1986. In 2006 the lease was renewed for a period from January 2007 to December 2012. The chancery has not been refurbished or reconfigured since it was established in the current building.³² The ANAO noted that the standard of presentation was lower than the other three chanceries inspected, particularly in its role representing the Australian Government to Belgium, Luxembourg, the European Union and NATO.

Staff at the post all raised the current presentation of the chancery as an issue, with some staff reporting that they preferred not to hold meetings at the chancery due to its dated presentation. The ANAO inspection of the chancery confirmed that the chancery's presentation was dated. Furniture and fittings throughout the chancery were also not consistent.

The ANAO found that a 15-year refurbishment or reconfiguration was not undertaken when it was due in 2000, and was not on any DFAT plan, until May 2010. OPO annual reporting to the DFAT executive on the chancery indicated that the condition of the chancery was 'fair to good' in the 2002 and 2003 reports, changing to 'good' in 2004, then to 'very good' in 2006 through to the 2009 report. DFAT was not able to advise why the condition of the chancery was upgraded from 'fair/good' to 'very good' from 2002, especially as the chancery condition would have deteriorated over those eight years (no refurbishments were undertaken in that time).³³

The 2002 report also noted in the chancery outlook that:

There have been concerns expressed by the post about the location and presentation of the current chancery which will be addressed closer to lease expiry although security considerations may have to take priority.

However, this outlook note was dropped from the 2006 report onwards when the condition rating was changed to 'very good'.

Planning options to relocate the chancery were to be examined in 2006–07. DFAT was not able to advise on the details of this examination, but the chancery was not relocated or refurbished. Rather, the lease was renewed for a further five years in 2007.

Due to external circumstances, the landlord advised post management in April 2010 that the lease with the Australian Government will not be renewed when it expires in December 2012. This external decision has required DFAT to examine relocation options for the Brussels post.

³² In 2004–05, \$20 000 was allocated to the post to install an internal staircase to allow improved internal circulation of staff between the fifth, sixth and seventh floors of the chancery.

³³ The Overseas Owned Estate audit also identified instances where condition ratings for owned properties were reported as 'very good' while available information indicated properties did not reflect this.

3.7 At the time of the overseas owned estate audit, OPO had commenced work on a 20-year long-term plan to forecast major owned and leased projects. The 20-year plan better matches the 10 and 15-year life cycles of leased chanceries rather than the five-year planning that had previously been prepared. The ANAO considers that when fully implemented, the 20-year plan will facilitate an improved awareness of forward projects for all chanceries. This will assist the departmental executive in making strategic decisions about the priority and allocation of limited resources for leased chancery refurbishment and relocation projects.

Chancery head and sub-lease arrangements

3.8 In accordance with the PM's Directive, DFAT is the lead agency at the majority of posts and consequently manages the 'head' leases for all chanceries, including negotiating and liaising with the landlords.³⁴ Lease agreements with chancery landlords should set out the terms and conditions of the agreement, including the let area, rental rate and other service charges, along with outlining the obligations of each party for issues such as building maintenance.

3.9 Space in leased chanceries is then sub-leased by DFAT to attached agencies at the post. The sub-lease arrangements are formalised between DFAT and attached agencies through Memoranda of Understanding (MOUs). This approach is much like the arrangements for the overseas owned estate. DFAT sub-leased space in leased chanceries to 14 other agencies in 2009–10. Payment of chancery rents and contributions from sub-leased agencies is undertaken at posts.

3.10 Each post visited by the ANAO had in place a current commercial 'head' lease agreement between the Australian Government and the landlord. The ANAO did not assess the legal aspects of each lease, but observed each lease was based on a standard local commercial lease. DFAT advised that it reviewed chancery lease agreements prior to signing at the post and in Canberra. Post management at each post visited by the ANAO reported that the relationship with their respective landlords was productive.

³⁴ DFAT acts as the head lessee for the Australian Government at DFAT-managed posts. Austrade is the head lessee for their 17 Austrade-managed posts.

3.11 As at 4 November 2010, eight of the 13 chancery sub-leases at the four posts visited by the ANAO remained unsigned. DFAT advised that some of the delays arose from issues between agencies, and from agency delays in signing new sub-leases. Another case was due to a dispute over the division of shared space at one of the chanceries. This issue has since been resolved, but the sub-lease had still not been signed by the agency at the time of preparing this report.

3.12 The ANAO's findings on sub-leases at the posts are consistent with previous audit findings, which identified a high number of expired lease agreements for owned chanceries.³⁵ As found in the owned estate audit, tenant agencies in the leased chanceries continued to pay rent even where no current sub-lease agreement was in place.

3.13 The ANAO is aware that agency space allocations change at posts and updated sub-lease agreements can only be issued once these changes are confirmed and reported to DFAT and attached agencies in Canberra by their respective representatives at posts.

3.14 The ANAO recognises that DFAT has limited enforcement powers where sub-lease agreements remain unsigned for extended periods. However, efforts should be made by senior management in DFAT and attached agencies so that outstanding chancery sub-lease agreements are agreed and signed promptly. DFAT should seek to escalate outstanding issues with agencies, until agreement is reached.

Excess space

3.15 As the head lessee, DFAT is responsible for all leased space for chanceries, including any excess space. In many cases, commercial landlords will only lease whole floors or a commercially viable section of a building to DFAT. This makes it difficult for DFAT to lease the exact area it requires.³⁶ Excess space can also result from attached agencies withdrawing from a post or reducing their space requirements when their sub-lease agreement expires.³⁷

³⁵ ANAO Audit Report No.32 2009–10 *Management of the Overseas Owned Estate*, p. 47.

³⁶ Landlords may only offer a specific space, such as a whole or half a floor or an entire free-standing building, which may be larger than actually required.

³⁷ DFAT advised that landlords often refuse to let DFAT relinquish any excess space as generally that space is considered to not be commercially viable for the landlord to re-let due its size, location and amenity.

3.16 As noted in the *Overseas Owned Estate* audit, DFAT cannot sub-lease excess space to commercial tenants easily for security reasons, and DFAT further advised that the *Vienna Convention on Diplomatic Relations 1961* prevents diplomatic property from being used for commercial purposes. Unlike the owned estate, where excess space is absorbed by the Owned Estate special account, DFAT must absorb the cost of excess leased space into its budget.

Securing chancery documentation

3.17 It is important that the Australian Government secure sensitive information on overseas posts. Access to chancery documentation should be limited through suitable security classification and application of the ‘need to know’ principle.

3.18 The ANAO observed cases where chancery lease and building documentation, including building floor plans and layouts, generally did not carry a security classification, or were marked as ‘Unclassified’ at posts and in Canberra.

3.19 DFAT advised that chancery floor plans are not initially classified as the plans do not identify various areas of the chancery. These floor plans are provided to third parties when undertaking fit-outs and refurbishment works. Once floor plans identify sensitive areas, or the allocation of offices, the plans are then classified ‘Security-in-Confidence’.

3.20 However, the ANAO observed that the unclassified floor plans obtained during fieldwork provide sufficient detail to identify some of these features with a reasonable degree of certainty. Although most information on chancery leases is of a commercial in-confidence nature, some information in chancery floor plans and layouts could be considered sensitive in nature, thus warranting greater protection.

3.21 In response to the audit, DFAT advised that it was reviewing the current procedures for the classification, storage and access to chancery building plans.

Leased residences

3.22 The provision of appropriate residential accommodation for A-based officers and their families overseas is an important element of posting staff overseas. Residential accommodation should meet appropriate standards and be functional for the posts’ and A-based officers’ needs.

3.23 Negative residential experiences for A-based officers can impact on the effectiveness of officers during their posting. DFAT emphasised the importance of A-based officers' welfare in relation to property in the 2008–09 annual report, which states 'Staff welfare is an important aspect of managing the overseas estate'.³⁸

3.24 It is the responsibility of post management to provide or facilitate the provision of suitable residential accommodation for A-based officers and their families on arrival at a post. In most cases, A-based officers are provided with accommodation, whereby:

- the incoming A-based officer occupies their predecessor's residence, either:
 - where the lease is continuing (this generally occurs at posts where leases are longer than the standard posting of three years); or
 - where the residence is suitable and the existing lease is renewed; or
- the incoming A-based officer and the post select, within the guidelines and budget, their own leased residence for the duration of their posting. This approach occurs more often at posts where lease terms match the posting duration.

3.25 Post management is expected to adopt a commercial approach to residential property management, which includes furniture and fittings procurement, arranging necessary repairs and maintenance, and leasing arrangements. In addition, posts are required to manage their leased property commitments within their devolved budgets.

3.26 The provision of residential accommodation to meet differing A-based officers' needs and family compositions can be a challenging task that, from time to time, will require compromises. For example, there will be cases where, due to circumstance, A-based officers will be allocated residential

³⁸ Department of Foreign Affairs and Trade, *Annual Report 2008–09*, p. 245.

accommodation that may not entirely meet their preferences or they 'inherit' accommodation that exceeds their needs.³⁹

3.27 Clearly, some posts will be in a stronger position to manage these factors due to the local leasing practises and due to the composition and size of the post.⁴⁰

Overview of the residential leased estate

3.28 In locations where no appropriate owned residential accommodation is available, residences are leased for HOMs/HOPs and A-based officers.⁴¹ A-based officers leased residences make up the largest property type (by number) in the overseas leased estate.

3.29 Unlike leased chanceries and HOM/HOP residences, which are predominately leased by DFAT, residential property is leased by all agencies with A-based officers posted overseas where no owned residences are available.

3.30 DFAT maintains a central record of all DFAT overseas leases in the Overseas Property Management System (OPMS), including generic lease details and other property particulars. However, DFAT does not maintain a central record of attached agencies' overseas leases, as this is the responsibility of each agency.

3.31 Fieldwork at the four posts confirmed that DFAT post management maintains up-to-date records of leased residential property details for all agencies at the post.

3.32 In order to quantify the overseas leased residential estate at DFAT and Austrade managed posts, the ANAO requested that posts provide details of all

³⁹ For example, it is common for A-based officers to occupy their predecessor's residence; this may result in a single A-based officer occupying a four-bedroom house, which previously accommodated an A-based officer and his or her family.

⁴⁰ Posts with large A-based officer numbers have more flexibility as they have more A-based officers departing and arriving and more property stock to match to incoming A-based officers.

⁴¹ Where there is available owned residential accommodation, it is used before leased accommodation is sought.

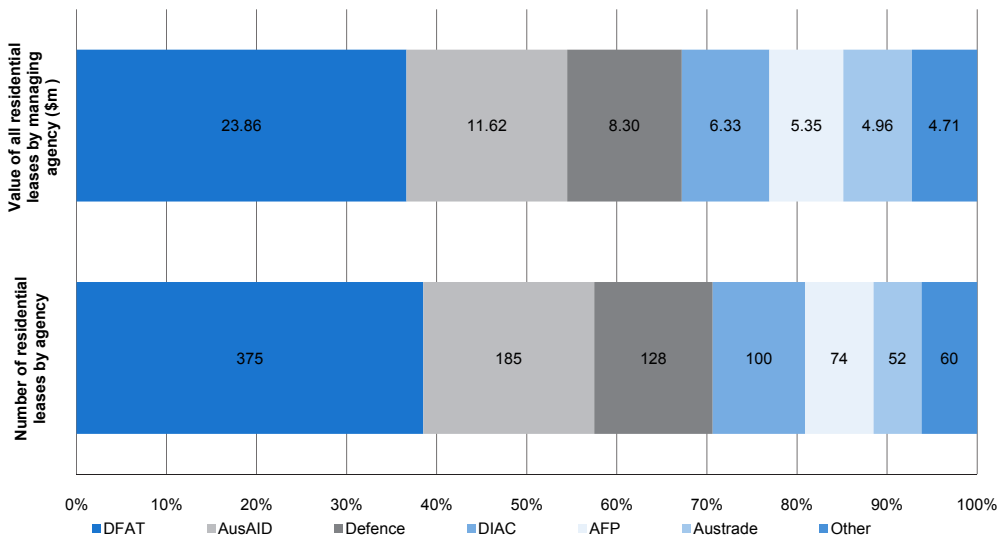
leased property at each post as at 30 June 2010, including attached agency properties.⁴²

3.33 This data showed that DFAT, with the most A-based staff posted overseas, leased 38 per cent (375) of a total of 974 residences.⁴³ AusAID leased 19 per cent, Defence 13 per cent, and DIAC 10 per cent, AFP 8 per cent and Austrade 5 per cent, while 11 other agencies leased the remaining 6 per cent of residential properties overseas.⁴⁴ The other agencies had between one to 12 overseas leased residences.

3.34 The distribution of the overseas leased residential estate between agencies is shown at Figure 3.1, along with annual rent for each agency.

Figure 3.1

Number and value of overseas residential leases for agencies



Source: ANAO analysis of data sourced from DFAT and Austrade posts as at 30 June 2010.

⁴² The data only includes property leased at DFAT and Austrade overseas diplomatic missions. The data does not include agency staff posted overseas who are not attached to an Australian diplomatic mission. For example, Defence leases a substantial portfolio of residential property overseas, which was not within the scope of this audit.

⁴³ DFAT and Austrade HOM/HOP residences are excluded from these figures.

⁴⁴ This includes: Australian Customs and Border Protection Service; Attorney-General's Department; Department of Agriculture, Fisheries and Forestry; Department of Infrastructure and Transport; Department of Education, Employment and Workplace Relations; Treasury; Department of Climate Change and Energy Efficiency; Department of Innovation, Industry, Science and Research; the Office of National Assessments; the Australian Nuclear Science and Technology Organisation; and Department of Resources, Energy and Tourism.

Comparison between agencies

3.35 While DFAT provides leased property management services and advice to other agencies overseas as outlined in the SLA, overall responsibility for assessing and approving overseas residential leases rests with each agency leasing property overseas, as required by the FMA Act.

3.36 DFAT has assessed and approved the leases for 375 overseas leased residences, which accounts for 38 per cent of the total. The remaining 599 (62 per cent) leased residences overseas are separately assessed and approved by the attached agencies.⁴⁵

3.37 The ANAO compared overseas lease costs between agencies, based on the data collected from posts, to examine trends and differences in overseas residential leasing.

3.38 This analysis showed that the average annual value of residential leases between the four largest leasing agencies—DFAT, AusAID, Defence and DIAC—was consistent from \$62 816 to \$64 890 (Table 3.1).⁴⁶ The analysis showed that residential lease costs for the AFP and other smaller leasing agencies were about 15 per cent higher, while Austrade is spending the most per residential lease, with an average lease value of \$95 421 annually. However, this profile reflects the fact that some agencies—like Austrade—have smaller numbers of officers posted overseas at higher cost locations and tend to post more senior officers, resulting in higher average rents.

⁴⁵ DFAT provides property services to agencies at posts under the SLA on a fee for service basis, which includes assisting A-based officers' search for a property, undertake building and security inspections (as required), signing lease documentation and ongoing administration of the lease. However, DFAT is not required to assess value for money or approved expenditure for these leases for attached agencies. Each agency is responsible for the assessment and consideration of value for money within their budget, as required by the FMA Act.

⁴⁶ The analysis excludes DFAT and Austrade HOM/HOP residences.

Table 3.1**Comparison of overseas leased residential property according to agency**

Renting Agency	Number	Combined Value (\$)	Average Value of Leases (\$)
DFAT	375	23 860 643	63 628
AFP	74	5 352 540	72 332
AusAID	185	11 620 894	62 816
Austrade	52	4 961 912	95 421
Defence	128	8 305 972	64 890
DIAC	100	6 335 438	63 354
Other	60	4 714 224	78 570
TOTAL	974	65 151 623	66 891

Source: ANAO analysis of data provided by posts and Austrade.

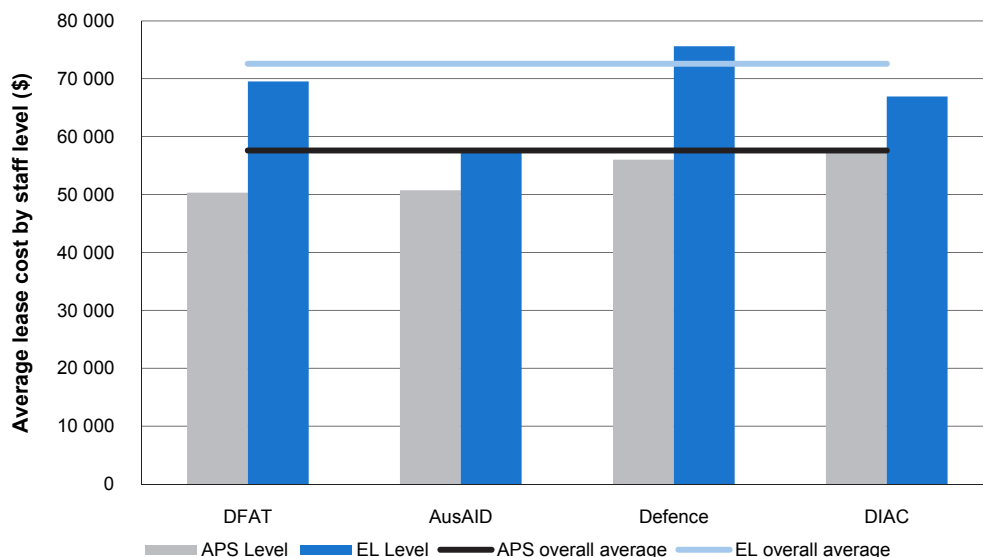
Note: *Other* includes: Australian Customs and Border Protection Service; Attorney-General's Department; Department of Agriculture, Fisheries and Forestry; Department of Infrastructure and Transport; Department of Education, Employment and Workplace Relations; Treasury; Department of Climate Change and Energy Efficiency; Department of Innovation, Industry, Science and Research; the Office of National Assessments; the Australian Nuclear Science and Technology Organisation; and Department of Resources, Energy and Tourism.

3.39 The ANAO's review of residential leases at the posts visited confirmed DFAT's lease costs were consistent with attached agencies at each post based on officers' classification levels.

3.40 Further analysis examined the difference between junior (APS level) and executive level (EL) A-based officers across DFAT, AusAID, Defence and DIAC. This analysis showed that DFAT was consistent with these agencies (Figure 3.2). Variation between the average lease cost for junior officers was \$6950 and \$17 759 for senior A-based officers.

Figure 3.2

Comparison of average lease cost by A-based officer level



Source: ANAO analysis of data provided by posts and Austrade.

Note: Comparison was not undertaken of other agencies or Senior Executive Service level officers as they had too few leases to provide adequate insight or comparison. The APS and EL overall average was the average lease costs for those two groups based on all lease data collected.

3.41 The analysis and comparison between agencies needs to be treated with caution as agencies’ A-based officer level and posting locations differ and can be concentrated in particular posts or regions, unlike DFAT, which has staff at all DFAT posts. For example, Defence has a large proportion of attached A-based officers in high concentrations in North America and Europe, while AusAID attached officers are concentrated in the Pacific and South East Asia.

3.42 Although each agency approves overseas residential leases independently, the ANAO observed that DFAT’s and attached agencies’ residential leasing costs are broadly consistent.

Leased residential property guidance

3.43 Clear guidance facilitates effective management of leased residential property and compliance with relevant legislation. The reference document outlining DFAT’s overseas property policies and management guidance in relation to residential property is the Overseas Property Management Guide (OPMG).

3.44 The ANAO previously reviewed the OPMG, finding that it was a useful resource providing relevant guidance to posts in their day-to-day management of owned property.⁴⁷

3.45 Fieldwork at the four posts visited for this audit also confirmed that the OPMG was a broadly useful reference document in relation to leased residential property. However, three of the four posts indicated that the detailed and expansive nature of the OPMG made it difficult to easily distil the fundamental requirements when leasing residential property.

3.46 Post management at smaller posts emphasised that leasing residential property was not a regular function for them, with property comprising one of many administrative responsibilities, and they would benefit from a simple outline of what is required and in what order it should be completed.

3.47 Upon review, the ANAO also found that some areas of the OPMG would benefit from review and rationalisation between policies and management requirements. For example, it is not clear when leased residences are subject to the requirements of the LA Act. In another case, internal correspondence on prepayment of rent for residential property noted that ‘the OPMG may be out of date on this matter.’

3.48 There would be merit in OPO reviewing the content and format of the OPMG as it relates to leased residential estate, noting that OPO should include relevant business areas in such a review.⁴⁸

3.49 OPO advised that the OPMG will be comprehensively reviewed based on the findings from this and the previous overseas owned estate audit.

3.50 Overall, the ANAO considers that, in practice, DFAT’s higher level guidance and policies for leasing provide posts with the flexibility to adapt approaches to meet differing local property market conditions.

⁴⁷ ANAO Audit Report No.32 2009–10 *Management of the Overseas Owned Estate*, p. 39.

⁴⁸ For example, delineating between ‘black letter’ policies and management requirements and providing more practical guidance would provide posts with quick reference guidance to the core requirements when leasing residential property overseas. Examples include: the policy on security deposits; and requirements for completing a Building Inspection Report prior to signing leases. One post visited had developed a practical single page checklist for leasing residential property. This provided a simple but practical quick reference tool that outlined the requirements to be completed and was attached as a coversheet on each property file.

Selecting and assessing residential property

3.51 The process for selecting and assessing residential property is underpinned by a range of criteria and standards. The main purpose of the criteria and standards is to achieve consistency and value for money in the provision of suitable residential property overseas. They outline the factors post management must consider when identifying and assessing leased residential property for A-based officers and their families.

3.52 DFAT requires post management to consider a range of criteria and factors when assessing residential lease proposals. Posts are expected to adopt a commercially focused approach to residential property management. To achieve this, posts must manage their leased property commitments within their devolved budgets.

3.53 The DFAT criteria for post management to consider are outlined in the OPMG and internal administrative circulars. The criteria are outlined below.

Criteria for assessing and approving residential leases

The criteria for assessing and approving new residential lease proposals require that:

- rental costs be funded from post budgets;
- physical security inspection be undertaken for proposed residences, with any upgrades funded locally, preferably by the landlord;
- building inspection report of the proposed residence be completed to ensure compliance with building and safety standards;
- post management to have regard to the area guidelines in the *Guidelines on Residential Accommodation*; and
- consideration of value for money, overall suitability and lease duration.

Value for money and overall suitability considerations include:

- the suitability of the residence for a range of occupants;
- local property market conditions;
- the location of the residence in relation to:
 - the chancery;
 - schools;
 - services, like police and medical;
 - facilities, like retail and recreational centres; and
- the proposed residence providing satisfactory and appropriate living conditions for A-based officers and their families.

3.54 Once the above criteria and considerations are assessed, post management is responsible for approving DFAT leases. Either the HOM/HOP or Senior Administrative Officer signs each lease at posts, both for DFAT and for attached agencies, once they have provided their approval.

3.55 The current approach focuses on considerations which are important in meeting the needs of both A-based staff and posts. The habitability and security of properties is considered through the physical building and security inspections and assessment, while posts assess value for money against the post's budget and the suitability of a property for A-based officers. This provides post management at each post with the flexibility to adopt and consider the different local conditions when identifying and assessing residential leased property.

Meeting post and A-based officer needs

3.56 Posts must identify and assess residential properties that meet the needs of both the post and A-based officers. Determining and balancing these needs can be difficult as not all can be met in every circumstance.

3.57 For example, A-based officers with children generally place priority on properties that are suitable for the family composition and provide reasonable access to schools and outdoor facilities; whereas single officers may be content with a centrally located apartment. Post management must consider these needs and preferences along with post needs, which can include travel time from the chancery, security considerations and access to important services.

3.58 Furthermore, an important consideration for posts that have lease durations longer than three years is the suitability of a property for future A-based officers.⁴⁹ Consequently, one post visited by the ANAO had not approved the proposed properties that were preferred by the A-based officer, as the post management considered the proposed properties not to be suitable for future A-based officers with varying family compositions.

3.59 During audit fieldwork, the ANAO met with A-based officers at the Brussels, Hong Kong and Tel Aviv posts to discuss their experience with residential property at their current post and any previous posts at which they had worked. The findings from these discussions are outlined below.

⁴⁹ For example, one A-based officer may be willing to compromise on not being located near public transport, whereas future officers may have greater need for public transport if they do not have a vehicle.

A-based staff experiences with residential property

- Junior A-based officers reported difficulty in sourcing a suitable property within their allotted budget when they had a family composition that required a larger residence. It was noted that this meant they had to lease a property further out of the city, which was cheaper, or compromise on the standard and suitability of a property.
- A-based officers experienced varying degrees of difficulty identifying a suitable residence. Time spent searching for and occupying their permanent residence varied from one or two days through to eight weeks.
- Minor concerns were raised in relation to landlord repair and maintenance for some properties. In some cases, landlords were not responsive to repair and maintenance requests, or never adequately fixed problems, leading to continuing issues.
- Overall, A-based staff expressed satisfaction with their residences.

3.60 Overall, the ANAO found that, within the posts' budget constraints, post management effectively assessed and selected residential properties that reasonably met both the A-based officers' preferences and the needs of the posts.

Residential area guidelines

3.61 The size of a residence is one of the criteria that may be considered by post management when assessing residential lease proposals. The OPMG has included residential area guidelines (*Guidelines on Residential Accommodation*) since 1997 (as shown in Table 3.2).⁵⁰ The *Guidelines on Residential Accommodation* are not binding and are advisory guidance for post management only.

Table 3.2

Current DFAT area guidelines (issued in 1997)

Group	APS/Post Classification	Defence Classification	Area Guideline
Standard	Up to APS Level 6—up to Second Secretary	Up to and including Lieutenant (Navy), Captain (Army), Flight Lieutenant (Air Force)	Overall area 150m ²
Intermediate	EL1 to EL2—First Secretary and Counsellor	Up to and including Captain (Navy), Colonel (Army), Group Captain (Air Force)	Overall area 180m ²
Senior	SES Band 1 to 3—Minister or Counsellor	Commodore (Navy), Brigadier (Army), Air Commodore (Air Force) and above	Overall area 230m ²

Source: Overseas Property Management Guide, DFAT.

⁵⁰ November 2009 Australian Bureau of Statistics data shows the Australian average area for new homes (apartments and houses) in 2009 was 214.6 m², while it was around 185 m² in 1997.

3.62 Of the four posts visited by the ANAO, only one post formally assessed leased residential property sizes against the area guideline outlined in the *Guidelines on Residential Accommodation*.⁵¹ Of the properties inspected at the posts, the ANAO observed that property sizes in each location were reasonable.⁵²

3.63 Post management advised that the primary factor when considering a leased property proposal was the rental cost in the context of the post's budget and value for money, rather than the size of the residence. Post management and Canberra staff indicated that the application of a single central size parameter across all 93 posts is difficult as property types, standards and sizes differ in each location.

3.64 In response to the audit findings, DFAT advised that the area guidelines were a prescriptive legacy arrangement, which was previously applied to residences based on an officer's classification. DFAT will review the appropriateness of retaining the area guidelines as part of its review of the OPMG.

Residential leases

3.65 Leases are the formal agreement between the landlord and tenant, outlining the terms, conditions and obligations of each party when leasing a property. Having leases in place for overseas residential properties provides certainty and security to the Australian Government by ensuring its interests are protected under local law.

3.66 DFAT would be expected to have in place current leases between posts —representing the Australian Government—and landlords for each overseas leased residential property.

3.67 OPO provides posts with guidance on leases and lease conditions in the OPMG, which states that:

⁵¹ At this post, the property market over-calculates residential property sizes by including a percentage of base building, recreation, entries/foyers and parking areas into property size. This acts to overinflate the advertised property size.

⁵² It was noted that at one post some residences were compact when compared to similar properties at the other posts. However, the A-based officers indicated no dissatisfaction with their residence in these cases. Properties were reasonable based on: the type of property; its location; and the property market at that post. For example, houses located further from the city centre were larger than apartments in city centres.

The Residential Lease Template should be used for all commercially leased overseas residential accommodation.

3.68 DFAT policy guidance further notes that the lease duration should not exceed three years.

3.69 The ANAO reviewed a sample of residential leases at the four posts visited as part of fieldwork.⁵³ The review noted that of the sampled leases, two posts used local lease documents, while one used a mix of local and DFAT template lease documents, with the fourth using the DFAT template for its single property. Further observations on lease conditions at each post are outlined below.

Lease conditions

Brussels

Due to local government residential leasing requirements, the standard residential property lease in Brussels is nine years. The nine-year lease provides long-term certainty to the post as forward budgets are known with rent increases or decreases controlled by an annual government-based index.

The nine-year leases mean that post management must place greater emphasis on ensuring each leased property meets the needs of current and future A-based officers, because one property over a nine-year lease can potentially accommodate three rotations of A-based officers and their families.

Tel Aviv and Ramallah⁵⁴ (East Jerusalem)

In Israel the standard lease is three years with a possible extension of 12 months at the owner's discretion.

Landlords tend not to reside in Israel (living in Europe or the United States) and post management noted that this adds to the difficulty and timeliness of getting the landlord to address issues such as repairs and maintenance.

Given leases in Tel Aviv are three years, post management has more discretion to allow A-based officers to select their residences on arrival at post as the lease duration matches the standard three-year posting cycle. Future A-based officers can either choose to renew their predecessor's residence or lease a more suitable residence for the duration of their posting.

Hong Kong

Leases in Hong Kong are on a 12-month basis, with possible extension at both the owner's and tenant's agreement. Therefore, it is not unusual for A-based officers to change residences during a standard three-year posting.

Post management generally prefers to lease from commercial landlords—which are common in Hong Kong—rather than private property owners, as the commercial landlords are generally responsive and address issues, such as repairs and maintenance, promptly.

⁵³ The ANAO did not review the legal aspects of each lease.

⁵⁴ The A-based officer at the Ramallah post resides in East Jerusalem (not within the West Bank).

3.70 The examples above illustrate the diverse nature of leased property arrangements at each post. This requires each post to adopt a different approach in managing their residential property portfolios to meet local requirements and business practices.

3.71 Based on these examples, the application of highly centralised residential lease requirements would not be effective, as posts cannot comply with the requirements in all cases due to local leasing practices. Overall, the ANAO considers that DFAT should seek to better align its policy on residential leases with current practices, to allow posts the flexibility to adopt either the local or DFAT template lease, where appropriate. The overarching principle should be that the legal interests of the Australian Government are protected when leasing a residential property.⁵⁵

3.72 DFAT advised that the current policy aligns with practice as there was no hard and fast policy on the length of residential leases. However, as noted above the OPMG did not reflect this and DFAT advised that the advice on leases will be updated in the review of the OPMG.

Physical security of leased residences

3.73 The provision of secure accommodation for A-based staff is an important factor in housing A-based officers and their families safely and securely while on posting.

3.74 Although physical property security was not a focus of this audit, it is an important consideration when selecting and leasing residential accommodation. The weight posts give security considerations when selecting leased residences differs at each post depending on the security threat profile of each location.

3.75 As part of the residential property pre-leasing requirements, posts with a high threat profile are required to undertake a security inspection of proposed properties by completing a pre-lease security requirements checklist.⁵⁶ The checklist is forwarded to DFAT Canberra for review, which then provides advice to the post whether the inspected proposed property is

⁵⁵ Post legal experts and DFAT legal section can review lease documentation where posts or OPO have concerns whether the Australian Government's interests are protected.

⁵⁶ The non-high threat posts are advised that they are required to complete the security checklist for HOM residences only. The security checklist for A-based residences does not need to be completed, retained or submitted, but at the post's discretion, the guidance recommends they use the checklist as part of their residential pre-lease process.

compliant with security requirements, and identifies any remedial action to be addressed prior to the residence being occupied.

3.76 In the case of leased property, posts are required to initially negotiate with the landlord to have any remedial actions addressed prior to entering a lease, as DFAT's policy is to minimise capital expenditure on commercially leased properties (it is difficult to justify significant expenditure on a property which may only be occupied for three years). However, where circumstances necessitate, posts can use post funds or, in circumstances where the landlord refuses to undertake the security work, seek DFAT security funds to address security issues identified on a leased property prior to its occupation.

3.77 Posts reported to the ANAO that landlords were generally willing to address minor security concerns, but were more reluctant to address costly issues and would usually incorporate any capital improvement costs into higher rents or seek prepayment of rent. The following case study illustrates the difficulties in acquiring leased residences that incorporate the required security features whilst still representing value for money. Posts typically balance these considerations against the increased costs of enhancing the physical security of leased residences.

Case Study

HOP Residence in East Jerusalem

The HOP residence was leased from 15 December 2009 for a period of three years, after the landlord agreed to undertake renovations and improvements to address functional, building and security concerns.

Although noted in the security inspection report for the property that the front perimeter fence could be improved through increasing the height and adding a palisade, this was not requested as part of the renovations due to the additional cost.



Damaged chain link perimeter fence (right side to centre) abutting the neighbouring stone and palisade fence (left side). ANAO, June 2010.

The post was able to obtain the landlord's agreement to renovate the property, including installing a new front door, additional window bars and lighting to enhance the physical security of the property. However, the landlord required two years advance payment of rent in order to complete these works.

Additional requests to the landlord, such as improving the front fence, could be expected to further increase the rent and/or require compromise on other improvements to the property.

3.78 Overall, maintaining appropriate physical security standards for A-based officers and their families when leasing residential properties that meet standards, without requiring remedial actions, is an ongoing challenge requiring close management attention.

Temporary leased accommodation

3.79 Leased temporary accommodation plays an important role in housing A-based officers and their families on arrival at post. The type of temporary

accommodation and the length of stay vary, depending on the A-based officers and post circumstances.⁵⁷

3.80 The ANAO observed that the duration of temporary accommodation required determined the type of accommodation used. For example, A-based officers are typically being housed in hotels for one to two weeks, whereas serviced apartments are used for longer periods.

3.81 The use of temporary accommodation by its nature is more expensive than housing A-based officers and their families in long-term accommodation. However, temporary accommodation is necessary in a number of circumstances, including when: the A-based officer is to occupy their predecessor's residence which is yet to be vacated; the A-based officer is required to search and select their residence once arriving at post; or when the availability of suitable long-term accommodation is limited.

3.82 The majority of A-based officers at the posts visited were accommodated in temporary accommodation prior to moving into their residence for a period ranging from a few days to a few months. Two officers reported that they did not require temporary accommodation, because they were able to move directly into their residence on arrival.

3.83 Ideally, posts should minimise the duration and use of temporary accommodation where possible, both to minimise costs and disruption to A-based officers and their families. However, the ANAO recognises the flexibility that temporary accommodation provides posts when transitioning A-based officers in and out of posts.

Private residential leasing

3.84 Private leasing of residential accommodation by individual A-based officers occurs at the London, Ottawa and Washington posts. Private leasing is used at these posts as their legal requirements and conditions for residential leasing are comparable to Australian arrangements.

3.85 Based on the ANAO lease property information request, DFAT had 43 private leases from a total of 124 across all agencies as at 30 June 2010. In these cases, the Australian Government has no legal interest in the lease,

⁵⁷ Temporary accommodation varied from serviced apartments to hotels, depending on the location and duration of stay. Accommodation types can be limited at some posts, where only hotel accommodation may be available.

because the A-based officer is signatory to the lease. Posts still fund the rental costs under the private leasing arrangement, but hold no legal responsibility for the lease.

3.86 In 2007, the DFAT ‘Reduce Red Tape’ taskforce undertook a review of private leasing arrangements with the intent of examining the possibility of applying the arrangements to more posts to reduce the property administrative burden on post management.⁵⁸

3.87 The 2007 review outlined A-based officers’ experiences with private leasing and issues with leasing residences privately, as outlined below.

A-based officers’ experience with private leasing

- Private leases should have no budgetary impact as posts still fund the rental costs for the A-based officer.
- Return of bond money advanced by posts can present issues.
- Post management was still required to support A-based officers when private leasing their residence. Assistance includes:
 - advice while searching for a residence and entering a lease;
 - pre-lease and end of lease inspections; and
 - recouping bond money advanced by the post.
- There are legal concerns, as private leases may not have diplomatic status (depending on host country) and DFAT policy would not allow officers to invoke diplomatic immunity on residential accommodation issues for private leases.

3.88 DFAT found that the current private leasing arrangements do not appear to be causing any systemic problems for the small number of posts at which the arrangements apply.

3.89 Additionally, DFAT advised that there is no intention within DFAT to broaden the use of the private leasing arrangement to other posts.



Ian McPhee
Auditor-General

Canberra ACT
30 March 2011

⁵⁸ DFAT advised that it was likely that the arrangement had been previously reviewed during the devolution of leased estate funding from Finance to agencies in 1997.

Appendices

Appendix 1: Agency response



Australian Government
Department of Foreign Affairs and Trade

Secretary

Telephone: 02 6261 2472
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File Number: 11/3850

29 February 2011

Ms Barbara Cass
A/g Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 706
CANBERRA ACT 2601

[Handwritten signature]
11/3/2011

Dear Ms Cass,

Thank you for your letter dated 2 February 2011 in which you provided the proposed audit report on the ANAO's performance audit on *Management of the Overseas Leased Estate*. I note your advice that DFAT's comments will be included in the final audit report.

The proposed report notes that DFAT has been largely effective in the provision of leased property overseas, and that the basic elements for leased office and residential property are working effectively. The report recognises the diversity and geographic spread of the estate over 77 countries poses management challenges by virtue of the multiple property types that make up the leased portfolio, including commercial office space, representational residences, staff residences, and other facilities.

DFAT welcomes the ANAO's acknowledgement that the department has initiated actions to enhance its strategic and long term planning for both owned and leased chanceries and Head of Mission and Head of Post residences. The report further acknowledges that DFAT's devolved approach to leasing residential property is effective in allowing each overseas post to adopt leasing strategies that best meet the needs of posted officers and their families, and local leasing market requirements.

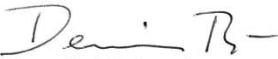
DFAT considers the report's recommendation to be constructive in identifying opportunities for strengthening DFAT's existing internal governance processes and procedures.

Comments on Recommendation No. 1

DFAT agrees with this recommendation. As the proposed report notes, DFAT has already undertaken steps to review and update its guidance to posts and managers through the Overseas Property Management Guide and initiated actions to enhance strategic and long term planning. DFAT will review its internal governance arrangements for overseas property in light of this audit, the previous performance audit of the overseas owned estate, and the outcomes of the DFAT / Finance review of the Overseas Property Office.

Finally I would like to express my department's appreciation for the constructive approach taken by the ANAO throughout this audit.

Yours sincerely


Dennis Richardson

Appendix 2: Overseas fieldwork locations

The ANAO undertook fieldwork at four overseas posts, Brussels (Europe), Tel Aviv and Ramallah (Middle East), and Hong Kong (Asia). The fieldwork at these four geographic and culturally varied locations provided valuable insight into the challenges of leasing property overseas.

The selection of posts was based on a number of factors and the operational availability of identified posts. The factors considered include: posts where the majority of property is leased, posts of varying size, posts with an attached agency presence, and other post-specific information.

At two of the posts, Brussels and Ramallah, all property was leased, while at the other posts, Tel Aviv and Hong Kong, all property except the HOM residence was leased. A summary of each post is provided on the following pages.

Australian Embassy – Brussels

The post in Brussels functions as the Australian Embassy to Belgium and Luxembourg, and as the Australian Mission to the European Union (EU). The Embassy also has responsibility for Australia's relationship with the North Atlantic Treaty Organization (NATO), which is based in Brussels.

The chancery is located in a leased office building in central Brussels. It occupies the fifth, sixth and seventh (top three) floors, representing 2 390 m² of the seven-story building. An additional 65 m² of archiving space along with 23 parking spaces is included in the lease.

The post has occupied this building for 25 years (since May 1986) and the age is reflected in the functionality and presentation of the embassy.



Chancery (left) and HOM Residence (right).

ANAO, June 2010

The HOM Residence is located five kilometres from the chancery in a privately secured cul-de-sac. This residence has been leased since October 2001.

The post leases 13 residences for A-based staff and their families; these are a mix of houses and apartments.

Australian Embassy – Tel Aviv

The Australian Embassy to Israel relocated to the new 30 floor Discount Bank Tower office building in August 2008. The chancery occupies 1 281 m² on the 28th and 29th floors. An additional 40 m² of archiving space along with 11 parking spaces is included in the lease.

The recent relocation of the chancery into a new building provides for a modern, functional and well presented embassy.



Chancery building (left) and consular reception area (right).

ANAO, June 2010

The post leases five residences (four DFAT and one attached agency residence), being split between apartments close to the chancery and houses in the same suburb as the HOM residence.

The HOM Residence in Tel Aviv is an owned property.

Australian Representative Office – Ramallah

The Australian Government has maintained an Australian Representative Office (ARO) to the Palestinian National Authority in Ramallah since September 2000. The ARO in Ramallah is a small post with one A-based officer (HOP) and five locally engaged staff (including one attached agency).

The chancery is located on the seventh (top) floor of a leased office building, which was occupied by the post in November 2001. The lease covers 162 m², an outdoor terrace area and three underground car spaces.

The representative offices for four other countries are located in the building.



Chancery's terrace (left) and building (right).

ANAO, June 2010

A four-bedroom residence was leased in December 2009 in East Jerusalem for the HOP. The residence is located in an area popular with the diplomatic community and is about a 45 minute drive from the chancery.

Australian Consulate-General – Hong Kong

The Australian Consulate-General to Hong Kong is located in a leased office building in the Harbour Centre, occupying 2 460 m² across two floors. The chancery underwent a complete refurbishment in 1999.

The chancery currently has surplus space. However, the current fitout limits the usability of surplus space, with some areas cramped due to increasing workloads (i.e. consular and visa cases). Assessment of space needs and potential downsizing is being considered as part of future refurbishment or relocation.



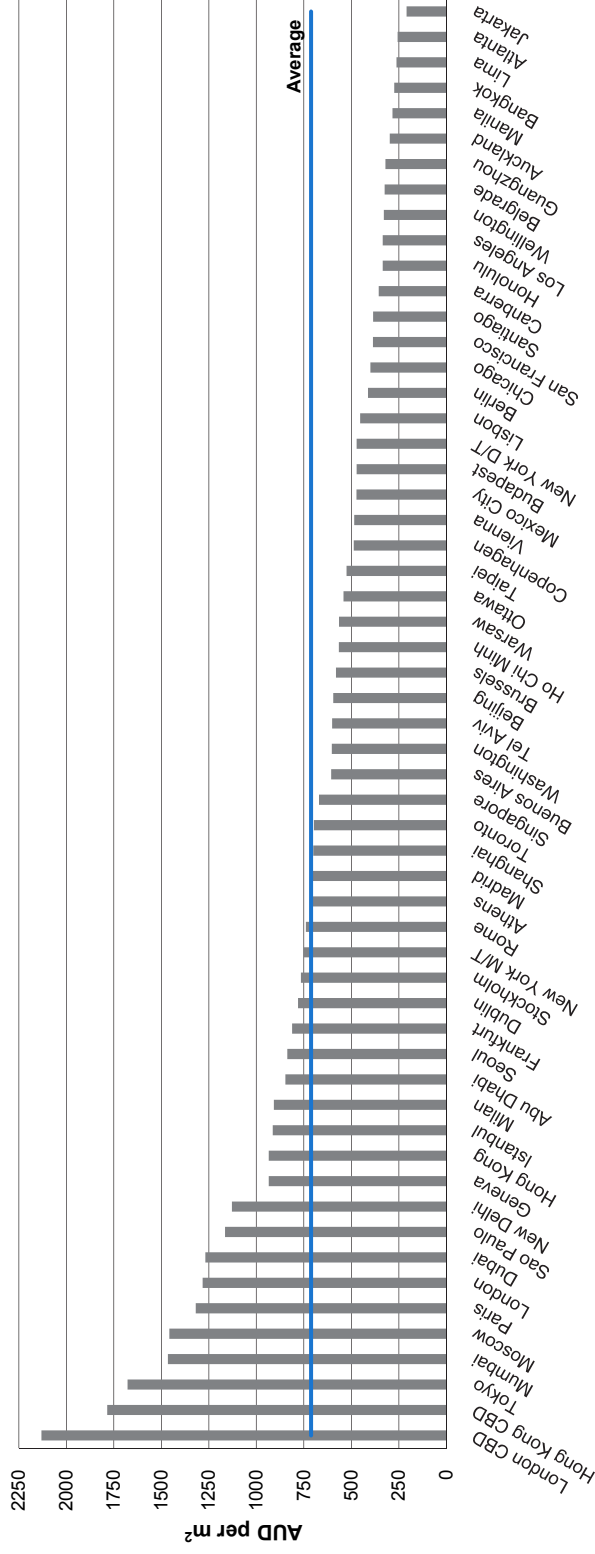
Chancery building (left) and consular reception (right). DFAT and ANAO, June 2010

The post leases 13 residences (seven DFAT and six attached agency residences), mainly apartments close to the chancery, but also townhouses further out of central Hong Kong. The HOM Residence in Hong Kong is an owned property.

Appendix 3: Commercial office occupancy costs

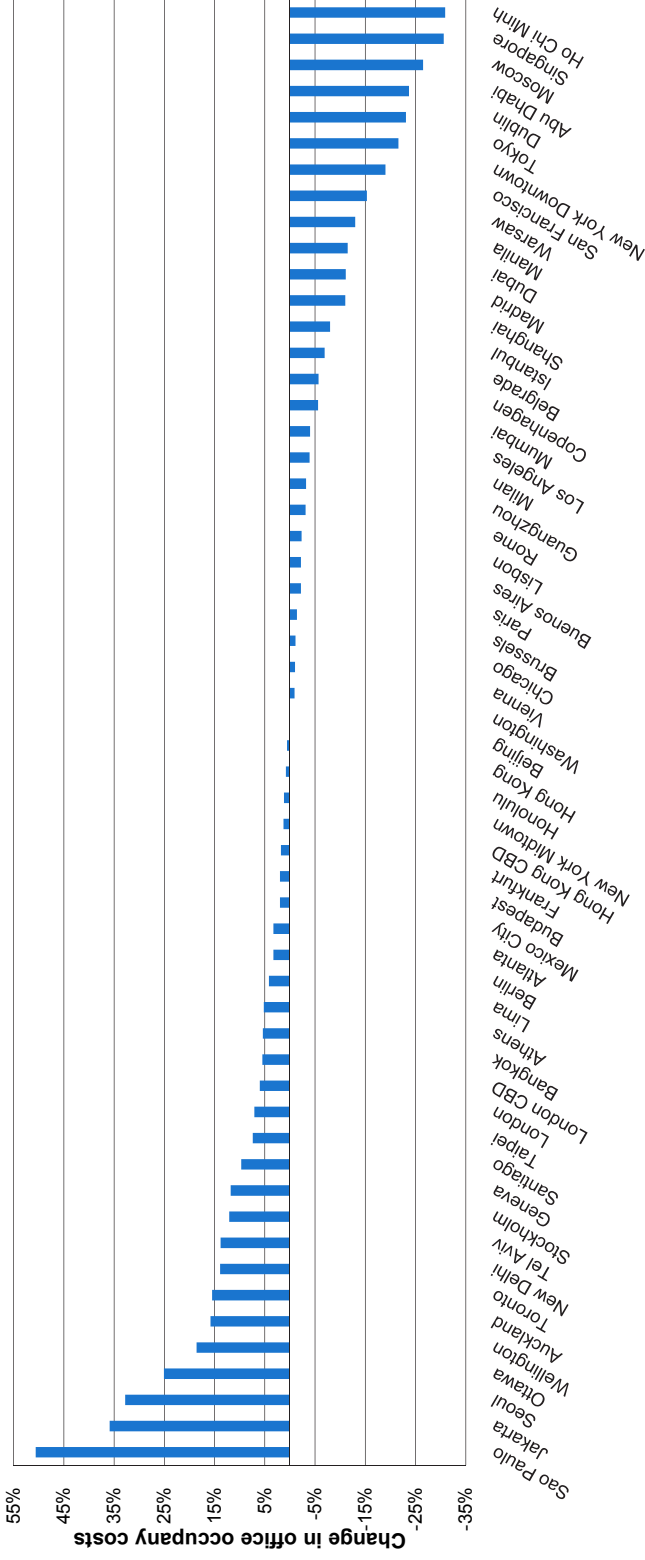
Figure A 1

Commercial office occupancy cost—AUD per square metre



Source: CB Richard Ellis, *Global Office Rents*, May 2010. Currencies converted from USD to AUD as at 1 May 2010 (USD 0.9240).

Figure A 2
Changes in commercial office occupancy costs—12 month data



Source: CB Richard Ellis, Global Office Rents, May 2010.

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