

POLICY BRIEF

Issue Assets - 4 : Multi-Tenanted Government Buildings

Issues :

Control

- Where multiple agencies are accommodated within a building owned by the NT Government, the issue arises as to which agency is to record the asset on its books.

Management

- A further issue is the arrangements required to allow the agency recording the building asset to recoup some costs from other agencies tenanted in the building and to deal with requirements associated with managing the building, primarily maintenance and utility costs.

Policy :

Control

- In line with Accounting Standard requirements, the agency that controls ⁽¹⁾ the building asset is the agency that should record the asset on its books. In regard to multi-tenanted Government buildings, some factors that evidence control are:
 - the building is purpose built for a particular agency's needs and that agency is the main occupier and derives most benefit from the building asset (examples include schools, courts, research centres, workshops, etc.);
 - the agency and/or the portfolio Minister have significant input into decisions about whether other agencies can also occupy the building;
 - the agency currently manages the building, including monitoring requirements, initiating maintenance work through DIPE and paying utility bills, such as electricity and water; and
 - the agency occupies the majority of the building - examples include office buildings and workshops where one agency was assigned the building and another agency (or even agencies) that has a requirement for a small amount of floor space, which does not warrant constructing or leasing another building, is allowed to occupy an area of the building.

(1) the 'control concept' is fully explained in TD A2.1 Assets – Overview, SAC 4 & AAS 29.

- It is not appropriate for Government buildings to be recorded in the Central Holding Authority (CHA). Such buildings are used by agencies and contribute to the delivery of agency outputs. Therefore, expenses associated with these building assets need to be reflected in the cost of outputs. Buildings are not directly controlled by the CHA and the CHA's legal structure will not enable it to hold property.

- Where there is no obvious 'controlling' agency, a more arbitrary decision will need to be made in order to reflect the asset on only one agency's books. This decision will involve the relevant agencies and, if required, will be adjudicated by Treasury. Provision can be incorporated into the Treasurer's Directions for the Treasurer to deem an agency as 'controlling agency' for a particular building asset. Factors to be considered in deciding the controlling agency would include:
 - each agency's relative capacity to manage the building, taking into account resources and expertise to undertake this management role, including arranging maintenance work and being a lessor to other agencies;
 - effect on each agency's Statement of Financial Position if the building was recorded as their asset and effect on the Statement of Financial Performance of maintenance expenses and rent revenue (buildings are significant assets that will skew the financial statements of small agencies more severely than those of large agencies); and
 - budget redistributions to reflect the changed cost structure of the controlling agency compared to the renting agencies (for instance the controlling agency will receive funding for maintenance and other costs of 'ownership' net of rent revenue from other agencies).
- The control test also applies to recognition of the building fit-out for multi-tenanted Government buildings as follows:
 - where fit-out is an integral part of the building (eg. it was done when the building was constructed) – asset is recognised by the controlling agency;
 - where fit-out was purchased and built to the specifications of the controlling agency – asset is recognised by the controlling agency; or
 - where fit-out was purchased and built to the specifications of the renting agency – asset is recognised by the renting agency.

Management

- Once a controlling agency is determined, that agency is able to manage the building as if it was the owner, within reasonable limitations. This means that the agency is able to charge other agencies that occupy the building a regular rental. However, limitations would include the agency not charging excessive rentals (eg not treat the other agencies as a captive market and seek to generate revenue to go towards other unrelated areas of the controlling 's operations), not 'evicting' renting agencies or unreasonably restricting access or floor space. Decisions about occupancy and agency office accommodation that have previously required Ministerial or Cabinet approval will continue to require the same level of approval under Working for Outcomes.
- The controlling agency generally has discretion about whether to charge rent and should consider:
 - the floor area occupied;
 - any benefits the controlling agency receives from sharing premises;
 - costs involved; and
 - materiality of the rental revenue.

- In most cases it would be expected that the controlling agency would seek to recover some costs by charging rent to agencies that occupy part of their premises. This will be necessary to ensure that the building costs are recorded against the correct outputs and to avoid distortions in output costs. However, where the area occupied is small and the expected rental revenue is immaterial (for example, one room in a school, workshop or health centre), the controlling agency may incur more administrative costs in managing a lease arrangement than will be recouped through rental revenue and may thus decide not to charge rental.
- Additionally, the controlling agency is responsible for ensuring that the building is maintained and any other tasks usually associated with a building manager are performed. The controlling agency must operate within the NT Government's asset management framework, under which DIPE has a central role to manage asset construction and maintenance programs. Agencies are able to make agreements between themselves to suit their particular circumstances provided that all affected agencies agree. An example of such an agreement would be where a decision is reached not to charge rent but instead to agree a basis to share or apportion maintenance costs and utility charges (eg electricity and water charges).
- Government owned buildings would usually accommodate NT Government entities only. However, in certain circumstances, a decision may be made to accommodate a non-government organisation in a Government building (an example might be private rehabilitation or counselling services operating from a hospital or health centre). In such situations the charging of rental for premises occupied is usually addressed as part of the accommodation decision (for instance, the portfolio Minister or Cabinet may have agreed to provide accommodation rent free or at a subsidised rental). Where this is the case, rental arrangements need to be in accord with the accommodation decision. Where rental has not been decided and is appropriate, the controlling agency should consider the same factors as for agency tenants in determining a rental amount. Note that it may be necessary to seek Ministerial or Cabinet approval of this amount depending on the circumstances.

Funding

- The primary requirement will be no net effect on the Territory's Budget. Thus appropriation adjustments may be necessary to enable agencies to pay maintenance, utility costs and rental where the agency's budget does not currently include funding for such expenses. Correspondingly, agencies that currently have funding (including having R&M program for the building assigned to the agency) or will receive additional revenue (eg rental revenue from other agencies), will have their budget reduced and redistributed.

References :

- TD Section A2.1 : Accounting – Assets : Overview