



Government of **Western Australia**  
Department of **Treasury**

Strategic Asset Management Framework

# Asset Retention and Disposal





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# Introduction

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## Purpose

This module provides the principles and policies to assist agencies to identify assets that should be retained, and those that should be disposed of because they will no longer contribute to the service delivery outcomes expected by Government.

The module also provides the standards and model for the content, development and review of an agency's strategic disposal plan.

## Application

This guidance should be applied by general government agencies (for which the ownership of assets rests with the State). Other agencies should also apply the guidance to the fullest extent possible, subject to the provisions of their enabling legislation that relate to the ownership, retention and disposal of assets.

## Asset Types

This guidance applies to the following types of assets:

- real property Crown land vested in the agency/responsible Minister;
- real property held in freehold by the agency/responsible Minister; and
- non-real property assets such as machinery, major vehicles and information and communications technology.

In broad terms, real property refers to land and all structures attached to it, such as facilities, buildings and fences.

Non-real property assets should be included in an agency's strategic disposal planning and disposed of in ways that are consistent with the Disposal of Goods policy of the State Supply Commission. In essence, such assets should be disposed of in a manner that is ethical, equitable and efficient. When practicable, disposal should maximise the financial return to the Government through means including sale, transfer, auction or community reuse.

## Principles

The regular, objective review of whether to retain or dispose of an asset is an important part of strategic investment planning and the normal life cycle of an asset.

## Retention

An asset should only be retained if it contributes directly to current or future service delivery outcomes expected by Government and to the core business of an agency as explained in its strategic asset plan.

The retention of an asset may also depend on whether the continued investment of State funds would be cost-effective from a financial perspective, and whether the asset will provide strong public interest benefits.

## Disposal

Asset disposal should be well-planned and managed to ensure that maximum value for money is achieved for Government, and that probity and transparency are upheld.

Disposal should be at market value, unless specific exemption has been provided by Cabinet.

Disposal involves costs and risks and should follow a set schedule, including for the preparation for sale through value-adding, land preparation, stakeholder engagement, and residual management and maintenance.

The timely and cost-effective disposal of assets avoids depriving the Government and an agency of funds that could be better used to deliver services.

## Disposal Plan

### Strategic Justification

Each year, an agency updates its strategic asset plan to ensure that its future, asset-related service delivery objectives are clear. As part of this review, an agency considers how long its assets will be required. An asset is included in its strategic disposal plan as soon as it is identified as surplus to the agency's business model.



The disposal plan addresses the following key issues:

- when an asset will be surplus;
- how disposal would be consistent with the agency's service delivery model;
- the main reasons for disposing of each asset;
- the order of priority for each disposal;
- the likely market value and net sale proceeds from each disposal, in broad terms; and
- the main risks associated with each disposal action.

## **Value**

A balanced approach to retention and disposal allows an agency to consider the best way ahead consistent with the SAMF principle that strategic asset planning and management should maximise the service delivery benefits accrued from existing assets, before deciding to replace them.

A sound disposal plan helps to mitigate the risk that an asset will be retained for too long, or disposed of too early, either before or after the full benefits have been realised from its use.

## **Standards**

A disposal plan should meet the standards outlined in the SAMF model which accompanies this guidance.

## **Responsibility**

The annual review and update of a disposal plan, and any proposals to dispose of an asset, are led and signed-off by the accountable authority in an agency, based on advice from senior strategic investment planners and relevant heads of asset planning and management areas.

## Approvals

An agency's strategic asset plan, including its disposal plan, is considered for approval by the relevant Minister as part of the annual Budget cycle. An agency's annual Budget submission should include proposals to dispose of major assets for consideration by Cabinet. The advice on the disposal items should meet the standards in the SAMF Business Case module.

A recommendation to dispose of an asset may also arise during development of a business case, for example, as the options for the location of an asset and the sale of existing land holdings are refined. Depending on the nature, location and scale of the property, the business case may need to be considered by Cabinet.

## Net Sale Proceeds

As outlined in part two of this module, the net sale proceeds from the disposal of real property are returned to the Consolidated Account (unless an agency has legislative authority to retain them, or LandCorp has purchased the property to enable its disposal). Should an agency wish to receive an appropriation for part or all of the proceeds, it is required to submit a business case to Cabinet.

## Part One: Disposal Issues

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When an agency is not sure that an asset should be retained, the following tests may be useful.

### Retention or Disposal

#### Financial Viability

This test focuses on whether the continued investment of State funds in an asset is warranted from a purely financial perspective.

The test establishes whether an asset is 'underperforming' and will continue to do so in future; for example, if the cost of operating and maintaining the asset will be greater than the value of the services it is used to provide.

Under this test, the financial performance of an asset must meet, or exceed, industry measures such as the long-term yield on property investment. This is the expected rate of return from the cash flow generated from the property over a specified time, compared to the benchmark rate.

The benchmark rate for the financial viability test should be agreed with Treasury and be based on:

- the cost of funds (at the Western Australian Treasury Corporation long-term borrowing rate); and
- a premium to allow for risk specific to the nature of the sector in which the agency is operating.

In basic terms, if an asset meets or exceeds the targets under the financial viability test, it should be retained. However, if the asset falls short of these targets, and if its financial performance cannot be improved without the significant investment of additional funds, it should become a candidate for disposal.

The financial viability test provides one important perspective. But the conclusions reached using this quantitative approach may need to be modified. For example, the performance of an asset might be improved sufficiently through shared use with another agency, or through renewed maintenance or refurbishment. Other tests for market failure and public interest may also favour asset retention.

## Market Failure

Market failure is said to occur when a public service function cannot be delivered by the private sector on terms acceptable to Government.

A compelling argument to retain an underperforming or surplus asset on this basis would clarify, for example, that:

- the highly specialised nature of the asset significantly inhibits commercial interest or provision;
- private investors would demand unaffordable rates of return to recover their investment over the life of an asset, for example, through a sale and lease-back arrangement; or that
- no other tenant is likely to be found should a property become vacant, for example, for a small office in an isolated location.

The term 'market failure' conveys a negative impression. However, it often reflects a smart decision by private sector investors to refrain from involvement.

## Public Interest

Retention of an asset may depend in part on clarifying that a compelling public interest exists and will persist for some years.

The public interest case for retention may be made, for example, when an asset is not financially viable but has significance to the State, or when heritage or environmental aspects require ongoing government ownership and management.

## Disposal Options

The best disposal option may not be to sell an asset entirely. An alternative may be to lease the asset (for example, to a community service provider) or to excise and sell part of the land and the associated facilities or buildings on it. In such cases, the following options are considered.

## Outright Sale

Real property is sold outright if:

- the property is used for purposes that are inconsistent with the service outcomes expected by Government and the core business of the agency – this includes property leased to a third party (Government or private sector);

- the long-term cost of holding vacant land is greater than the reasons for retention;
- an asset is leased to the private sector – unless it can be clearly demonstrated that an ongoing lease is essential to deliver core services; or
- an irreconcilable difference exists between the property use and the current or intended zoning, as determined from structure plans or planning documents prepared or endorsed by the Department of Planning or local government authorities.

## Lease or Partial Excision

Real property is considered for leasing or partial excision and disposal when:

- it is not fully used, but retention is essential to core agency business (for example, a buffer zone around a water treatment plant may be suitable for lease for agricultural purposes); or
- a new or improved property includes land that is not fully used or required.

## Transition to Disposal

### Land Preparation

The preparation of land for disposal often involves a range of complex items that should be addressed including:

- Aboriginal heritage and environmental issues;
- planning considerations, including rezoning;
- removal of contamination – such as by chemicals;
- surveys, studies and reports on engineering and construction; and
- legal issues, settlement costs and the creation of titles.

The specifics will depend on the particular situation, including the type of disposal envisaged (whether outright sale, lease or partial excision).

The range of land issues to be addressed is the same whether an agency is acquiring or disposing of land. Detailed guidance is in the SAMF Land Planning and Assembly module.

## Residual Maintenance

The extent of maintenance required to prepare an asset for disposal requires careful consideration in order to achieve the best sale price without incurring excessive maintenance costs.

Key aspects that should be addressed include maintenance to:

- improve the presentation and condition of the asset, if needed; and to
- ensure staff operate in a safe environment, with the necessary amenities, until they vacate the property.

The best value for money balance between maintenance expenditure and the potential sale price will depend on the state of the particular asset. For example, if a building has utility and value, roof maintenance may be appropriate prior to sale, while major work to extend the life of the foundations may not.

## Residual Management

Similarly, the extent of the management tasks needed to ensure the smooth transition to disposal on schedule should be clarified, including whether the necessary skills are likely to be available in the public and private sectors.

## Stakeholder Views

The long-term presence of surplus land or an asset, such as a building, can result in a public expectation of its permanence. Resistance may also exist to the sale of the asset to private owners.

Genuine consultation may resolve such expectations or result in the sale of a property subject to certain conditions. For example, when residual service delivery functions associated with the asset have encouraged expectations of continued Government ownership, alternative service delivery arrangements could be implemented prior to disposal.

## Part Two: Sale Proceeds

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### Real Property

When Cabinet agrees that an agency should dispose of real property, the agency does not automatically retain the net sale proceeds, or a percentage of that amount. The proceeds are returned first to the Consolidated Account. This is consistent with the *Land Administration Act 1997* which stipulates that if Crown land is to be sold, then all proceeds are returned to the Account.

Net sale proceeds are defined as the: gross sale proceeds minus land assembly costs, and costs for items such as residual maintenance.

If the agency wishes to obtain the net sale proceeds (or a portion of them) from the Account, a compelling business case must be provided to Cabinet. For example, an agency may propose that value for money could be achieved by reinvesting the proceeds in a related major capital enhancement or acquisition project. Such cases are kept to a minimum when State Budget funds are tight.

### Strategic Justification

A business case is more likely to be supported by Treasury and to be approved by Cabinet if it demonstrates that the reinvestment option is in line with a high priority of Government, with the agency's service delivery objectives and model, and that it would help fund a high priority investment proposal in the agency's strategic asset plan.

A reinvestment proposal should also be consistent with related government policies and requirements. For example, a proposal to use funds from an asset sale to help meet the costs of a new office building would not be compelling unless the proposal was consistent with policies on the strategic planning of office locations, and the design quality standards that should apply to the building.

### Capital Purpose

Any proceeds that have been approved for reinvestment must be directed entirely to an agency's future, unfunded capital investment program. The proceeds must not be transferred to an agency's operating budget, for example to help meet expenses for salaries, wages, utilities or general maintenance.

## Value for Money

Consistent with SAMF principles and standards, the business case:

- provides options for the proposed reinvestment; and
- demonstrates that reinvestment would have strong potential to achieve value for money.

The following sorts of options would not of themselves be compelling without strategic justification and a value for money case:

- matching the need to sell vacant land with a proposal to upgrade a low value facility;
- the like-for-like replacement or upgrade of an asset in the same class – such as the construction of a new office building, funded in part from the sale of a regional office;
- the sale of land to partially fund the construction of a new maintenance workshop;
- the sale of surplus machinery to retire a portion of an agency's debt.

Opportunity-based investment is not consistent with the SAMF principle of focusing funds on the Government's (and an agency's) highest priority, short, medium and long-term investment proposals; including through lateral and imaginative strategic planning.

## Percentage

The percentage of the reinvestment amount will depend on the strength of the business case and any budgetary pressures at the time. This may mean that funds are retained in the Consolidated Account despite the existence of a strong case.

## Process

The business case for reinvestment is endorsed by the agency's Minister before submission to Treasury for review. The case is considered as part of the normal Budget cycle to allow Cabinet to consider it in the context of high priority investment proposals from other agencies.



