

Chapter 4

Office Of Public Works

4.1 Property Management Issues

The Property Management Service of the Office of Public Works (OPW) manages some 1.16 million square metres of space for Government Departments, Offices and agencies. Approximately 46% is State-owned, the remainder being leasehold and mainly held on long leases.

The management of this property portfolio involves acquisition, disposal, maintenance and refurbishment operations.

Management of Vacant Space

To assist it in the management of vacant space and avoid a build up of unnecessary accommodation and consequent costs OPW produces reports on its space utilisation. Audit review of weekly vacant space reports for 2006, 2007 and 2008 (to May), identified a number of issues

- Four leasehold properties have been considered for surrender since January 2006 but were still held by OPW in May 2008.
- A report in early 2006 signalled that a property was to become available from January 2007. Despite this, it remained vacant for all of 2007 at a cost of €165,800.
- Eleven leasehold properties were unoccupied for periods ranging from four to twenty nine months. One was sold and leased back in July 2006 but was left unoccupied until January 2008.
- There were delays in the recording of properties about to become vacant militating against good planning.

Six rented properties were noted on the OPW property management system as having “*unallocated space*” or being “*unoccupied*” yet did not appear in the vacant space reports. The rental costs involved were €637,000.

Audit Concern - Vacant Space

In the light of the foregoing, I was concerned as to the adequacy of the procedures in place to minimise vacant space and the completeness of records used to manage it.

Response of the Accounting Officer

The Accounting Officer stated that an amount of space unoccupied at any one time facilitates the management of the property portfolio. It is essential to have space available to meet urgent and unanticipated needs and to facilitate routine maintenance and refurbishment. The alternative - to go to the market at short notice - could compromise the bargaining position of OPW and result in higher rent being paid than might otherwise be the case. New leased space invariably requires a fit-out which may be costly, can prove time consuming to source and may, depending on the state of the market, be ultimately unproductive.

The Accounting Officer stated that the most recent estimates available indicated that of the total portfolio, some 8,500 square metres of office space are unoccupied. This represents 0.7% of the portfolio and is not out of line with international standards.

He indicated that regular meetings take place with client Departments to discuss accommodation requirements, for new space, for decanting space during major office refurbishment, rationalisation of space and surplus vacant space. When new demands for office accommodation arise, OPW reviews the existing vacant space on its books to determine whether any of it is suitable to meet these demands. In many instances, this review process succeeds in matching new demands with existing vacant space.

OPW Approach to the Management of Vacant Property

The Accounting Officer supplied me with an outline of OPW's general approach to the management of vacant property.

Leased Property

In recent years, the policy in leasing properties has been to negotiate lease-breaks, especially in long-term leases. This enhances OPW's flexibility in the management of the property portfolio and provides greater scope to vacate properties when they fall vacant.

In regard to leased office space that has remained unoccupied for an extended period of time, despite efforts to reallocate it, and situations where the lease on the space is relatively close to expiry, OPW endeavours to surrender the space back to the landlord. However, this requires the agreement of the landlord, which is not always forthcoming, either because the lease is close to expiry, or the space needs major refurbishment, or the prospects of reletting it are limited. Even where a landlord is open to a surrender proposal, negotiations can often be protracted and the terms on offer can be onerous.

Another possible option is to sublet. However, any decision to do so would be informed by a range of considerations, including

- whether subletting is allowed under the lease
- the length of time to expiry or next break option
- whether the space is suitable for sub-division
- market conditions for the particular space
- whether the space meet current health and safety standards
- whether subletting would compromise the security arrangements for other occupiers of the building.

In the light of these considerations and bearing in mind the need to hold a certain amount of vacant space to meet pressing and immediate demands, the subletting option is very much one of last resort and, as a result, recourse to it is seldom used.

Freehold Property

He added that in the case of vacant property which is State-owned rather than leased, there is always the option of disposal. In recent years, OPW has successfully managed the disposal of surplus vacant freehold elements in their portfolio. This process has yielded in excess of €400m for the benefit of the Exchequer over the past four years

Regarding 16 specific vacant properties which I queried, he informed me that

- four of them are now occupied
- four have since been reallocated to different clients
- OPW is attempting to surrender the leases in four other cases
- of the four remaining, two are retained for temporary use, a leased back property has since been surrendered and one is vacant.

He also informed me that at 30 April 2008 seven leased properties were vacant²³ at a lease cost of €729,000 a year - however, one of these has since been allocated. A floor of one State-owned building was also vacant at that date.

Conclusions - Vacant Space

It is accepted that there is a need to have a reserve of unoccupied premises to meet emergency and unforeseen demands for space. The issues highlighted, however, involved properties either earmarked for disposal, that were vacant for long periods, or were vacant but not reported as such on the vacant space reports. While acknowledging that OPW has been successful in rationalising the portfolio in recent years, and that the overall level of unoccupied space is within acceptable norms, there may be merit in differentiating its existing and prospective vacant space between a reserve portfolio and surplus properties available for disposal.

Managing Lease Charges

Annual rent and associated costs in respect of the State's property portfolio is currently of the order of €130m. The costs in question are treated in two distinct ways

- Rents and other charges paid by OPW in respect of premises occupied by Central Government Departments and Offices are charged directly to the Vote for Office of Public Works.
- Rents, service charges and associated costs incurred for State agencies are recouped from the relevant bodies.

OPW uses a suspense account within its accounting system – Sundry Rents Account – to record, control and account for expenditure recoverable from State agencies. This is supplemented with a manual ledger system that records the details of amounts to be recouped from individual agencies.

In the course of audit it was noted that a detailed matching was not carried out between information recorded on the manual ledger system and that on OPW's accounting system.

During 2007, rental and associated payments totalling €10.9m²⁴ were charged to the sundry rents account. At the end of 2007 the accumulated balance on the account was approximately €2.025m²⁵. This was made up of 53 individual amounts totalling €5.3m, ostensibly due for recoupment offset by 40 amounts totalling €3.3m, apparently recouped but not associated with the amounts paid.

The audit noted that payments totalling €882,000 in respect of State agencies had been incorrectly charged to the Vote. It also noted that of payments totalling €1.3m in respect of Government Departments and Offices charged to the sundry rents account, a portion should have been charged to the Vote.

Other shortcomings included

- A failure to bill the Family Support Agency for the years 2005 to 2007.
- Some charges recorded in the sundry rents account appear not to have been billed or, where billed, were not recouped by the agencies concerned. Amounts ranged from €110,000 to €350,000.

²³ This does not include space that is vacant but allocated to others or in the process of being refurbished for a particular client.

²⁴ This represents the volume of payments to landlords for space occupied by State agencies and related charges.

²⁵ This represents payment made on behalf of, but not recovered from, State agencies at that date.

Audit Concern - Sundry Rents Account

I was concerned that the shortcomings outlined suggested there was a risk to the overall integrity of the financial records and that amounts due from agencies were not identified and recouped in a timely manner.

Response of the Accounting Officer

The Accounting Officer provided details and explanations of all outstanding balances and assured me that all amounts are recoupable from occupants and that a statement of account for the past twelve months for each agency had been prepared and issued within the past two months. He added that a new procedure has now been introduced which provides for reconciliation of the manual and computerised systems on a quarterly basis.

He also informed me that in the case of some newly created State agencies, there can be an interim period between the acquisition of their accommodation, and the formal coming into operation of the bodies and/or their accounting systems and procedures. There have been instances where, during this interim period, rental payments arising for the new agencies were charged to sundry rent accounts in the names of their parent Departments. This practice has now ended and in future all rental payments in respect of State agencies will, from the outset, be charged directly to the sundry rents account.

He added that the Family Support Agency was originally a division of the Department of Social and Family Affairs. Following confirmation of its chargeability, all the Agency's accommodation on OPW's Property System is now charged to the Agency's sundry rent account and all invoicing is up to date.

The Accounting Officer outlined the steps that had been taken to improve efficiency. He pointed out that the use of the sundry rent account increased significantly in recent years reflecting the rapid growth in the creation of State agencies with their own budgets and accounting facilities. A number of changes have now been introduced to improve the overall management of the sundry rents account system. These include

- new improved coding structures
- the introduction of quarterly invoicing for service charge payments
- the integration of the manual rent receivable systems into a computerised Property Management System²⁶
- the provision, from 2008, of a full statement of account to each customer in the sundry rents system.

He attributed the issues identified on audit to settling-in arrangements for the new financial accounts system. He is satisfied that there was no loss of public funds and the issues were to do with coding and a delay in balancing the accounts.

²⁶ This system lists properties leased and owned by OPW. It records lease terms, expiry dates, landlords, account details, occupants, lessees and rent.

Conclusions – Sundry Rents Account

The standard of recording and the timeliness of reconciliations and recoupment from agencies was inadequate. However, the Accounting Officer has taken steps to address this. Failure to promptly invoice can impact on the budgetary and accounting arrangements of State agencies²⁷.

²⁷ This applied particularly to the Family Support Agency which in 2008 refunded €1.9m to its parent Department. €1.2m of this was due to invoices not being issued in 2007 by OPW. This resulted in an equivalent overcharge in the Vote of the Department of Social and Family Affairs for 2007.

4.2 Flood Relief Projects

The flood relief programme for which the Office of Public Works (OPW) is responsible is delivered through three mechanisms

- works and schemes carried out by contractors engaged by OPW
- works carried out by contractors engaged by local authorities
- direct works carried out by OPW's labour force.

Contracted works and schemes are funded through Subhead H.2 Flood Relief Projects. The 2007 provision was €32m and the outturn reported in the Appropriation Account is €23.115m.

In the course of audit it was noted that some €13m of the outturn consisted of advances to Local Authorities to undertake projects on behalf of OPW. It was estimated that by 31 December 2008 over €9m of these advances will still be unexpended. Table 31 sets out the details.

Table 31 Flood Relief Advances Unexpended

Local Authority	Advance €000	Estimated Expenditure by 31 December 2008 €000	Projected Unspent Balance €000
Carlow County Council	1,750	–	1,750
Dublin City Council	5,111	2,871	2,240
Fingal County Council	740	490	250
Kildare County Council	150	150	–
Ordnance Survey Ireland ^(a)	705	705	–
Waterford City Council	5,000	109	4,891
Total	13,456	4,325	9,131

^(a) This is for an annual licence to use Ordnance Survey Maps.

Audit Concern

While recognising that the practice has the merit of recognising central government expenditure at the earliest opportunity, there is some doubt as to whether such advances could be considered to have “come in course of payment” as required by the Exchequer and Audit Departments Act, 1866. In addition, I was also concerned at the level of the advances made in the light of the slow progress in commencing the related works.

Response of the Accounting Officer

While acknowledging that expenditure had not yet been incurred by the local authorities for a high proportion of the advances, the Accounting Officer informed me that the advances are based on commitments entered into by OPW with local authorities. The advances are in respect of works and schemes that are carried out to standards and designs prescribed by OPW. It has been the practice for a number of years for OPW, when it is satisfied that plans for works are approved or in place and have reached the stage where a local authority is about to enter into a major resource commitment, to place the relevant authority in funds to enable contractual obligations to be met as they arise.

The Accounting Officer added that he considered this to be the most practical funding approach in that it achieves financial certainty for the local authority while allowing OPW to set standards and retain overall control. It is also consistent with the strategy set out in the Report of the Flood Policy Review Group dated December 2003.

In regard to the delay in absorbing the advances the Accounting Officer informed that around two thirds of the projected unspent advances at end 2008 was attributable to schemes at Carlow and Waterford.

- In the case of the Carlow scheme there were delays in finalising contractual arrangements necessitating recourse to arbitration.
- In the Waterford case there has been delay in placing the contract due to a changeover to a fixed price contract and the reappraisal of flood levels following heavy rainfall and near flooding in the early part of 2008.

Audit Conclusion

The practice of advancing funds to local authorities before formal contracts are concluded by them needs to be reappraised. At a minimum, the level of advances by OPW and their timing should be aligned with outlays by the local authority. In addition, the practice of charging advances to the Vote as final expenditure may not accord with the requirements of *Public Financial Procedures*. OPW should clarify this with the Department of Finance. Overall, the outcome of this practice has been to charge €9m to the Vote for which work will still not have been completed one year later.