

Property Disposal

DPTI Asset Brief



What is the Purpose of this Document?

The Property Disposal process is a structured approach that enables agencies to identify surplus property and adopt strategies for alternative use or their disposal.

The document is not intended to explain the technical detail because implementation of the disposal strategy will require expert assistance and the application of a wide range of tools and techniques.

What is Property Disposal?

Definition: *The process used by an organization to decommission and dispose of assets due to ageing or changes in performance and capacity requirements.*

Decisions to dispose or divest a property or an asset require thorough examination and economic appraisal. Like acquisition decisions, they should be taken within an integrated planning framework that takes account of service delivery needs, corporate objectives, financial and budgetary constraints, guidance from PCC114 and the Government's strategic vision.

Planning for disposal should start well before the economic life of the asset has ended or the need for the service has finished and should incorporate consideration of unplanned disposals of assets. Agencies should develop procedures for a regular review process to assess asset utilisation and identify surplus or obsolete assets.

The agencies should comply with relevant government or corporate policies and prevailing social and economic conditions and, where possible, select a disposal method including retirement, replacement, renewal, or redeployment (internally or externally through sale), that maximises the financial benefits associated with the disposal.

Why is Property Disposal Necessary?

Agencies are accountable for the performance of the assets under their control. Good property management means ensuring that they are effectively used and efficiently operated for their perspective functions.

As a significant input to supporting service delivery, property also represents a direct cost in service delivery. Expenditure otherwise tied up with surplus property can be redirected elsewhere.

Implicit within building asset management is the linking of building asset and associated land requirements to the strategic role of the organisation. This highlights the strong nexus between service delivery, asset performance, and associated human and financial resource inputs. Where building and/or land assets do not directly support core service delivery they should be assigned a more appropriate use or be considered for disposal.

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Who is this Document For?

The property disposal process assumes an appropriate organisation structure, associated responsibilities and a comprehensive range of skills are available to an agency (either internally or externally) and accordingly, provides broad guidance for:

Corporate planners seeking a strategic overview, Asset managers involved with developing property disposal strategies for individual assets or property portfolios.

Context

The Property Disposal process is one of three life cycle functions (the other two being Asset Procurement and Management of Existing Assets) and should reflect the integrated and consolidated position of an agency resulting from its strategic planning process.

This latter process links property directly to business service objectives which in turn reflect the strategic directions of government. Strategic planning is therefore a pre requisite to identifying surplus property. See Figure 1 over the page.

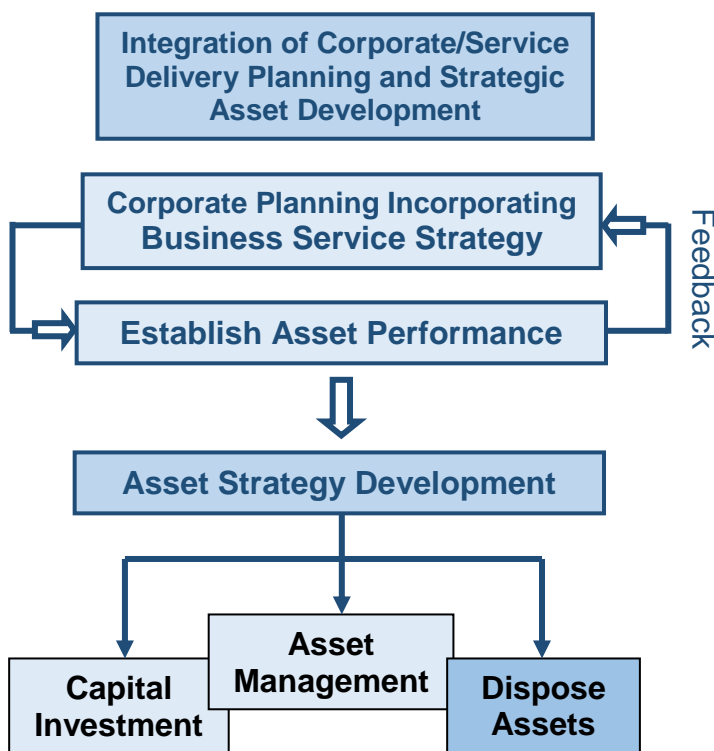


Figure 1

A range of factors can influence the continuing service life of an asset. These include physical, technical or functional obsolescence. Whatever the reason, at the end of the property's life, there will be choices to make regarding disposal, replacement, alternative use or refurbishment.

Property Disposal Process

In broad terms, the property disposal process comprises two distinct stages. The first is development of the most appropriate disposal strategy and the second relates to implementation of the agreed strategy.

The level of application of the property disposal process will depend on the size, complexity and importance of the property being considered.

Establishment

This phase occurs in the context of all the relevant information from the Corporate and Strategic Asset Planning process referred to above.

Experience has demonstrated that the timeframe for property disposal activities is often underestimated. The early planning for disposal projects is therefore an important priority.

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Based on the Status Report resulting from the Performance Review, building properties will be broadly categorised to indicate whether they are supporting core business and performing satisfactorily or not, against a range of service and asset measures including: location, utilisation, spatial and functional requirements, physical condition, financial efficiency and other external factors.

During this phase it is important to establish requirements for the development of realistic, viable disposal options. This implies deciding the criteria against which disposal options are to be assessed and ranked in priority order i.e. conformity with agency strategic directions and service levels, risk reduction and maximisation of sale price.

Concept

It is important to remember that the list of properties compiled during the asset planning phase is provisional and that although a property may have exhibited surplus characteristics, there may be other significant considerations such as community service obligations or a number of other potential impediments.

Careful consideration needs to be taken of constraints to future sale e.g. Native Title Rights, financial encumbrances, tenure, lessee issues, rights of adjoining owners, or various legislative constraints.

Other areas of investigation prior to developing disposal options include, heritage and environmental issues, land use zoning and planning, local government and the rights of access to service utilities such as electricity, gas, water, sewer and communication providers.

Disposal options generally fall into a number of likely categories:

- ❖ Retention for whole-of-government strategic requirements
- ❖ Transfer within government and
- ❖ Sale on the open market

Indicative cost / benefit estimates need to be determined for each disposal option.

Identifying a suitable alternative use for a property can maximise its value and potential for future sale. These alternatives may require preparatory work including re-zoning, subdivision, redevelopment, and may require some form of legislative change for it to occur.

As provided for in Department of Premier and Cabinet Circular 114 (as revised in September 1999) the Land Management Corporation (metropolitan properties) or Crown Lands SA (non-metropolitan properties) are available to assist in the development of a property disposal strategy.

Evaluation

The selection criteria determined during the Establishment Phase should be used to evaluate the suitability of each disposal option. These criteria may include conformity with agency strategic directions and service levels, community impact, the likely return i.e. cost / benefit analysis, time horizons, prevailing market conditions and an assessment of associated risk.

The nature of the proposed options and the associated risks will determine the level of analysis.

As a consequence of this evaluation, the agency should be in a position to confirm that the property is suitable for disposal, selected a preferred option and declared it surplus.

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Although a property has been declared surplus and the disposal strategy outlined, it is likely to be lacking in the detail required to implement the strategy. It is important that all improvements are detailed along with any features which significantly impact on the project.

If the property requires any level of development or administration to bring it to a condition suitable for disposal, this should be clearly indicated. The necessary processes for actions such as hazardous waste removal, subdivision, demolition, rezoning, or lease termination should be fully investigated.

A full financial analysis should be completed to determine the total cost of proceeding with the sale. The analysis should include all redevelopment costs, management fees, sales commissions and any lease termination penalties. Planning and negotiation will be necessary for any proposed access to proceeds of the property sale.

Implementation:

Following the approval of a Minister to dispose of a property the broad disposal procedures are outlined in DPC Circular 114.

All agencies are to refer the property details to the Land Management Corporation (metropolitan properties) or Crown Lands SA (non-metropolitan properties) to coordinate a strategy for the disposal incorporating:

- A mandatory strategic land use assessment by Planning SA to ensure optimum future use from a whole-of-Government perspective.
- Expressions of interest in the property by other government agencies and the relevant local council
- Investigations into the condition of the property and its suitability for any whole of government land use outcomes

Exempt agencies then proceed to disposal of surplus property under their control while LMC/CLSA dispose of the properties for agencies not exempted.

This process may involve establishing a contractual agreement with an external service provider if an agency has exemption or through the Land Management Corporation or Crown Lands SA via negotiated service agreements. This can be regarded as the second stage of the property disposal process once having prepared the Disposal Strategy.

In addition to work defined in the disposal project, the service contract addresses, contractual conditions, service delivery arrangements and a range of management services and support functions.

Implementation and management of property disposal imposes significant demands upon the agency in terms of administering the process and contracts. This again reinforces the importance of appropriate organisation structures, knowledge and skills of the agency's asset management team. Assistance is available from the Land Management Corporation or Crown Lands SA.

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Review

Once contracts are in place, an effective mechanism needs to be established that monitors the service provider's performance.

At appropriate times agencies should review their internal processes and structures that deal with property disposal to ensure issues of probity, accountability and effectiveness are adequate.

Decision-Making Tools and Techniques

In addition to the process described, the successful implementation of the property disposal process requires access to, and application of a range of supporting tools and techniques to assist the decision making. These include:

- ❖ [Asset Performance Review](#)
- ❖ [Building Asset Compliance](#)
- ❖ [Demand Management](#)
- ❖ Post Construction Review
- ❖ Post Occupancy Evaluation
- ❖ Value Management

Related Guidelines:

Revised Department of Premier and Cabinet Circular 114 "Government Real Property Management" (Replacing "The Purchase and Disposal of Government Real Property")

Responsibilities for Disposal:

- ❖ Metropolitan Area: Land Management Corporation
- ❖ Non-Metropolitan Area: Crown Lands SA

Note: Current exemptions apply to the disposal process for some agencies subject to reconfirmation by the Department of the Premier and Cabinet.