

9.**TRANSPORTATION AND PUBLIC WORKS -
REAL PROPERTY MANAGEMENT****BACKGROUND**

9.1 The Department of Transportation and Public Works, in accordance with the Public Service Act, is responsible for the superintendence, management and maintenance of all buildings and property owned by or under the control of the Province. This includes responsibility for determining space requirements in consultation with client departments and agencies, negotiating terms and conditions of leases, ensuring necessary renovations are completed before premises are occupied, and supervising the moving of government departments and agencies. In addition, the Department ensures that the government's office space standards are adhered to when space is occupied in either private or government-owned facilities. As well, the Department is responsible for the disposal of crown-owned buildings in accordance with the Surplus Crown Property Disposal Act.

9.2 The only significant exception to the Department's authority in these areas is where such powers are specifically vested in another government department through legislation. However, it is unclear whether the Department's legislated property management responsibilities apply to crown corporations and commissions such as the Nova Scotia Gaming Corporation and the Nova Scotia Liquor Commission. As a matter of general practice, most crown corporations and commissions manage their own space requirements.

9.3 There is some uncertainty with respect to the amount of space owned by government. However, it is estimated that government occupies approximately 2.5 million square feet of office space throughout the Province, of which 1.6 million square feet (64%) represent property leased from private property owners at an annual cost of approximately \$27 million. Of the 813,000 square feet of office space occupied in the Halifax downtown core, approximately 69% (563,000 square feet) is leased office space and approximately 31% (250,000 square feet) is owned.

9.4 The Department maintains Provincially-owned buildings occupied by government departments and various other government entities such as the Nova Scotia Hospital, the Nova Scotia Community College, the Art Gallery of Nova Scotia and the Provincial museums. Maintaining buildings is a significant challenge for the Department due to limited resources and the increasing average age of the buildings. According to the Department's business plan, most government-owned buildings are in excess of 40 years old. However, the actual age and condition of most government-owned buildings are unknown. The Provincial budget for 1999-2000 allocated approximately \$14 million to the Department for building maintenance.

9.5 The Department also leases space in government-owned buildings to organizations and businesses. For the year ended March 31, 1999 there were 37 leases which generated approximately \$1.8 million in rental revenue for the Province. However, one lease in Halifax accounts for \$1.3 million of these revenues.

9.6 The disposal of government-owned buildings is normally accomplished through sale or demolition of the building. During the year ended March 31, 1999 the Department had 12 buildings demolished at a cost of approximately \$320,000 and two buildings sold for \$2,432.

RESULTS IN BRIEF

9.7 The following are the principal observations from this audit.

- Responsibility for property management is not clearly defined by government and this may lead to inefficiencies in planning and conducting property management operations. There are 11 government departments other than Transportation and Public Works which exercise certain property management responsibilities. This appears to be inconsistent with Section 73 of the Public Service Act.
- Planning in the Department's Real Property Services Division is not comprehensive. The Department has not carried out an analysis of the future space requirements of government and there is no long-term strategy to guide government in meeting future space needs in an economical manner. This is due, in large measure, to the absence of accurate and complete information on government-owned property and on future space needs of government.
- The Department is aware of the more significant strategies for reducing the cost of providing space to government. It has implemented measures to reduce the amount of space used and has developed a draft policy on teleworking. However, the concepts of hotelling and increasing the ratio of owned to leased space should be given more formal consideration.
- Based on our examination of the Department's policies and practices, and a sample of lease transactions, we concluded that due regard is given to economy and efficiency in the leasing of space for government. However, there are two leases which, in our view, warrant additional reporting (paragraphs 9.38 to 9.46).
- Based on our examination of the Department's policies and practices, and a sample of property disposal transactions, we concluded that the Department complies with applicable legislation and regulations and has due regard for economy and efficiency in the disposal of surplus buildings.
- The Department does not have a formal preventative maintenance program for the buildings under its management, and generally is not allocated sufficient funds to address maintenance demands beyond those which are urgent. Consequently, there is no formal system for inspecting properties and keeping record of the relative age, condition and repair needs of government-owned buildings. In our view, not being able to adequately address preventative maintenance needs will add to the cost of operating and maintaining government buildings in the long-run.
- The Department's insurance requirements for government-owned buildings are tendered each year and replacement value coverage is obtained.

AUDIT SCOPE

9.8 In the fall of 1999 we completed a broad-scope audit of the Real Property Services Division of the Department of Transportation and Public Works, in accordance with Section 8 of the Auditor General Act. The objectives of this assignment were to review and assess the Department's:

- systems and procedures to ensure government's operational space requirements are met with due regard to economy and efficiency; and

- management and maintenance of government-owned and leased property to ensure they are performed with due regard to economy and efficiency.

9.9 As part of the first objective, we had intended to examine the government’s purchasing and constructing of buildings. However, government did not build or purchase any major buildings in the previous five years, so we focussed our examinations on currently owned and leased properties.

9.10 Audit criteria developed for this assignment were discussed with senior management at the beginning of the audit, and are outlined in Exhibit 9.2 on page 163. Our audit procedures consisted of interviews with Department management and staff, detailed examination of lease and property disposal files, as well as examination of significant reports and other documents.

PRINCIPAL FINDINGS

Operational Space Requirements

9.11 *Property management studies* - In 1994, the then Department of Supply and Services contracted with a private consultant to conduct a study of “government space” in the Halifax metro area. A number of significant recommendations were made to help government become more efficient, reduce its space costs and provide more suitable accommodations. Exhibit 9.1 to this chapter outlines recommendations of the 1994 study which are relevant to the scope of our audit.

9.12 In the fall of 1999, the Department of Finance and the Department of Transportation and Public Works completed an internal study of the manner in which real property is managed by government. At the time of our audit the final report of the study was not finalized. We reviewed a draft report and concluded that the study was comprehensive and addressed issues important to the efficiency and economy of the government’s management of real property. Some of the preliminary recommendations of the study were to:

- establish a corporate plan, define a clear central direction, and require that departmental program planning include accommodation planning;
- review and possibly revise legislation relating to property management responsibility;
- develop information systems to maintain and report on information important to the property management function;
- develop a business case for a new government-owned office building; and
- undertake an assessment of the condition of the existing properties.

9.13 These two studies provided us with valuable information for understanding and evaluating government’s property management practices. Some of the findings of our audit are consistent with the outcome of the studies. We commend government for having these projects conducted. We also encourage the government project team to finalize its report as soon as possible, and government to evaluate the recommendations of the two studies and prepare a plan of action to address the findings that should be implemented.

9.14 *Authority and responsibility* - The property management function of government is not entirely centralized. In actual practice, there are 11 government departments other than

Transportation and Public Works which exercise certain property management responsibilities. This appears to be inconsistent with Section 73 of the Public Service Act which indicates that the Department of Transportation and Public Works has responsibility for the superintendence, management and maintenance of all buildings and property belonging to or under the control of the Province, except where another department has similar legislated authority. A review of the Statutes of Nova Scotia by the Department indicated that this decentralized authority is not supported by legislation, but has evolved informally over a period of time. Management informed us that it is normal practice to permit other departments to pay for small property maintenance and construction projects, should the Department of Transportation and Public Works not have the necessary funds. In our view, responsibility for property management is not clearly defined by government and this may lead to inefficiencies in planning and conducting property management operations.

9.15 *Planning* - In our view, strategic and operational planning is critical to the efficient and economical management of real property by government. Government space requirements have been expanding and, for the 1999-2000 year, the cost of new space requirements is estimated to be \$2.6 million. As well, in the next few years, the Department faces significant challenges as a number of government departments which occupy a large amount of space in the Halifax metro area will have leases expire at a time when the amount of available space is decreasing and leasing costs are rising. For example, lease renewals are expected to add \$900,000 to rental costs in the year ending March 31, 2000.

9.16 We have found that planning in the Department's Real Property Services Division is not comprehensive. This is consistent with a finding of the 1999 government study referred to above. The Department has not carried out an analysis of the future space requirements of government. A long-term strategy has not been prepared to guide government in meeting future space needs in an economical manner. This is due, in large measure, to the absence of important information. An inventory of government-owned buildings has only recently been compiled, but management has indicated a degree of uncertainty about the completeness and accuracy of the inventory. Furthermore, information on the condition and value of buildings has not been determined.

9.17 The Department has begun a project to compile such information on government-owned buildings and to implement a computer system to store and analyze it. It is expected that once the computer system is fully operational, it will enable more thorough planning for government space needs. We discuss this new system in greater detail later in this chapter (paragraph 9.54).

9.18 An additional complication in planning arises from the fact that new government programs are established or existing ones are expanded without the Department being involved in planning for the additional space needs that arise. The Department is required to find new space, and not being made aware of future space needs well in advance hinders the Department's ability to plan. In our view, the Department should be consulted at the time that program changes involving space requirements are being contemplated by other government departments or agencies.

9.19 Knowledge of actual and forecasted vacancy rates and rental rates is important because it enables planning for space requirements relating to leases expiring in the near term. We observed that the Department has good access to such information through various means, such as actively participating in the Building Owners and Managers Association and subscribing to various commercial publications which report on market surveys.

9.20 *Cost reduction measures* - As part of our audit, we discussed with management various approaches to reducing the cost of providing operational space to government. These included reducing space standards, teleworking, hotelling, increasing the ratio of owned to leased space, and locating government offices in less expensive areas.

9.21 One recommendation of the 1994 study of government's use of space in the Halifax metro area was that "*Government should consider developing and implementing a revised set of space standards, policies and planning guidelines for office areas. These space standards should be more in keeping with the allocations set and approved in other jurisdictions.*" Office space standards were revised by government, effective August 1997. The new standards decreased the amount of space available to client departments, and thus served to reduce the lease costs of government. Paragraph 9.32 below discusses the application of the new standards in greater detail.

9.22 Teleworking is a concept whereby employees work from a location other than a traditional office. In practice, this may mean spending more time with clients and/or working from the employee's home. Teleworking has become a viable option in some industries due to innovations in information technology which reduce the importance of where the employee is situated. Teleworking can reduce rental costs by eliminating the need to provide office space for every employee.

9.23 Hotelling is another approach to reducing the amount of space provided to employees. The underlying concept behind hotelling is that employees who work a significant amount of time outside of the office (such as when servicing clients) do not require office space designated for their sole use. Space could be provided to accommodate just the number of employees that may be in the office at any one time, and such space would not be designated to specific employees. Rather, employees would be assigned space when they are scheduled to be in the office.

9.24 We discussed the concepts of teleworking and hotelling with Department management. We found that both have been given consideration by government as viable cost-cutting measures. Some small-scale teleworking trials have been conducted and a draft policy on teleworking has been developed. The policy contains criteria, guidelines and control mechanisms for making the arrangement work. However, this policy has not yet been approved by Executive Council. The government does not have a formal policy on hotelling, other than to ask departments to consider the viability of the concept when relocating or renewing leases. No formal criteria or guidelines have been developed to assist departments in this regard.

9.25 A major theme in the property management studies mentioned above was the need for government to increase its ratio of owned office space to leased space. At the time of our audit, the government owned approximately 31% of the approximately 813,000 square feet of office space that it occupied in the Halifax downtown area. The 1994 study conducted by a private consultant asserted that Nova Scotia has one of the lowest ratios of owned to leased space of all governments in Canada. We have not attempted to verify this assertion. However, the study makes a strong case for owning more buildings, including the following benefits:

- reduced operating costs and favourable payback on capital investment;
- greater convenience to users and staff (from having many government operations in one large building);
- eliminating disruption of constant moves;
- possibly revitalising an important area of the city; and
- greater flexibility for continual change in departmental organization.

9.26 We discussed increasing ownership with management of the Department who indicated agreement with the concept and stated benefits. The issue for the Department is to determine at what market rental rate it becomes more feasible to own property rather than lease it. At the time the 1994

study was completed, management believed that it was not necessary to conduct a formal analysis because rental rates were low and the cost-effectiveness of owning more space was highly unlikely. Now that rental rates are strongly on the rise in the Halifax metro area, the option is worth exploring more closely and a preliminary analysis has been prepared. However, at the time of our audit, the government had no formal strategy, policy or guidelines concerning the ratio of owned to leased space.

9.27 The 1994 study also discussed the issue of locating government offices in areas with lower rental rates, such as outside of the downtown area of Halifax. Department management indicated that this concept did not get serious consideration because of the strong demand by government departments to be located downtown, as well as the relatively low rental rates in the downtown area at that time. However, even though rental rates are now increasing in the downtown area, market surveys show that rates outside of the central core are not significantly lower. Thus, management sees no need to give this issue more formal attention at this time.

9.28 In our view, the Department is aware of the more significant strategies for reducing the cost of providing space to government. It has implemented measures to reduce the amount of space used and has developed a draft policy on teleworking. However, in our view, the concepts of hotelling and owning more buildings should be given more formal consideration.

9.29 *Property leasing* - The Department is responsible for finding office space to accommodate the needs of government. The space may either be leased or in owned buildings. We were informed that space available in government-owned buildings is considered before searching for space in privately-owned buildings. Leasing costs are borne by the Department of Transportation and Public Works, except in cases where a new lease results in additional space being acquired (effective August 1997). Costs relating to additional space are charged back to the client department or agency.

9.30 A computer system recently implemented contains information on leased properties, such as rental rates, lease expiry dates and the amount of space occupied. The system provides various statistics, as well as information for the preparation of financial forecasts and the annual budget. However, the Department has difficulty preparing accurate budgets and long-range forecasts because, as mentioned above, it is not made aware of the future space requirements of other departments on a timely basis.

9.31 Notification of lease expiry dates is generated by the computer system two years in advance. This provides lead time to begin the process of finding suitable space by either renegotiating a renewal of the existing lease, leasing in a different location or moving to a government-owned building. All major moves to new locations are supervised by Department staff, and moving is normally carried out over a week-end to limit the amount of disruption.

9.32 Office space standards are an integral part of planning the office relocation process. The standards apply to all branches of government required to adhere to the government's procurement policy. The standards were last changed in August 1997, which generally reduced the amount of space available to departments and agencies. The objectives of the standards are to clearly set out the total space permitted for the tenant, both as a whole and on a room-by-room basis. If space beyond that permitted by the standards is requested by a client department, the request must receive approval from the Priorities and Planning Committee of government, and the extra cost is charged back to the department making the request.

9.33 The Department subjects all government departments to the new space standards. However, the space standards are being implemented on an individual basis as leases expire because it is generally not feasible to renovate buildings during the lease period. Accordingly, not all government

departments comply with the new standards. Further, departments and agencies in government-owned buildings do not move often because they do not have leases. Many of these departments may not comply with the standards because, in such cases, renovations are only performed upon the relocation of a department. Although the space standards apply to crown corporations, there is little knowledge of the level of compliance since the Department of Transportation and Public Works does not manage property for most crown corporations.

9.34 When space requirements have been determined for a client department, a call for tenders is issued through the Public Tenders Office. It lists the requirements and conditions that bidders must address when preparing their bid. Generally, tender conditions require the responses to be priced on a “turnkey basis,” meaning that the property must be completely renovated and made ready for the tenant without additional work or cost by government. The Public Tenders Office posts all tender calls on the electronic bulletin board and publically advertises those over 2,500 square feet. All bids received are analyzed by the Department of Transportation and Public Works in consultation with the client department. Estimated moving costs and landlord inducements (e.g., free rental period) are factored into the evaluation of each proposal, and the cost of a proposal is assessed on its net present value. If the low bid is not accepted, the rationale must be documented and then approved by the Priorities and Planning Committee of government.

9.35 New leases are normally seven years in duration, with an option to renew for an additional five years. Should a renewal option be exercised, after negotiating a competitive rate, a new lease is signed and the landlord may be required to make certain leasehold improvements to the space occupied. A longer-term lease can be executed with the approval of the Priorities and Planning Committee of government.

9.36 Based on our examination of the Department’s space leasing policies and practices, we concluded that due regard is given to economy and efficiency. We also selected a sample of leases executed since 1995 to assess the level of compliance with government policies. We found that policies, including the space standards, are generally being followed. In cases where the lease was tendered (as opposed to a renewal of an existing lease), we found that the bid selected was the one with the lowest cost to the government, calculated on a net present value basis.

9.37 However, there are two leases which, in our view, warrant additional reporting.

9.38 *338 Charlotte Street, Sydney* - On May 1, 1998, the Province executed a ten-year lease for 6,007 square feet of space for the Department of Economic Development at a rental rate of \$27.69 per square foot. At the same time, it committed to 4,844 additional square feet at the same rate, starting September 1, 2001.

9.39 We understand that the Province did not tender for the space for two reasons. First, it had been in this building since 1995, but had sublet space from the Federal government. Secondly, the Department of Economic Development was participating in a joint service operation with the Federal government at this location. Because the Province did not tender for the space, the Department of Economic Development sought and obtained approval from the Priorities and Planning Committee of government for the lease contract.

9.40 We have a number of concerns about the lease. The average rental rate for the downtown Sydney area around May 1998 was approximately \$24 per square foot. Further, the Provincial government contracted and paid \$189,000 for renovations to the property, although this is not a normal practice of the Department of Transportation and Public Works when acquiring leased space. When the cost of renovations are factored in, the Province was paying approximately 30% above market rates for the space.

9.41 As well, the Department of Transportation and Public Works was not asked to negotiate the lease, even though it has legislated responsibility for property management in the government of Nova Scotia. In addition, we noted that government does not have a tenant identified for the space it has committed to occupy on September 1, 2001.

9.42 In conclusion, it appears that this lease was negotiated outside of the normal property management function of government, the rate is in excess of the market rate, and there is a future commitment for space for which government has not yet identified a need, at a rental rate that may or may not reflect market rates when the commitment comes due.

9.43 *1800 Argyle Street, Halifax* - Trade Centre Limited is a crown corporation owned by the Province of Nova Scotia. It is responsible for the operation of a trade and convention centre and the leasing of office and commercial space. When the World Trade and Convention Centre was constructed, the government located the Department of Economic Development in the office building forming part of the Centre. At the time of our audit, Economic Development still resided at this address.

9.44 The rent for the Department of Economic Development was set at \$26.63 per square foot when it moved into the Centre in 1985. A subsequent renewal of the lease was at a rate of \$23.95. The current lease between the government and Trade Centre Limited is for 65,470 square feet (of which 7,365 square feet is sublet to the Federal government) at a rate of \$25.73 per square foot. This lease was effective on February 1, 1997 for a five-year term, and there is a five-year renewal option available.

9.45 Based on our analysis, this rental rate was significantly above the market rate for similar property in the downtown Halifax area. The rental rate charged to the Federal government for the sublease is \$16.35 per square foot. Market surveys suggest a rate of between \$12 and \$15 was normal for the downtown area at that time. In our estimation, the annual rent paid by government to Trade Centre Limited would be \$700,000 to \$900,000 lower if market rates were applied at the inception of the lease. However, market rates in the downtown Halifax area have risen since 1997.

9.46 Since the lease for the Department of Economic Development was not tendered as recommended by Transportation and Public Works, and the rate was above market value, Economic Development sought and obtained approval from the Priorities and Planning Committee of government to enter into the lease. Although the monthly payments are recorded in the accounts of the Department of Transportation and Public Works as rent expense, we must conclude that a portion of the payments represent a subsidy from government to Trade Centre Limited.

9.47 *Disposal of surplus crown property* - The disposal of surplus buildings is governed by the Surplus Crown Property Disposal Act and its regulations. The Department of Transportation and Public Works is notified in writing by another department or agency that a building is being declared surplus. The Department becomes responsible for the full maintenance and security for the building until it is disposed of. This may result in unbudgeted additional costs for the Department. Such costs were estimated to be \$2.3 million for the year ended March 31, 1999.

9.48 We were informed that the Department rarely receives advance notice from other departments of their intention to discontinue use of a building, and accordingly has difficulty preparing budgets or long-range forecasts for this cost. This further emphasizes the need for more coordination of government property planning between the Department of Transportation and Public Works and all other departments and agencies.

9.49 When the Department acquires a surplus property, it considers alternative uses for it and consults the Crown Land Records Division of the Department of Natural Resources, which contacts

other departments, to determine if there is a need for the building. If it cannot be used, and depending on its condition, tenders will be called to either sell it or have it demolished.

9.50 We selected a sample of building disposals to determine if the Act and its regulations were being followed, and whether buildings were disposed of in an economic and timely manner. Based on the results of our tests, we concluded that the Department complies with applicable legislation and regulations and that it is timely in the disposal of buildings. Each of the disposals we examined were tendered. Low bids were accepted for demolition projects and high bids were accepted for sales of buildings.

Management of Government Leased and Owned Property

9.51 *Leaseholds management* - The Department is responsible for government's property management, both as tenant and landlord. As a tenant, it ensures renovations are properly carried out for newly leased property, and ensures any construction deficiencies are corrected before a client department moves in. Once the Department is satisfied that all significant leasehold improvements have been carried out, the lease is signed by the Minister. Notification is given to the Department's Corporate Service Unit to have lease payments issued each month. Should a significant issue later arise concerning the premises, the client department is required to contact the Department of Transportation and Public Works to have it resolved with the landlord.

9.52 As part of our audit, we examined a sample of government's leases with private property owners and concluded that they were properly authorized and supported, and that payments are accurate and being made on a timely basis.

9.53 The Department, in its role as a landlord, rents space in certain Provincially-owned buildings to other organizations. There is space in 37 buildings being rented, and this resulted in approximately \$1.8 million of rental revenue for the year ended March 31, 1999. The collection and recording of rent is the responsibility of the Department's Corporate Services Unit. We observed that receipt of lease payments are controlled and properly recorded. However, we noted that collection efforts on past-due accounts could be more rigorous, and that many leases are not current and need to be renegotiated.

9.54 *Government-owned buildings* - An integral and crucial part of managing property is to have an accurate inventory of buildings owned. Also, a comprehensive management information system is needed to store and analyze this information. As noted above in paragraph 9.17, one part of a project to capture property information was recently completed. An inventory of all buildings and structures owned by the Province was compiled, along with additional information such as square footage, heating system and type of exterior construction. The exercise showed 1,995 buildings and building-like structures (e.g., fire towers) were owned by government. However, no values were assigned and no assessment of condition has been made. Adjustments to the inventory are known to be needed because deficiencies have been found in the information (e.g., buildings not included, inaccurate square footage). However, responsibility for making corrections and for periodically updating the inventory has not yet been assigned.

9.55 The data obtained from the inventory project is being entered into another database which forms part of a system referred to as the Operational Financial Management Information System (OFMIS). OFMIS will be used to account for building maintenance costs and to assist in the planning and scheduling of routine maintenance programs. The system is still in the development and testing phase, but it is anticipated that it will be fully implemented during the 2000-01 fiscal year. It is also intended that it will be fully integrated with the Province's financial accounting system at some point in the future. However, there are 11 other government departments which incur some maintenance costs for repairs to buildings under their control and it is unknown at this

time whether these departments will access OFMIS to record the costs they incur. We believe that, to properly manage building maintenance and provide complete and accurate information on costs, a common system is needed.

9.56 Furthermore, government has committed to reporting upon capital assets in its consolidated financial statements. An accurate inventory and valuation of buildings will be required to carry out this commitment. We encourage the Department to complete the compilation of information on government-owned buildings and finalize development and implementation of the computer system in a time frame that will enable the government to meet its new financial reporting commitment.

9.57 *Preventative maintenance* - Aging buildings and government expenditure restraints make it increasingly important to have a good asset maintenance plan to ensure government accommodations are kept safe, healthy and suitable in a cost-effective manner. An effective program requires having reliable information on the age and condition of properties, as well as on the actual and estimated costs to maintain and repair them.

9.58 The Department has little information on building age and condition. Estimating the cost of maintenance and capital projects is accomplished by gathering requests for work from client departments and Transportation and Public Works building engineers. The Department has established six criteria against which to assess such requests. Client departments are notified of the criteria and the priority attached to them, and are asked to submit requests ranked according to the criteria. The criteria, in order of priority, are:

- legal requirements (health, safety and regulatory);
- building envelope integrity (critical);
- building envelope integrity (preventative);
- physical plant upgrade;
- economic benefit impacts; and
- program or service delivery requirements.

9.59 Building engineers and an internal review committee examine work requests to ensure they are reasonable and criteria rankings are appropriately assigned. The first two criteria are considered critical and funding is first allocated among projects that meet one of them. If a project meets one of the first two criteria and is unable to be addressed in the year requested, it will be considered a high-priority project in the following year. Departments are notified of approved projects and have the option of resubmitting in the following year any requests not approved.

9.60 Based upon the work requested for the 1999-2000 year, the cost of maintenance and capital projects is estimated to be over \$50 million. The Department will have approximately \$14 million to spend on work requests during this period. The Department estimates the funding will primarily pay for work which meets the first two criteria, and insufficient funding will be allocated to requests for preventative maintenance or capital projects. As mentioned above, certain departments have been permitted to pay for small maintenance projects should Transportation and Public Works not have the necessary funds.

9.61 The benefits of a good preventative maintenance program include increased service life of a building, early identification and cost-effective correction of deficiencies, and lower operating costs over the life cycle of a building. We believe that not having a preventative maintenance

program will allow Provincially-owned buildings to deteriorate and could cost the government more in the long-run. The draft report for the 1999 property management study clearly outlines serious concerns over the amount of maintenance being carried out. It states “... *due to deferred maintenance and obsolescence, many government buildings cannot be economically rehabilitated and should be slated for disposal...*”

9.62 Total funding available to conduct maintenance is not known until the Department’s annual budget has been approved. However, we have determined that the Department’s budget for maintenance work is developed by its Corporate Services Unit and senior management without having specific knowledge of the maintenance requests made. In our view, prioritized maintenance requests should be costed and form part of the Real Property Services Division’s budget submission to senior management. This will allow the magnitude of requested projects to be considered during Department budget deliberations and provide senior management with an opportunity to request additional funding to address all important and cost-effective maintenance projects.

9.63 A good preventative maintenance program also requires buildings to be inspected on a regular basis to identify maintenance requirements. As previously discussed in paragraph 9.17, a project to build a database of buildings and structures owned by the Province is underway, but it does not document the condition of buildings. Some general knowledge about the conditions of buildings can be derived from the work requests submitted by client departments and Transportation and Public Works building engineers. However, in many cases, qualified building engineers need to be more regularly involved to properly assess the condition of buildings and to suggest the best methods of maintenance. Senior management has informed us that the development of a program of routine inspections has not yet been finalized.

9.64 *Insurance* - We reviewed the Department’s insurance practices relating to real property and found that insurance requirements are tendered each year and replacement value coverage is acquired. We noted that the list of buildings provided to the insurance company is not complete and the value assigned does not necessarily reflect replacement value. However, as part of the tender instructions, insurers are notified that the list may not be complete and that coverage cannot be denied on the basis that a building is not on the list or is inaccurately valued.

CONCLUDING REMARKS

9.65 The Real Property Services Division of the Department of Transportation and Public Works gives attention to the economy and efficiency of its operations. However, inadequate funding for preventative maintenance, insufficient property-related information, unclear assignment of responsibilities and inadequately coordinated government-wide accommodation planning are likely limiting the Department in its ability to realize all of the cost-reductions possible in this area.

*Exhibit 9.1***RECOMMENDATIONS OF THE 1994 STUDY OF GOVERNMENT SPACE
BY ENVIRONMENTAL CONSULTING SERVICES LIMITED
CHAPTERS TWO TO FIVE**

1. Government should consolidate office space at fewer locations.
2. Government should reduce the number of leased sites in its inventory.
3. Those Government functions providing service directly to the public should be located in easy-to-find, accessible buildings. In multi-storey buildings, these functions should be closest to the front entrance.

Those Government functions not providing service directly to the public can be located in attractive and accessible buildings located away from the more expensive downtown area.

Several functions have a strong tie with Province House and proximity is required. A House "precinct" could be established for locating departments or functions which need to be near the House.
4. Government buildings should be of quality and character appropriate to the public service. All Government office space should meet a similar standard of quality and image.
5. Government should target buildings which have the capacity to accommodate entire functional groups or a number of related functional groups at one site.
6. Buildings occupied by Government should have a sufficiently large floor plate to permit entire functional groups or a number of related functional groups to be accommodated together on one floor.
7. No more than approximately 13% of the total rentable area available at leased sites should be shared spaces.
8. Core to perimeter distance in a building occupied by Government offices should be in the range of 60 to 75 feet. This provides a reasonable area for the design of an efficient, attractive and flexible office layout.
9. All Government buildings should incorporate the principles of barrier free access so that they are fully handicapped accessible. Older buildings without these features should be upgraded or phased out of the inventory over time.
10. Government should consider developing and implementing a revised set of space standards, policies and planning guidelines for office areas. These space standards should be more in keeping with the allocations set and approved in other jurisdictions. These space standards and policies should be in a Cabinet document.
11. Over time, all Government open office space should be equipped with systems furniture to support an attractive and equitable office environment.
12. The space allocations listed in the table on page 5-5 in Chapter 5 of this report are recommended for the Government offices of Nova Scotia. These allocations have been proven to provide ample space to create flexible, attractive workstations.

*Exhibit 9.2***AUDIT CRITERIA**

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design the detailed audit tests and procedures.

The following criteria were used in our audit of the Department of Transportation and Public Works.

- *Operational Space Requirements* - There should be sufficient and appropriate planning for the space requirements of the government. There should be a process for determining the most economical means of meeting individual space requirements of government departments and agencies. Appropriate processes should be used to ensure the leasing, purchasing and construction of property is conducted economically and efficiently. Appropriate processes should be used to ensure government property is sold for appropriate reasons and at competitive prices. The leasing, purchasing, construction and disposal of property should be in compliance with government policies and standards.
- *Management of Government Owned and Leased Property* - Leaseholds (government as lessee and lessor) should be managed in an efficient and economic manner. There should be appropriate planning for the long-term use and management of government-owned property. Government-owned property should be appropriately managed and maintained to ensure safety, as well as operational efficiency and effectiveness.

TRANSPORTATION AND PUBLIC WORKS' RESPONSE

As you are aware, we have already commented favourably to you on the professional manner in which the recently completed audit was carried out. We believe that it was well done and provided fair comment on the activities of the Real Property Services Division. We are pleased that the Office of the Auditor General was able to acknowledge the attention given by the division to the economy and efficiency of its operation. However, one area we feel requires clarification is with respect to the 1994 space study, one of two space/property management studies referenced in the report.

There could be the perception that this study should have been accepted and acted upon without reservation. In point of fact, the study was actually received with considerable disappointment. Some recommendations were found to be simple restatements of the obvious, ie. "Government buildings should be of a quality and character appropriate to the public service". Other recommendations were simply not correct when applied to the Halifax situation, ie. "...buildings located away from the more expensive downtown area", when, in fact, rents in the Halifax downtown were some of the lowest office rents in the Province; reference to "a House 'precinct' could be established", when the concept of a Legislative precinct had existed for many years and was a prime factor in government's decision to lease/purchase two buildings in immediate proximity to the Legislature in the late 1980's.

The recommendations which, in our judgement had merit, and were appropriate in the Nova Scotia context, were acted upon. For example, new reduced space allocation standards were developed and have been implemented; use of systems furniture in offices has been standard practice for some years; the Space Utilization Committee has been reestablished to review and decide upon all space requests; and work has begun on the development of a business case for the construction of a crown owned building to enable us to reduce the amount of space under lease, now that rising rental rates in downtown Halifax makes a new crown owned office building a viable option versus leased premises.

None of these comments are meant to take away from the quality of the audit report. We view the report as very helpful and support for our efforts to affect changes, improve efficiencies, and reduce overall costs in the maintenance and operation of government's real property assets.
