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**Auditor General
of Canada**
to the House of Commons

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Chapter 8
Public Works and Government Services Canada—
Acquisition of Office Space



Office of the Auditor General of Canada

The December 2002 Report of the Auditor General of Canada comprises 11 chapters, Matters of Special Importance—2002, a Foreword, Main Points, and Appendices. The main table of contents is found at the end of this publication.

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Chapter

8

**Public Works and Government
Services Canada**

Acquisition of Office Space

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies, and practices of the Office of the Auditor General of Canada. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

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Public Works and Government Services Canada

Acquisition of Office Space

Main Points

8.1 The Real Property Services Branch of Public Works and Government Services Canada (PWGSC) still faces some strategic planning, management, and reporting challenges. For example, it still lacks key planning tools. Without regional plans and consistent national information on the supply of space, it is difficult to match available space with the needs of client departments; management of the Branch recognizes that this affects its strategic planning ability. Further, while the Branch has the basic infrastructure for a reasonable system of performance management, it needs to improve its reporting to Parliament on what it expects to achieve and what it has achieved.

8.2 The Branch needs to make better use of financial and operational information and improve the way it analyzes options, particularly those with longer-term implications. It has difficulty accessing cost information and needs to do more work on creating cost information by client. Because investment in real estate involves large sums of capital and large lease payments, it requires a long-term perspective. The Branch needs to consider fully all practical alternatives, including the full costs of each. Good information and full analysis of options are needed to deliver service effectively to client departments and agencies.

Background and other observations

8.3 Providing office accommodation for the federal public service is a complex and difficult task. The Real Property Services Branch of Public Works and Government Services Canada has developed a good framework for managing the office accommodation of most of 187,000 public service employees, for which it has annual funding of about \$1.7 billion.

8.4 Because it shares roles and responsibilities with client departments, the Branch does not control all the factors that affect the economy and efficiency of office space acquisition. Client departments can and do make decisions that limit the Branch's ability to adopt what it believes are the most cost-effective solutions. However, the Real Property Services Branch does have an important role to play, and it needs to improve the way it manages several aspects of its responsibility.

8.5 The Branch has had to adjust to changes in the public service—which went from downsizing in the 1990s to expansion in 2001—and take into account the availability of space vacated by the high-technology sector in the National Capital Region.

8.6 In 1991 and 1994, we reported that improvements were needed to obtain information on client requirements in a timely way and to develop long-term accommodation plans.

8.7 The Branch has begun to take a more proactive approach by looking at a portfolio of owned and leased buildings in a given area and forecasting the needs of all clients, rather than meeting needs client by client. According to client departments and Branch staff, it has improved its service delivery by establishing client service units as a single point of contact for client departments.

8.8 Although it has made some improvements in planning and management, the Branch faces long-standing challenges. It is important that it resolve them, given the significant level of resources it spends on office accommodation and its key role in supporting departments and agencies that deliver programs to Canadians.

The Department has responded. Public Works and Government Services Canada has agreed with our recommendations. Plans and actions it has under way are indicated in its responses in the chapter.

Introduction

A mandate to provide cost-effective office space for most public servants

8.9 Public Works and Government Services Canada (PWGSC) provides a wide range of common services to support client departments and agencies in achieving their program objectives. The Real Property Services Branch of the Department provides office accommodation to about 100 departments and agencies for most of 187,000 federal public service employees. It manages about 5.6 million square metres of space and provides leadership and stewardship for the management and administration of office facilities. Providing office accommodation for the federal public service is a complex and difficult task.

8.10 The Branch, the Treasury Board and its Secretariat, and client departments share accountability for providing office accommodation. The *Federal Real Property and Federal Immovables Act* gives ministers the authority to administer real property. The Treasury Board has established several policies under the *Financial Administration Act* that provide further guidance on real property administration—the Common Services Policy, the Real Property Administration Policy, the Open and Fair Real Property Transactions Policy, and the Real Property Transactions, Processes, and Authorities Policy.

8.11 Under the *Department of Public Works and Government Services Act*, all federal real property that does not come under the administration of another minister, board, agency, or corporation is administered by Public Works and Government Services Canada. PWGSC is not responsible, for example, for office accommodation for Crown corporations. It is the designated custodian of office facilities, certain common-use facilities, infrastructures, and the Parliamentary Precinct. In specific circumstances PWGSC can collect revenues from client departments and agencies for its services in administering federal real property.

Responsibility for acquiring office space is shared with client departments

8.12 The Real Property Services Branch of PWGSC attempts to find solutions that meet the needs of client departments. It identifies options that, depending on the nature of the need, can include short-term leases or longer-term solutions such as purchased space, lease-purchase arrangements, or long-term leases. The most cost-effective solution may involve moving a client department's staff to a different building—or it could mean keeping them where they are.

8.13 Although the Branch attempts to find the most cost-effective way to meet their needs, client departments can decline to accept its proposed solutions. The total cost of office accommodation therefore depends on a combination of decisions, some of them made by client departments.

8.14 The Branch manages office accommodation in some 2,500 locations across Canada, with about 250 sites in Crown-owned office buildings. It made

Did you know?

Number of public servants for whom the Real Property Services Branch manages office space: **close to 187,000**

Number of square metres of office space it manages: **4 million**

around 750 lease transactions in each of 1999–2000 and 2000–01. Of the 5.6 million square metres or so of the total space managed by the Branch, 54 percent is Crown-owned, 38 percent is leased, and 8 percent is lease-purchased accommodation. Four million square metres is office space. The remaining 1.6 million square metres is special-purpose space such as laboratories and warehouses. The Branch manages its inventory of space and acquires new space through construction, acquisition, and leasing. Its responsibilities include providing strategic accommodation services so client departments and agencies can focus on delivering their programs efficiently.

8.15 The Branch has different relationships with different types of clients. Under the Treasury Board Real Property Management Framework Policy and the Common Services Policy, PWGSC is the designated custodian of general-purpose federal office facilities. The Real Property Services Branch provides a mandatory common service that is funded from a central appropriation. However, it also provides optional services to other custodian departments for a fee—architectural and engineering services, for example. Individual departments pay for those services out of their own budgets. The Branch manages the revenues and expenses of its optional services in a revolving fund.

8.16 While most departments do not pay for the Branch’s office accommodation services, it does have reimbursing clients—Human Resources Development Canada (HRDC), for example—who pay the Branch for accommodation services from their own budgets. Status as a reimbursing client is determined in legislation or in policy. Unlike custodian departments who manage and pay for their space, most reimbursing clients do not have the option of going to the private sector for office accommodation because it is a mandatory common service in the federal government, unless an exemption is granted.

8.17 The Branch’s appropriation funding covers base building costs in Crown-owned assets—those related to the buildings’ life cycle operation, maintenance, repair, and capital improvement—and the lease and fit-up costs of leased assets. Clients are responsible for equipment and furniture costs.

8.18 The Real Property Services Branch controls the use of space through space envelopes. As a result of the federal Program Review and the PWGSC’s Shared Accommodation Leadership framework, a space envelope was established for each department, based on its office holdings in 1995; the Branch manages the envelopes. When a federal department or agency requires additional space, it can be financed in two ways. One way is to obtain the Treasury Board’s approval for an increase in the Branch’s appropriation to pay for office accommodation costs associated with a new program. The other way is for departments and agencies to pay for the additional space from their own budgets.

8.19 Just as the space envelopes limit the quantity of space the Branch will fund for each department and agency, the Branch also limits the quality of office accommodation. It will fund only a certain portion of office improvements, based on its fit-up standards. For additional space or extra

fit-up that exceeds the established standards, client departments must pay from their own budgets.

Did you know?

Amount the Branch spends for accommodation each year: **\$1.7 billion**

8.20 The funds that the Branch planned to spend in 2001–02 totalled \$2.45 billion. Of that amount, \$257 million would come from the reimbursing clients of the Branch and \$1.448 billion from a central appropriation, for gross spending of \$1.705 billion (Exhibit 8.1). The remaining \$745 million would come from revenues received from custodian departments and managed through the revolving fund.

Exhibit 8.1 Summary of planned spending by the Real Property Services Branch for 2001–02

Planned spending	2001–02 (\$ millions)
Crown-owned office buildings—maintenance and construction	654
Leased office accommodation	581
Lease-purchase office accommodation	135
Overhead salaries and costs not billable to clients	156
Payment in lieu of taxes	123
Bridges and highways	56
Gross spending	1,705

Source: Real Property Services Branch

Good planning and information are vital for cost-effective service delivery

8.21 To manage its financial resources, the Real Property Services Branch needs timely and accurate forecasts against planned budgets. To manage office accommodation effectively, it works with client departments to maintain accurate information on its inventory of space and the supply available on the market and to forecast client demands. With many leases, tenants, and accommodation costs to manage, the Branch needs to have good information and accurate, timely billing procedures to charge for its services.

Client expectations are changing

8.22 The Branch is operating in a changing environment. In May 1998 it began to contract out property management services in many government buildings. HRDC, one of its two largest client departments, became a fully reimbursing client in 1997; the other, the Canada Customs and Revenue Agency, has authority through its enabling legislation to manage its own accommodation. Currently, with the Treasury Board Secretariat and PWGSC, it is examining the funding arrangements associated with becoming a reimbursing client. As a reimbursing client, the Agency would pay for the cost of its office space and not the Branch. In some of PWGSC's regions, these two clients account for about 50 percent of the Branch's business.

All client departments are demanding more timely service and better accounting for real property services; reimbursing clients are becoming more involved in their real property investment decisions.

Focus of the audit

The National Capital Area—This refers to the region of the Department that administers accommodation services in the geographical region known as the National Capital Region.

8.23 The audit focussed on the planning, acquisition, and management practices of the Real Property Services Branch of PWGSC in providing office space for federal employees. We did not audit disposals or major Crown projects. We selected and reviewed a sample of transactions in four of the Department's regions, including the **National Capital Area**. Further details on our audit can be found at the end of the chapter in About the Audit.

Observations and Recommendations

Planning for acquisition of office space

8.24 It is a major challenge for the Real Property Services Branch to balance the needs and demands of about 100 government departments and agencies with the supply of office accommodation in its own inventory and on the market. Office space becomes available at different times, in different regions, and in different quantities. It is a difficult task to reconcile the space available with the specific needs of a department for a particular type of space in a given location at a specified time. Good information is required to plan for meeting the needs of departments and agencies with the space that will be available when they need it.

8.25 In particular, the Branch needs to have good supply information—information about the space available on the market and the space it already has in its excess inventory. We expected to find that the Branch collects and uses supply information to take advantage of opportunities in the market and to plan for Crown construction where appropriate.

8.26 We found that the Branch has a variety of tools designed to provide the information it needs for strategic planning. These tools are important, because they provide key information such as market conditions and potential supply and demand—information the Branch needs to support its investment decisions. This information is developed through strategic plans at the community, regional, and national levels.

Key components of the long-term planning framework are not developed or implemented consistently

8.27 Although we expected that the Branch would provide clear guidance on strategic planning, we found that its planning framework does not spell out clearly what supply information the National Capital Area and the regions should use in their planning and how they should use it. For example, the regions do not routinely prepare a regional investment strategy, and the Branch's policy framework gives no guidance on when they are expected to do so. The Community Based Investment Strategy is used to obtain information on the supply of space by major city; it looks at the current supply and demand and at the anticipated needs of a client and recommends one of

three options: construction, acquisition, or leasing. It also looks at major trends and vacancy rates in the local supply.

8.28 The Community Based Investment Strategy is not prepared and used systematically: it is to be prepared for a specific city or community and used to consider more immediate regional priorities. At least once every five years, its planning assumptions and other variables are supposed to undergo a complete review. However, 4 of the 13 Community Based Investment Strategies we saw were more than five years old. Furthermore, a Community Based Investment Strategy had not been developed or implemented in all markets. For example, at the time of our audit there was no up-to-date strategy for Montréal or Québec. In addition, the Community Based Investment Strategy for the National Capital Region was no longer relevant: its recommendations had assumed a demand that was no longer valid. That is, it had not anticipated the growth occurring in the National Capital Region; it had assumed that downsizing would continue. The National Capital Area of PWGSC has not implemented the strategy because it has not determined how it will implement the recommendations. Its Community Based Investment Strategy states that components such as the leasing strategy and a retrofit plan need to be developed before the strategy can be implemented. Those critical components have not yet been developed. We also observed instances where the Branch's oversight committees had deferred decisions to recommend projects because there was no relevant Community Based Investment Strategy to assess whether the proposed investments were consistent with the available information on supply and demand.

Many of the issues are not new

8.29 In 1991, our Office reported on the planning and leasing of office accommodation by what was then the Department of Public Works. In 1994 we reported on the management and operation of Crown-owned office buildings by Public Works and Government Services Canada and custodian departments. We made several recommendations for action by the Department to define user requirements early, improve delivery times, and manage lease costs better. We also recommended that the Department improve financial and operational performance information so it could manage its resources for office accommodation more effectively.

8.30 In 1998, PWGSC's own internal audit function concluded that elements of the long-term capital planning process were not working as they should. It noted that many key planning documents either had not been developed or were outdated. The documents that did exist were not used consistently or linked to each other.

8.31 Without regional plans and consistent national information on supply, it is difficult for the Branch to match available space with the needs of client departments. Management recognizes that this affects its strategic planning ability.

8.32 Recommendation. The Real Property Services Branch of Public Works and Government Services Canada should fully implement its own

planning framework and investment strategy for office accommodation. It should ensure that all strategic documents are prepared in a timely way and the strategies implemented.

Department's response. Agreed. The Real Property Services Branch has already undertaken to develop and update Community Based Investment Strategies. The Branch will also review its regional investment plans and link them to Community Based Investment Strategies.

Acquiring office space and managing demand

Demand management is a shared responsibility between the Real Property Services Branch and clients

8.33 The Real Property Services Branch relies on client departments to give it accurate information on their requirements for office space far enough ahead that it can consider all possible solutions. We expected to find that the Branch collects accurate and current information on the demand for office space and uses it to meet its clients' current needs, to anticipate and plan for future needs, and to select the best accommodation choice based on a full analysis of options.

8.34 The Branch's accommodation policy framework indicates that the master occupancy agreement (MOA) is the primary accountability instrument between departments, agencies, and the Branch. An MOA sets out roles and responsibilities, and the department or agency agrees to co-operate with the Branch in identifying its future needs. The master occupancy agreement shifts some of the responsibility from the service provider to the client, freeing the Branch to concentrate more of its energy and resources on meeting the client's needs. The MOA is important because the Branch cannot by itself develop a long-term, national accommodation strategy by department and agency. As a starting point to put the MOAs in place, the Branch also needs accurate information on its national inventory of space and project information about each client.

8.35 The Branch made a commitment in 1991 to enter into national agreements with federal departments and agencies. However, currently it has master occupancy agreements with only 5 of the 100 or so departments and agencies. While management states that the specifics of the agreements have changed since 1991, it does recognize that MOAs are still important. It says that some are currently being developed and more need to be negotiated.

8.36 The Branch has not yet developed long-term accommodation plans by department and agency; and it needs to do this so the Branch and its clients can plan ahead and optimize the cost-effectiveness of their office accommodation. We understand that some departments, including HRDC and Health Canada, are working with the Branch to develop such long-term plans.

8.37 Recommendation. The Real Property Services Branch should follow its own policy and work with departments and agencies to develop national accommodation plans and master occupancy agreements.

Department's response. Agreed. The Real Property Services Branch will endeavour to develop more memoranda of agreement, starting with our larger clients; however, it should be noted that this requires the co-operation and commitment of our clients.

Sharing of information is not timely

8.38 Staff of the Branch told us that often they do not get timely information on the demand for accommodation and that client departments' requirements can change during the accommodation process. Getting information late on user requirements or having requirements change late in the process limits the Branch's options—building or buying requires more lead time than leasing. There is also a risk that the Branch will pay rent without having a tenant if, during the accommodation process, a client should change its mind about moving.

8.39 We found that the Branch lacks a systematic process to monitor the timeliness of transactions, the lead time it is given by clients, and the time needed to respond to requirements.

8.40 The Branch knows the renewal dates of leases, but it does not use that information as a basis to plan ahead systematically. Although its policy framework states that the accommodation process needs to allow for enough time, we found little in the Branch's office accommodation and leasing framework that explained when the process should start. The process has no formal mechanism that automatically triggers the contacting of the client and the beginning of the options analysis.

8.41 Staff of the Branch told us that 18 months is generally enough time to consider buy or lease options. We found in 47 percent of the files we examined that the process had started earlier than 18 months ahead, and later than that in the rest. Of 13 cases where the lease rate was higher than market rates, 4 were cases in which the Branch had run out of time to consider buy or build options.

8.42 In reviewing decisions of oversight committees, we observed some cases in which clients had failed to provide the needed input and commitment to the Branch on time. Getting information early from clients about their future requirements has long been a challenge for the Branch. Management believes that the situation has improved somewhat with the establishment of client service units (discussed later in this chapter).

8.43 Other factors affect the Branch's capacity for timely response to the needs of client departments. For example, its staff told us the Branch first learns that departmental programs will expand only after the Treasury Board has made those decisions. This gives the Branch little lead time to acquire the additional space that is needed. Client departments need to communicate their requirements as early as possible.

The Branch faces risks when client commitments are not secured

8.44 The Branch often acquires space to meet a specific demand; that is, it already has an agreement with a client department to move into the space.

However, it has recently begun acquiring space prior to reaching agreements with specific clients to occupy the space. This can allow it to take advantage of opportunities to acquire property at favourable prices. Having space already available can also help shorten the time required to meet demands when they arise. At the same time, though, acquiring space before it has an agreement with a specific client means that the Branch risks paying rent for a space with no tenant if a department should change its mind about moving or decline to move into the acquired space.

8.45 We reviewed two cases in which the Branch had acquired general office space without having a commitment from a client.

8.46 In the first case, after leasing the space the Branch negotiated with a client department for several months and believed it was close to an agreement. However, the client department decided not to move to the building.

8.47 The Branch had leased the building already fitted for office space, and it was quickly able to identify another client department interested in the same type of space and in the same part of the National Capital Region. It now has a commitment from the new client to move in by a specified date. The Branch believes that in this case it successfully managed the risk involved in acquiring space without an identified client committed to occupancy.

8.48 In the second case, too, the Branch had leased space to meet a general demand. Construction was needed to add floors to the building before it would be suitable. This time, the Branch had great difficulty finding a client department willing to move into the space.

8.49 A potential client that it identified clearly did not want to move to a location in a part of the National Capital Region that far away. At the time public transit was cited as a big problem. It was not clear to us that the Branch had considered the issue adequately before acquiring the space. In fact, the file shows that it had anticipated a possible reluctance to move to that particular location.

8.50 Eventually, it was decided that the client would remain where it was. Another client was later identified and, if everything goes according to plan, that client is expected to move in December 2002. The occupancy date is 16 months later than the Branch initially planned.

8.51 Even if this move occurs as now planned, the Branch will have paid over \$2.7 million in rent for an unoccupied building. In this case, the Branch had difficulty managing the risks involved in acquiring space without first identifying a client.

8.52 In the first case, the risk was mitigated because the condition and layout of the space were already close to what the eventual client needed. In addition, the space was located in a suitable area.

8.53 In the second case, the risk was much harder to manage. The building required construction and the location made it difficult to find clients. We are

concerned that the Branch committed to a nine-year lease at this location despite early indications that finding a client would be a problem. Furthermore, the construction involved and the lack of an identified client and client requirements at the planning phase of the acquisition created a high risk that the space could not be ready in time.

8.54 As already noted, acquiring space prior to having an agreement with a client can yield benefits. However, the Branch needs to assess the likelihood of finding a client willing to occupy the property, and it needs to consider the risk of increased costs should a client not be found within a reasonable length of time.

Decisions by client departments can limit the options available to the Branch

8.55 A client department may insist that accommodation proposed by the Branch does not meet its operational requirements. In some cases, client departments insist on a specific location, in effect eliminating the Branch's role of seeking the best option. We observed cases in which client departments made it clear that they had no intention of moving from their current premises. In those cases, the Branch had to forgo finding solutions that might have been more cost-effective.

8.56 Options analysis needs to include long-term costs of options. Because investment in real estate involves large sums of capital and large lease payments, it often requires a long-term perspective. Treasury Board policies require the Branch to base its decisions on the long-term costs of available options. However, we found that it did not consider the option to buy or build but limited its analyses to the lease option—in some cases because it did not have enough lead time to consider all alternatives. In cases where no Crown-owned space was available, it also considered only the lease option.

8.57 The Branch's analyses compare the net present value of discounted cash flows for various options. We noted that the results of the comparison can be influenced by the term of the lease: a short-term lease appears to be less expensive than the buy or build option. Basing lease costs on the full time span over which a space will be leased would make the lease option more comparable with the buy option.

8.58 In the sample of 80 files we reviewed, there were 9 cases in which the Branch had been leasing the location for over 20 years. We are concerned that over the long term, lease renewals are not always the most economical option. We observed that in its options analysis, the Branch did not always use information on total lease payments or keep track of the original lease dates. The Branch did not monitor the full costs of leasing over the long term.

8.59 Although we recognize that its leasing decisions can be influenced by factors other than cost, such as the operational need for a client to stay in its current location or a lack of capital funding, the Branch needs to analyze fully all practical alternatives—including their full costs—before deciding on an option.

8.60 In some circumstances, the client has an only temporary need for which a longer-term solution would not be practical. For most ongoing needs, however, we are concerned that the Branch's methods of options analysis could favour continuing the renewal of short-term leases as the least expensive solution when actually it can be the more costly option over the long term.

8.61 Recommendation. The Real Property Services Branch should review its methods of options analysis to ensure, where practical, that long-term options are considered fully.

Department's response. Agreed. As stated in the chapter, the Real Property Services Branch has already changed its direction to a more proactive supply management approach based on portfolio acquisitions. This enables the Branch to acquire the right property, which will allow proper lead times to consider all investment options. The Branch will also put in place a process whereby expiring leases are flagged well in advance to ensure that all appropriate investment options can be analyzed when dealing with the replacement or renewal of the lease.

Preparing a full, long-term cost analysis is only the first step. When long-term benefits point to purchase or build options, the Treasury Board must be prepared to consider funding these options.

The Branch has a single point of contact for client departments

8.62 In 1995–96, the Branch was reorganized to simplify client service through a single window—the client service unit. According to PWGSC's internal audits, client departments and Branch staff generally viewed the organizational change positively. Client service units have a standing contact in each client department and agency. The units are supported by representatives from several centres of expertise: asset and facilities management services, architectural and engineering services, office accommodation and real estate services, strategic management, and policy framework and resource management. The client service units are located in PWGSC's five regions and its National Capital Area. Each client service unit works closely with facilities management staff in each department and agency.

8.63 Role of Client Accommodation Services Advisor is key to managing demand. As a provider of a specialized common service, the Branch needs skilled professionals who understand the real estate service and leasing industry. According to client departments and Branch staff, in consolidating various functions into client service units the Branch has improved its delivery of service. The Client Accommodation Services Advisor (CASA) is the client's primary contact in the client service unit for all its accommodation needs.

8.64 The CASA is responsible for getting timely information on the demand for space, is responsible for options analysis, and is the overall co-ordinator of services related to a client's lease renewal or its relocation. In some regions, however, both Branch management and client departments told us they are concerned that the CASAs may be overworked, affecting levels of service.

They feel that CASAs' responsibilities may be excessive and they may not have adequate tools, such as costing information, to carry out their duties efficiently. PWGSC's internal audit function recommended in 1998 that the CASAs be given more support to carry out their responsibilities. "The onus of making leasing work within the new business management model falls squarely on their shoulders," said the audit report.

8.65 The Branch has informed us that of 223 CASA positions, 55 were vacant in July 2002. It is looking at the workload and plans to review the CASAs' responsibilities.

Management decisions are not documented consistently

8.66 We reviewed a total of 80 sample files of the Branch from four of the Department's regions, including the National Capital Area. The Branch's policy requires its staff to complete investment analysis reports and market analysis reports for all new lease and lease renewal transactions.

8.67 Important documents not kept on file consistently. From our review of the sample, it appears that management does not systematically monitor key items of business such as the prices paid for leases and the timeliness of project completion. In the 80 files, we noted that 29 percent did not contain investment analysis reports and 34 percent lacked market analysis reports. After a search by the regional offices, the Branch provided us with information that we had not found in the files. Ultimately, 14 percent of the files were missing investment analysis reports and 21 percent were missing market analysis reports.

8.68 We are concerned about the files' lack of this information because it suggests that Branch employees who need it do not have the tools to do their jobs. Further, without market analysis reports the Branch cannot determine whether it is getting the best prices.

8.69 The Branch's policy requires the asset and facilities management sector to complete building performance reports once a year so the condition of leased buildings can be assessed. The information in these reports provides a basis for the Branch to assess whether landlords are meeting their responsibilities to maintain their buildings to the agreed standards. We examined building performance reports for premises leased in the National Capital Region.

8.70 In our sample of 19 leases we found that the Branch had received only 9 of the reports on building performance, and those provided only cursory information of questionable usefulness. The Branch needs to examine whether the current process for reviewing building performance is adequate to manage leased buildings.

8.71 Recommendation. The Real Property Services Branch should introduce more discipline and rigour into its collection and use of information, including demand information, in managing the acquisition of office space. It should ensure that the required reports are available to decision makers for each transaction and that decisions are fully documented.

Department's response. Agreed. As noted in the chapter, it is essential that clients identify their needs well in advance. The Real Property Services Branch will increase its efforts to gather client demand information earlier. The Branch will take steps to improve the timeliness and accuracy of the data in the Tenant Accommodation Demand System and ensure that files contain the appropriate reports. In addition, a new automated tool (RECAPP[®]) for measuring the condition of our own buildings is in the implementation stage.

Managing information

The Branch lacks complete and accurate information about the costs of its services

8.72 We expected the Branch to have adequate financial management and reporting capacity, including timely and accurate information, to manage its resources effectively and meet the needs of clients.

8.73 The Branch's clients who are funded by appropriations need to have sound information on their space envelopes so they know the costs they will have to pay. Fully reimbursing clients, such as HRDC, already know how much the Branch's services cost because they pay for them. Fully reimbursing clients are more demanding, have more information, and are better able to hold the Branch to account for dollars spent and results achieved.

8.74 The Branch recognizes that information systems are critical to support its principal business processes. It maintains business information in 16 national systems.

8.75 Both the Branch and client departments have recognized that the Branch's information systems have significant weaknesses. The Branch has identified the following concerns:

- existing systems are not positioned well to support the Branch's business management model;
- systems are not integrated and cohesive; and
- staff, management, and clients have difficulty accessing information in the Branch's systems when they need it. The Branch's ability to share system-based information with its clients and service delivery partners is limited.

About half of the managers we interviewed in 15 client departments have had problems with the timeliness of the Branch's billing and costing systems.

8.76 The Branch established the Business Information Taskforce in 1999 to address some of these concerns. The Taskforce examined information systems available on the market and found no single information system that could accommodate the complexities of the Branch's role as service provider and landlord. We noted that the Taskforce has not yet established target dates for resolving the major systems problems. The Branch informed us that it is developing strategies to help define user requirements and to expand and enhance data integrity; it is also considering other initiatives to help it improve its management of information.

8.77 In interviews at several of the Branch’s client departments, we asked about the quality of service they receive from the Branch. Some departments said that the Branch is taking a more strategic approach and has improved the way it does business. However, others were unhappy with the quality of its financial information and its response times for projects. They expected the Branch to provide accurate information about project costs. Certain departments also expressed concern about the reliability of the Branch’s information on the space they occupy.

8.78 The Branch does not know how much its services to each client cost. It needs to develop cost accounting and ensure that its operational information is complete and accurate. The Branch recognizes that it has difficulty accessing the cost information it needs to account completely for the cost of each centrally funded client’s accommodation, including the cost of overhead and capital projects. The Branch is planning a pilot project on cost accounting for its services to HRDC this year.

8.79 Financial information for project management is a particular concern. A PWGSC internal audit in 1999 noted, “The total approved project amount which may be committed over several years is neither recorded in the Financial Management System (FMS) nor in the PBMS [Project Business Management System].” It further stated, “There is, however, no official system in use for monitoring the total project expenditure against the total amount approved for the project.” We noted that the Branch is taking steps to improve the Project Business Management System.

8.80 Although the Branch is beginning to take corrective action, progress has been slow. Many of its staff believe that the Branch’s systems do not provide accurate and complete information to meet their business needs. Staff told us that maintaining and using the systems is cumbersome and labour-intensive.

8.81 Recommendation. The Branch should develop an accurate management information system to ensure the completeness and accuracy of its financial and operational information.

Department’s response. Agreed. Projects designed to improve information management are already under way at the Branch and sector levels. Improvements to the Facility Inventory System are already complete, and further improvements are being made to the Financial Management System.

Managing performance and reporting to Parliament

A need for good measurement and reporting of performance

8.82 Like other departments and agencies, PWGSC provides Parliament with information on its performance annually, in its performance report. The Real Property Services Branch provides performance information to its own staff in its *Business Bilan* publication. The 2001–02 mid-year edition of this publication presents 36 performance indicators under the headings Client Success, People, Assets, and Financial Success, giving management and staff information on performance, trends, opportunities, and responses for each indicator.

8.83 In examining certain aspects of the Branch's performance measurement and reporting, we expected to find appropriate information for use in decision making by management and staff. We also expected to see information provided to Parliament on the use of public money and the results achieved.

The Branch has the basic infrastructure for a reasonable system of performance management

8.84 The Branch involves managers in the development, use, and revision of performance information. It has identified key players and requirements for implementing a performance management system and has assigned a specific individual to lead and co-ordinate performance measurement. We encourage the Branch to continue its commitment to focussing on performance.

8.85 Performance measurement at the strategic level is a core function of the budget management process. We have noted that the Branch has done no study to determine clearly what resources are needed to collect performance information, what information is needed, how often it is needed, what information is available, and how well the Branch meets its information needs. The Branch's performance management function needs client and human resources information from Branch systems that are outside its control and influence.

8.86 The Branch is beginning to use performance information in strategic planning. The Branch's strategic framework integrates performance information with strategic planning processes to help managers understand the linkages between performance, planning, and budgeting and to influence their priorities.

8.87 Targets have been identified for most key performance indicators, and achievement against targets is reported twice a year. While it does not use performance information as part of day-to-day decision making, the Branch does have management agreements that include commitments to use quantitative performance information.

Reporting to Parliament needs improvement

8.88 We assessed the information on the Branch's performance published in PWGSC's 2000–01 *Performance Report*. We looked for a clear description of organizational context and strategic outcomes; clear and concrete expectations for performance; reporting of key results against expectations; support for the reliability of performance information; and demonstrated use of performance information—five criteria for a credible performance story. We found that the information in the performance report needs to be improved to meet the five criteria.

8.89 Is there a clear description of organizational context and strategic outcome? The Department and the Branch provided a clear picture of their operating environment, operations, and challenges. However, the Branch had not articulated clearly and in measurable terms what it expected to achieve; had not reported progress made in its performance; and had not made clear to

Parliament how the achievements it reported were linked to stated objectives. The Branch also failed to discuss the risks to achieving planned strategic outcomes, and it did not identify all key partners and their roles.

8.90 Are performance expectations clear and concrete? We found that few of the performance expectations specifically stated a direction for change (increase, maintain, or decrease), an amount (number or percent), and a time frame (for making a change).

8.91 Are key results reported against expectations? The Branch's section of the PWGSC performance report was relatively strong in aligning results with previously stated performance expectations. However, it did not discuss major challenges to achieving key results; nor did it provide the overall cost of the Branch's activities by planned strategic outcome.

8.92 Is there support that indicates the reliability of the information in the performance report? We found little in the performance report to help readers judge the accuracy of the information.

8.93 Does the performance report demonstrate how the Branch has used its performance information? We were unable to find examples demonstrating that performance information was used in decisions about the management of the Branch's services or strategies so it could deliver better results to Canadians.

8.94 Recommendation. The Real Property Services Branch should improve its reporting to Parliament. In particular, it should clearly articulate what it expects to achieve, report on its performance, and make clear to Parliament how the reported achievements are linked to stated objectives.

Department's response. Agreed. The Real Property Services Branch will develop an improved performance framework with clear statements of our expected achievements. In addition, the Branch will link the achievements to our strategic objectives.

More can be done to ensure the quality of performance information

8.95 The Branch continues to work toward ensuring that it has comparable, appropriate performance information by collaborating with other organizations in the private and the public sectors that are in the same line of business. For example, at an international conference on public sector workspace issues in June 2002, staff of the Branch presented a paper jointly with one of the Branch's business counterparts that serves both private and public interests.

8.96 The Branch undertakes and reports on surveys of client and tenant satisfaction. While the surveys themselves are well done, the sampling methodology does not facilitate year-to-year comparisons or allow for using the information to establish an overall measure of satisfaction. The Branch has committed to continuing its efforts to improve its survey practices.

8.97 The Treasury Board policy on transfer payments sets out an approach to performance measurement, which is similar to the Branch's own new

performance measurement approach. Once fully implemented, the Branch's approach will help to move performance reporting beyond activities and outputs to outcomes and measures that are linked to stated objectives.

8.98 The Branch's performance measures are not well defined. Good definition establishes both an explanation of the measure and the methodology for its calculation. It is important that the definition contain enough information about the measure that it can be understood easily. It is also important that its calculation be described in enough detail to allow replication.

8.99 The Branch has not assessed its performance information systems to ensure that they are protected against unauthorized access and that adequate controls are in place to maintain data integrity. Nor have the systems been assessed—for example, through periodic audit—to ensure that performance information is valid, accurate, and reliable.

8.100 Recommendation. The Real Property Services Branch should ensure that it has clear and complete definitions of all performance measures and indicators. It should establish procedures to assess the accuracy and validity of all reported information on performance.

Department's response. Agreed.

A change in the way of doing business

8.101 During the federal Program Review in the 1990s, the Branch was operating in an environment of government downsizing and budget cuts. Given the decreasing size of the federal workforce, the Treasury Board called for a reduction in the amount of office accommodation. Funding was difficult to obtain for large capital projects, such as the construction or purchase of government offices. PWGSC had to adjust to these changes and plan accordingly. For example, the Community Based Investment Strategy for the National Capital Region was based on the assumption of a downsizing environment.

8.102 In early 2001, PWGSC faced two major changes. First, the government workforce began to expand, in sharp contrast to the downsizing that had marked the previous decade. Second, in the National Capital Region the downsizing of the high-technology sector meant that a significant number of properties became available. These changes have given the Branch an opportunity to make some longer-term strategic decisions.

8.103 The recent National Capital Area Supply Strategy framework is indicative of better long-term capital planning by the Branch. A series of submissions to the Treasury Board shows a proactive approach to developing a supply strategy in the National Capital Region. This new approach includes acquiring major capital assets, such as Ottawa's former City Hall and the Royal Bank Building, and taking advantage of the space vacated by the high-technology industry. Given that this market sector accounts for about 51 percent of the Branch's national inventory, it is critical that it be managed well.

8.104 Being more proactive is another aspect of the Branch's new approach. The Branch has begun to acquire space before it has firmly identified a department or agency as a tenant. This gives it some flexibility to take account of expiring leases and allows for any swing space needed while space in its inventory is rehabilitated. There are risks associated with this approach. As noted earlier, departments may decline to move into a particular building.

8.105 In recent years, the Community Based Investment Strategies have helped the Branch improve its long-term planning. It has detailed analyses of its inventory of space and a good forecast of client demand. Although the information in a Community Based Investment Strategy applies only to a specific city, the supply/demand analysis approach is sound and the strategies lay a good groundwork for decisions about assets.

8.106 The Canada Customs and Revenue Agency is the largest client for the Branch's accommodation services. By becoming a reimbursing client, the Agency itself would manage funding of more than \$223 million for accommodations. This would shift the present balance in the client/service provider relationship and create new demands on the Branch to provide timely, good-quality service and account for the level of service it provides.

8.107 The Branch is taking steps to improve its information systems; it has established the Business Information Taskforce to examine the integration of business processes and information requirements. Charging clients user fees is a part of its management approach. Management believes it has a client-focussed business strategy and says it is keenly aware that its prime mandate is to provide responsive common service.

8.108 Management also says that the Branch hopes to provide better service and react more quickly to client needs by improving its costing, becoming more client-oriented, and improving its efficiency. A May 2002 assessment of departmental services suggests that PWGSC has made substantial progress over recent years in changing the culture of the Department as a whole, giving it a service orientation.

8.109 By engaging in strategic portfolio management, the Branch has begun to identify its best assets so it can target areas for long-term investment. It is also developing components of long-range plans and regional strategic action plans to help co-ordinate and integrate activities. The Branch believes that strategic portfolio management will reduce costs, improve efficiency, and help achieve full integration of the Branch's investment strategies.

8.110 The Branch's vision statement reflects the attitude of the organization: "To be recognized as adding value to achieving client and government objectives through the delivery of the most timely and affordable real property program and services." The Branch believes it has started to improve its efficiency and is working toward better value for money in its services by controlling the costs of the accommodation it provides. It is also examining risk management to ensure that risk is addressed from an organization-wide perspective as well as a Branch and a project perspective.

Conclusion

8.111 Providing office accommodation for the federal public service is a complex and difficult task. With \$1.7 billion at its disposal and a mandate to provide a productive work environment for most of the 187,000 employees of the government, the Real Property Services Branch has a major responsibility. Effective planning and acquisition of office accommodation is a responsibility it shares with its client departments and agencies.

8.112 Over the years, we have reported to Parliament that the management of office accommodation needs attention. Our 1991 and 1994 reports recommended that needed improvements be made to obtain information on client space requirements in a timely way. We also recommended that long-term accommodation plans be developed.

8.113 While the Branch cannot always control the factors that affect the efficiency and economy of office space acquisition, it has an important role to play in managing the areas of responsibility that it can control. Improvements are needed in several areas.

8.114 The Branch's strategic planning still lacks some key elements. Without regional plans and consistent national information on the supply of office space, it is difficult to match available space with the needs of client departments. Management in the Branch recognizes that this affects its strategic planning ability. When clients do not identify their own requirements accurately and in a timely way, the Branch needs to take a different approach to forecast and respond to demand.

8.115 Because investment in real estate involves large sums of capital and large lease payments, it often requires a long-term perspective. Treasury Board policies require the Branch to base its investment decisions on the long-term costs of available options. However, we noted that its options analysis does not always look at complete life cycle costs or at all options. The Branch needs to review its methods of options analysis to ensure, where practical, that the long-term costs of options are considered fully.

8.116 The information systems of the Branch do not provide all of the tools needed to support its business processes. The Branch recognizes that it has difficulty accessing cost information and that additional work is needed to create cost information by client.

8.117 Client departments and Branch staff believe that the way the Branch has now organized itself has improved its service delivery. Client service units provide a single primary contact for departments and agencies. While the Branch needs to improve its reporting to Parliament further, it does have the basic infrastructure for a reasonable system of performance management.

8.118 Although the Branch is improving its management and planning processes, some of the concerns we have raised are long-standing. It is important that the Branch resolve them, given the significant level of resources it spends on office accommodation and its key role in supporting departments and agencies that deliver government programs to Canadians.

About the Audit

Objectives

The audit objectives were to determine the extent to which the Real Property Services Branch of Public Works and Government Services Canada

- exercises due regard to economy and efficiency in meeting its responsibilities for planning for and managing the acquisition of office space, and
- complies with applicable government regulations and policies in carrying out its office space acquisition activities.

Scope

We examined the Branch's operations in four of the Department's regions, including the National Capital Area. We reviewed systems, controls, and management practices related to the planning, acquisition, and management of office space. We also examined a sample of 80 transactions from the four regions. We did not audit the Parliamentary Precinct.

Criteria

We examined the Branch's planning, acquisition, and management of office space against the following criteria:

- The Branch should have appropriate tools available to anticipate future needs, analyze the range of available options, and support its decisions. These tools would include strategic plans and models, policies and guidance, and management information and processes related to office space acquisition.
- In taking action to meet the needs of client departments and agencies, the Branch should use the tools appropriately and consistently and follow relevant Acts and regulations, Treasury Board policies and guidelines, and departmental policies.
- The Branch should have and use performance measures to manage its activities, such as appropriate benchmarks and client satisfaction surveys. Performance management should include appropriate reporting to Parliament.
- The Branch should have complete and accurate management information and financial information to support decision making.

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