

# Chapter 7

## Department of Supply and Services

### Land Management Fund

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# Department of Supply and Services

## Land Management Fund

### Background

#### *The significance of land as an asset*

7.1 Land is one of the key resources managed by the government. Service New Brunswick tax records indicate that the Province owns over 7,000 properties covering approximately three million hectares of land. This includes land of government departments, agencies, hospitals and schools. The Province also owns an additional 2.1 million hectares of submerged land. It is difficult to establish the value of land held by the government given the current information systems. However, a starting point in establishing such a figure might be the Province's property taxation system. According to this system the total assessed value of land and buildings the Province owns is \$3.3 billion.

7.2 The Department of Supply and Services is primarily responsible for acquiring, managing and selling land and buildings for other departments. However, there are various other key departments, including Education, Natural Resources and Energy, and Transportation that are responsible under legislation for extensive land holdings.

7.3 Given the significant amount of land the Province owns and uses in delivering its programs, and the importance of exercising stewardship over this valuable asset, we decided to carry out work on various land management issues this year. We chose to focus our audit on the Land Management Fund due to its central role with respect to the Province's land portfolio; in particular its responsibilities for managing surplus land and for developing and maintaining a land inventory system. In conjunction with this work, we also decided to place some attention on a related government-wide policy called *Disposal of Real Property*.

#### *The Land Management Fund*

7.4 In 1992 the Land Management Fund was established under the *Public Works Act* with the Minister of Supply and Services assigned as custodian.

7.5 Over the years the Fund has been involved in acquiring and selling several parcels of land on behalf of a number of departments in facilitating various program needs. In the past, proceeds from sales of

surplus property have been used for some high profile initiatives, including the 1995 purchase of the Hearst Property and various purchases of railroad right-of-ways. These purchases have become important components of the Fundy Trail and the NB Trail.

**Policy AD-6204, disposal of real property**

**7.6** Established in 1988, this policy indicates procedures for the disposal of surplus government real property by all departments and agencies that administer and control provincially owned land. The policy requires government departments to submit an annual listing of all properties held to the Board of Management. The policy further assigns responsibility for administering and controlling surplus land to the Department of Supply and Services.

**Scope**

**7.7** Our audit covered the purposes and the activities of the Land Management Fund. In addition, we examined compliance with the government-wide policy on the disposal of real property. The primary focus is the Property Management Division of the Department of Supply and Services' Buildings group. This division administers the Fund and the policy related to the disposal of real property in conjunction with its general responsibilities for property management.

**7.8** We had two main objectives for this value-for-money audit:

- to determine if the Land Management Fund is achieving the purposes for which it was established as set out under the *Public Works Act*; and
- to determine the degree of compliance with Administration Policy AD-6204, *Disposal of real property*.

**7.9** We used criteria drawn from legislation and government policy for each of these objectives. Our detailed findings are organized by those criteria.

**Results in brief**

**7.10** The *Public Works Act* clearly outlines the purposes of the Land Management Fund. However, further clarification of the term "properties which have been designated by the Minister for management under the Fund" would be helpful.

**7.11** We were pleased to see the Fund has written guidelines to help ensure due regard for economy in land acquisition and disposal. All transactions we reviewed complied with the policy. We noted though that the Fund may need a couple of additional guidelines. These would help with the disposal of long-held properties and in determining when to obtain external property appraisals. In our opinion, the Fund also does not have adequate information on the cost of maintaining individual properties.

**7.12** In 1987, we recommended the Province develop a centralized land inventory. In 1992, the *Public Works Act* included this as one of

the responsibilities of the newly-created Land Management Fund. Yet today, the government of New Brunswick still does not have one inventory system that can provide rapid, reliable and complete data on the total land holdings of the Province. It is very important that the Province can demonstrate accountability to the taxpayers of New Brunswick by maintaining good records of what it owns.

7.13 The Department of Supply and Services does not have procedures in place to measure and report on the Fund's effectiveness in achieving its objectives and purposes.

7.14 Government departments are not fully complying with the government policy on disposal of real property.

## Role and responsibilities of the Land Management Fund (Fund)

7.15 Our first criterion dealt with the mandate assigned to the Department of Supply and Services under legislation. The criterion was "*The legislation and regulations should clearly define the role and responsibility of the Fund.*"

7.16 The key piece of legislation we are referring to in this section is the *Public Works Act* (PWA). There are no regulations regarding the Fund under the PWA. We also reviewed other legislation covering land transactions to assure ourselves there were no conflicting statements on the "role and responsibility of the Fund."

## Purposes

7.17 One strength of the key legislation, the PWA, is that it contains a specific section outlining the purposes of the Fund. Section 12.1(4) of the *Public Works Act* reads as follows:

(4) *The purposes of the Land Management Fund are*

(a) *with the approval of the Lieutenant-Governor in Council, to acquire land and lands and buildings,*

(b) *to maintain properties which have been designated by the Minister for management under the Fund, and*

(c) *to develop and maintain a land inventory system.*

7.18 Although not explicitly stated as one of the purposes of the Fund under Section 12.1(4), the role of selling is also evident in the Act.

## May be need for improved definition

7.19 In our reading of the PWA and related discussions with departmental staff, we noted an area where the purposes outlined in 12.1(4) could be further clarified. We are referring to the phrase "*designated by the Minister for management under the Fund.*"

7.20 This phrase seems to imply that only certain properties which are "*designated*" in some unstated fashion are maintained under the Fund. The Property Management division, which administers the Fund,

defines “*designated*” land as any land, and land and buildings that have been identified as surplus to all departmental needs. The division does not believe these properties require any formal designation by the Minister.

**7.21** This may be a reasonable interpretation. On the other hand, the term “*designated*” could be interpreted as requiring some very formal identification by the Minister. During our work we found evidence which appeared to support this interpretation.

**7.22** We examined documents that demonstrated that some properties may be designated to the Fund for specific longer term purposes. Lands designated to the Fund may not necessarily all have to be surplus properties designated for relatively immediate sale. In one case land was designated to the Fund for the purpose of maintaining and developing a long-term plan for the property.

### **Recommendation**

**7.23** We recommended the Department of Supply and Services request an amendment to the PWA to more clearly define the term “properties which have been designated by the Minister for management under the Fund.”

### **Conclusion**

**7.24** The criterion has been partially met. The PWA clearly indicates the responsibilities and roles of the Fund with respect to acquiring and maintaining property, and for developing and maintaining a land inventory system. We are recommending a clarification of the term “properties which have been designated by the Minister for management under the Fund.”

### **Goals and objectives and policies and procedures**

**7.25** Our second criterion related to how the Fund implements the mandate established by the PWA. It stated:

*The Department/Fund should have appropriate goals and objectives and policies and procedures to carry out its responsibilities for land management as assigned under the legislation and regulations.*

### **General comments on goals and objectives of the fund**

**7.26** Property Management provided us with a 1994-95 strategic plan, which includes the mission, objectives and goals for the division. Although the objectives of this strategic plan may still be applicable today, our discussion with staff indicated it might be time to update this document. We believe one area where a specific goal needs to be established is with respect to the inventory system. This is discussed in more detail later in this chapter.

**7.27** The division does have a work plan, which consists of a selling target of at least 150 properties per year and meeting the revenue budget. However, a departmental report which examined the current operating status stated one of the weaknesses of the division was the

absence of a business plan. The division indicated there is very limited time for adequate planning.

## Acquisition

**7.28** Property Management does have guidelines structured to ensure the best price is negotiated for property being acquired. Guidelines require that certified appraisers provide an estimated market value before the Fund negotiates a purchase of land. We believe this is an important policy to ensure value for money. The legislative requirement that all acquisitions be approved by the Lieutenant-Governor in Council reinforces accountability. This is because these approvals are documented in Orders in Council which are a matter of public record.

**7.29** In addition to departmental guidelines, there is also government policy in place, which prescribes accounting and record keeping procedures for the acquisition of real property.

## Maintenance of property

**7.30** There are not a lot of formal departmental policies and procedures for maintenance of property that remains in the Fund prior to being sold. However, government policy does provide some discussion on the maintenance of buildings, which could include buildings on surplus land. The Department's guidelines for disposal also note that "vacant structures should be disposed of quickly."

**7.31** In our opinion, a key component in a maintenance program includes adequate records of costs incurred on property maintained in the Fund. Record keeping is not only important in tracking costs on a property-by-property basis, but also provides useful information to support decision making in disposing of surplus property. We reviewed the Branch's disposal listing and "sold property files" to determine if these files had any readily available information of cost of maintenance on a property-by-property basis. Costs incurred to maintain land would include such items as property taxes, land title searches, advertising, surveying and environmental costs. Although some files did include invoices, there was no indication of the aggregate of these costs in the files.

## Recommendation

**7.32** We recommended that adequate information on maintenance costs be accumulated on a property-by-property basis to assist in the decision-making process with respect to holding or selling land.

## Selling

**7.33** The Department has policy guidelines for disposition of surplus properties. The guidelines are structured to achieve due regard for economy.

**7.34** However, the Fund does not have a standard practice to follow for properties that remain in the fund for an extended period of time. For example, a situation could arise where the Fund receives an offer on a long-held property which is below 80% of the appraisal. The policy states "properties at less than 80% will only be forwarded to Executive

Council if justification can be expressed.” What constitutes “justification” is not indicated in the procedures.

**7.35** “Justification” in such a case could include performing and documenting a cost/benefit analysis on a property. Factors to consider in the analysis are costs incurred in holding the property (e.g. maintenance and security costs, and taxes) and the potential future use of the property. The analysis should also include an appreciation of the time value of money.

**7.36** Documented information on these matters would provide useful information to the Executive Council to aid in its decision on whether to approve a sale of property. In other words, does it still make sense to apply the 80% rule on some long held properties?

**7.37** A second area where the Fund may need guidelines is in determining when it is necessary to obtain an independent appraisal. The Property Management division does obtain independent appraisals for certain larger acquisitions and disposals. In the fiscal year 1998-99 the Fund incurred about \$4,000 in expenses for external appraisal services. An “external appraisal guideline” could further ensure due regard for economy in acquisitions and disposals, particularly in the case of higher value and higher profile land. And it could benefit the perception of equity and fairness in the eyes of the public.

### **Recommendations**

**7.38** We recommended the Department consider the need for additional policy guidance to assist in the disposal process for properties which remain in the Fund for an extended period of time. Specifically, the Department should consider what type of criteria justify a sale lower than 80% of appraised value.

**7.39** We also recommended the Department consider the need for policy to indicate when it is necessary to obtain an independent appraisal for either the sale or acquisition of property.

### **Conclusion**

**7.40** This criterion is partially met. Although policy is in place for the important responsibilities of acquisition and disposal, the goals and objectives from the 1994-95 strategic plan need to be revisited. In particular, a clear goal with a timeline needs to be established for the design and implementation of an inventory system.

### **Inventory system**

#### **PWA requires inventory system**

**7.41** One of the purposes of the Fund is “to develop and maintain a land inventory system.” Our third criterion reads as follows:

*The Department/Fund should develop and maintain an appropriate land inventory system to assist in the efficient conduct of its land management functions.*

**What is meant by land inventory system?**

**7.42** Although some preliminary work has been carried out recently, the Department has not yet implemented an operational inventory system. Therefore, we have concluded that this criterion has not been met.

**7.43** Very early in our audit planning we became aware that the Fund had not yet developed the system. In our view, a land inventory system would include all property holdings that are under the administration and control of various departments. This view is consistent with our initial understanding of the purposes of the Fund. Therefore, we discussed with the Department whether the scope of its planned inventory system would include all government land.

**7.44** The PWA does not define exactly what is meant by a land inventory system. Should it include all government lands? Should it include only those lands known as public works? This restriction to only public works is the interpretation the Department makes of the Act. It is proceeding with the development of a land inventory system on this basis and is currently at the preliminary analysis phase of the process.

**7.45** *Public Work* is a broad term defined in section one of the PWA. It is essentially a catch all term, defined as follows:

*“public work” includes all lands and buildings belonging to Her Majesty in right of the Province, except*

- a) highways,*
- b) ferry wharves or bridges,*
- c) Crown lands and buildings under the jurisdiction of the Minister of Natural Resources and Energy,*
- d) lands and buildings owned by the New Brunswick Power Corporation,*
- e) lands and buildings owned by the New Brunswick Development Corporation, and*
- f) such other lands and buildings belonging to Her Majesty in right of the Province as, by any other Act, are placed under the administration of a Minister other than the Minister or under the administration of another agent of Her Majesty.*

**7.46** An inventory system focused on public works would obviously catch a great deal of the land holdings of government. (The Department administers about 800 properties comprising over 11,500 hectares.) But it would miss significant holdings noted in the “exceptions.” Crown lands in particular constitute over three million hectares. Highway lands are also substantial. As well, there are over five hundred school properties which would appear to fall under the control of the Minister

of Education under the *Education Act*. Therefore they would be excluded from public works. The *Parks Act* is another example of an Act that grants specific administrative authority to a Minister other than the Minister of Supply and Services.

### **Government's stewardship role**

**7.47** Currently, the government of New Brunswick has no single inventory system that can provide rapid, reliable and complete data on the total land holdings of the Province. Most of the departments we talked to in our audit had some type of property listing or "inventory" system, but they are not linked together. Service New Brunswick does have a system which can identify provincially owned properties. Personnel in the Property Management division have access to this system and use it for various aspects of their work. But this is primarily a taxation assessment system. It is not an inventory system.

**7.48** In our opinion, the Province needs a land inventory system in order to exercise stewardship over its assets. Land is an important asset. Whether it has received the land through grants, or bought it by the expenditure of public money, in the simplest terms the Province needs to know what land it owns. It is very important that the Province can demonstrate accountability to the taxpayers of New Brunswick by maintaining good records of what it owns. It needs to know where that land is, who is administering it, what it's used for and how much it cost.

**7.49** The stewardship function includes good accounting. A land inventory system will be necessary to bring the Province into compliance with the CICA's Public Sector Accounting Recommendations regarding tangible capital assets. This September 1997 pronouncement recommends that governments report tangible capital assets on their financial statements at cost. Crown Lands that have not been purchased by government are specifically excluded from this form of disclosure. Without one central system it may be difficult to develop accurate financial statement figures for land holdings and to determine which Crown Lands meet the qualification for exclusion.

### **An inventory system is a management information system**

**7.50** Building on the stewardship role, a land inventory system can become an effective land management tool. Such a system would provide additional information as to the type of land; description of the property; administering department and name of departmental contact; costs including incidental costs of purchase such as appraisal and survey fees; date of purchase; aggregated maintenance and tax costs; and possibly information on attempts to market surplus properties. During the audit we noted a number of examples of how a comprehensive land inventory system may have provided better management information than currently exists.

**7.51** With specific reference to the role of the Land Management Fund, a central system would allow for more timely and effective identification of surplus properties. If the system indicated each

property's current use, surplus properties could be more easily noted by the administrators of the Fund. Currently, other departments identify surplus properties and inform the Department of Supply and Services when they are turning over surplus properties to the Minister's control. The Fund is predominantly in a reactive position. An effective inventory system would allow the administrators to take more control of the process of identifying surplus properties.

**7.52** The inventory system may actually be a means for reducing some expenditures and increasing tax revenues. The Department of Supply and Services is responsible for reviewing the assessments of all provincially owned property. During that review it has noted some instances where the Province was leasing real property to third parties, but continuing to pay the property tax. This is contrary to Section 14 of the *Assessment Act*. In one instance the error was not detected until three years after the property had been leased. During that time the Province paid a total of \$2,577 in property taxes. In another example, the Province paid \$1,649 over a two year period before the error was detected. In this particular example the Province also lost property tax revenue over the two years. Once the lessee started paying the property tax, the property was classified as a business property. As a business property, it attracted tax at a much higher rate. Instead of paying about \$1,000 in taxes, the Province actually began receiving property tax revenues of about \$6,000 a year. An inventory system could be used to prevent and detect such instances in the future.

**7.53** An inventory system may also help identify unreasonable assessments. We examined a sample of disposal files maintained by the Department. In reviewing the files we compared the assessment values supplied by Service New Brunswick to the estimated market values determined by the property management agents of the Department. We expected to see a similarity in amounts. At times, however, we noticed a significant difference. In the most prominent case the assessment was \$65,000 higher than the estimated market value. (Assessment \$196,000; market value \$130,000.) This could indicate the Province is paying more property tax than necessary to some municipalities.

**7.54** Another factor to consider is the administrative work stemming from not having one central system. One department we surveyed informed us that staff recently performed four title searches on land that was in the Province's name but was not actually owned by the Province. Without accurate and complete information, time and money will be expended on fixing these errors.

**Should a comprehensive system be developed and maintained by the Fund?**

**7.55** When one considers the role of the Department of Supply and Services as a common service organization to government, and the fact that no single provincial land inventory system exists, one could interpret the words "land inventory system" in the *Public Works Act* to

mean a system of all government land holdings. In this regard we noted the following statement in the Department's 1992-93 annual report:

*During this fiscal year the branch implemented a Land Management Program that . . . involved the development of a Crown Land Inventory System to identify surplus property for market. The Crown Land Inventory System will be a corporate geographic information system capable of graphically displaying any parcel of government owned land and related textual information. The system is based on the digitized property map data being developed by the [New Brunswick Geographic Information Corporation] and will be available by March 31, 1994.*

**7.56** This broader definition of "land inventory system" appeared to be accepted by the Department when we did our last major reporting on this issue in 1987. We reproduce below several paragraphs from that Report to note the need for a government-wide system has been recognized for some time.

*Exhibit 7.1*

*Excerpt from Chapter 4 of the 1987 Report of the Auditor General*

**Provincially owned Properties**

*Duplication of Services*

- 4.164 There are at least four computer-based systems now in place which, to varying degrees, can be used to identify provincially owned properties. These include Supply and Services' own system which utilizes a micro-computer, the Provincial Properties Data Centre operated by the Department of Natural Resources and Energy, the Property Tax System of Municipal Affairs and Environment and the Land Registration and Information Service of the Council of Maritime Premiers.
- 4.165 The functions of the first two systems mentioned appear very similar, and there appears to be a certain amount of overlap between others.
- 4.166 **I recommend that an analysis be carried out of the possibility of achieving greater economies in these systems and avoiding unnecessary duplication. I further recommend that a long-term goal to consolidate all information relating to property holdings in the Province under one central authority be pursued.**
- 4.167 *The Department in response indicated that it agreed with the general thrust of my recommendations. It pointed out that an extensive study of this area had been conducted by the Office of Government Reform, and that the major issues arising out of the study are being addressed in a systematic and positive manner.*

**7.57** Over a dozen years after our original 1987 recommendation, the government still does not have a central inventory system, or a central responsible body, for all government-owned land. With the Province's significant portfolio of land, a central source of information could allow for better management of this important resource.

### **Recommendations**

**7.58** We recommended that the Department expand the scope of its preliminary analysis to examine the feasibility of consolidating all provincial property holdings in its planned land inventory system.

**7.59** We further recommended that once the preliminary analysis stage is complete, the Department set a time line, target date and budget for completion and operation of the new inventory system.

### **Due regard for economy and efficiency**

**7.60** Our fourth criterion reads "*The Fund should carry out acquisitions and disposals with due regard for economy and efficiency.*" In other words, is the Fund carrying out its operations to ensure it obtains the best price for acquisitions? Is it obtaining the highest selling price for sales of land? Also, is the Fund performing its operations in a cost-effective manner?

**7.61** To conclude on this criterion we reviewed a sample of acquisition and disposal files. We are pleased to report that all transactions we reviewed complied with acquisition and disposal guidelines. We would like to make comments on a specific area, however, regarding the economy and efficiency of some processes.

### **Disposal of low value properties**

**7.62** The Property Management division brought to our attention the need to improve upon the disposal process of land valued under \$1,000. In having to go through the same process as higher valued land, it is costing the division time and money to complete the sales of these lands. For example, the cost of publicly advertising the disposal of some low value parcels may exceed the proceeds of the sales. It is our understanding that approximately two-thirds of disposals each year are under \$5,000 (with the majority under \$1,000). The 1999-2000 disposal listing shows 31 properties valued at or under \$500. Sale of each of these properties have to be approved by the Lieutenant-Governor in Council.

**7.63** The Board of Management has asked the Executive Council Office, in consultation with appropriate departments and agencies, to prepare a report on land transactions requiring Board of Management and/or Executive Council approval. There appears to be concern with the number of so-called "routine" or "nominal" transactions requiring central government approval. We are pleased to see that both the staff managing the Fund and central government are interested in taking steps to improve the process.

**7.64** We would like to point out, however, that a low dollar value should not be the only consideration for removing a property from a more comprehensive sales review (e. g. approval by Cabinet). The deviation between the sales price and the appraisal should also be examined. Otherwise a valuable property could escape scrutiny by being sold for a nominal sum. Of course, we recognize the current 80% rule acts to protect against such an action.

**Recommendation**

**7.65** We recommended that any new legislation or policy continues to maintain a relationship between sales price and appraised value in determining which properties should be referred to Executive Council.

**Conclusion**

**7.66** The Fund meets the criterion in carrying out acquisition and disposal responsibilities with due regard for economy and efficiency. All transactions tested complied with departmental policy. We are also pleased to report that both the Department and central government are examining ways to improve this process.

**Effectiveness of the Fund**

**7.67** Our fifth criterion was that “*the Department should have procedures in place to measure and report on the effectiveness of the Land Management Fund.*”

**7.68** This criterion stems directly from the Auditor General’s reporting responsibilities under Section 13(2) of the *Auditor General Act*. This section mandates the Auditor General to bring “*to the attention of the Legislative Assembly ... cases in which he has observed that*

*procedures have not been established to measure and report on the effectiveness of programs, where, in the opinion of the Auditor General, the procedures could appropriately and reasonably be used; or*

*procedures established to measure and report on the effectiveness of programs were not, in the opinion of the Auditor General, satisfactory.*

**7.69** Some public reporting has taken place on the Fund. A budget is presented each year in the *Main Estimates*. Actual financial results are summarized in the *Public Accounts*. And since the inception of the Fund, the Department of Supply and Services’ annual reports have provided information with respect to acquisition and disposal activity.

**7.70** In our opinion, however, the reporting that has taken place is not satisfactory to measure and report on the effectiveness of the Land Management Fund. The material that has been presented to date in the *Main Estimates*, the *Public Accounts* and the Department’s annual report is mainly financial and transactional in nature. In that sense, it does not

provide a sufficient and appropriate account of the effectiveness of the Fund to the Legislative Assembly.

**7.71** One important aspect of effectiveness is the achievement of intended results. We believe it would be very important for the Department to report on this aspect of effectiveness. The Fund is considered to be a “Special Purpose Fund”. Government policy states that “special purpose revenues include any revenue formally designated (normally by donor designation or legislation) for specific purposes that enhance provincial program objectives”. We believe it would be useful for the Legislative Assembly to receive a report on how well the Land Management Fund has done in enhancing provincial program objectives; in other words, how it is doing in achieving its intended results.

**7.72** During our review of documentation and discussions with departmental staff, we had some difficulty in establishing what the original “intended results” of the Fund were.

**7.73** Some documentation, and our interviews with government personnel who were familiar with the climate that surrounded the creation of the Fund, seemed to indicate that one of the principal purposes of the Fund was to assist in the purchase of a large tract of land in Southern New Brunswick known as the Hearst property. This purchase in excess of \$10 million was accomplished to a large degree through the resources of the Fund.

**7.74** During our discussions with staff they noted that, although undocumented, one perceived purpose of the Fund was to provide flexibility in the sale and purchase of land. By forwarding proceeds of the land sales to the Fund, the government is able to accumulate Fund surpluses, which can be used to purchase significant tracts of land in subsequent periods. In times of limited capital budgets, the accumulation of surpluses in this manner does provide significant flexibility.

**7.75** Directly related to this is the staff’s opinion that the Fund has dramatically increased the incentive to identify and dispose of surplus land. The perception is that in the pre-Fund days, departments were reluctant to identify land as surplus. With no direct economic benefit in doing so, staff had little incentive to identify surplus land. The proceeds would go directly to general revenue. Neither the identifying department or the central service agency, the Department of Supply and Services, would benefit. From a departmental interest point of view, they were better off holding the land just in case it might be needed for some future project. In such a case they could reduce future costs by already having the land available when a capital project was approved. Had they instead sold the land, the future capital budget would be burdened by both the construction costs and the additional cost of purchasing a new land holding.

**7.76** Staff at the Department believe the Fund has changed this behavior although it is acknowledged there may still be occasions where other departments do not disclose surplus properties. They are convinced landholders now perceive a benefit in identifying surplus properties. The theory is that since the Fund can accumulate a surplus, those departments that identify properties for disposal can stand to benefit from the Fund in the future.

**7.77** Employees also feel the Fund has been of economic benefit to the Province by turning properties from being a source of tax expense to a source of tax revenue. As long as the Province owns a property, it pays some form of property tax to the appropriate municipality. When the Fund holds the property, it pays the tax as a standard property maintenance expense as allowed under the PWA. When the property is sold, the new owner becomes the taxpayer. This results in an immediate reduction in the Fund's expenditures. And since a number of these properties bear both provincial and municipal property taxes, the Province often generates an additional source of revenue. These tax impacts could be a possible theme when measuring and reporting on the effectiveness of the Fund.

#### **Recommendation**

**7.78 We recommended that the Department of Supply and Services perform an evaluation to determine whether the Fund has achieved, and continues to achieve, its objectives and purposes. This evaluation should be tabled in the Legislative Assembly.**

#### **Conclusion**

**7.79** This criterion has not been met because the Department of Supply and Services does not have procedures in place to measure and report on the Fund's effectiveness. Although there is some reporting on the Fund, the information does not indicate if the Fund has achieved its objectives and purposes.

#### **Compliance with government policy**

**7.80** With our second objective we were trying to determine the degree of compliance with the government administration policy, *Disposal of Real Property*. This policy has been in effect since 1988. It outlines the procedures for the disposal of surplus government real property by departments and agencies. The policy also indicates that the Department of Supply and Services is to administer and control surplus real property. Real property includes land and buildings.

#### **Annual identification of surplus properties**

**7.81** The policy states "once a year, departments should prepare a list of properties held and forward it to the Board of Management (BOM). Properties surplus to their program needs should be identified". We questioned eight departments, to obtain a better understanding of the procedures they follow in preparing listings of properties held and in identifying surplus property.

**7.82** In our interviews we asked if departments had listings of property under their administration and control. Of the eight

departments interviewed, all were able to provide us with listings. The listings provided included varying amounts of information and were either generated from a database or done manually. One department obtained the information from the system administered by Service New Brunswick.

**7.83** We were not able to locate any documentation to demonstrate that listings of properties held or surplus properties were being provided to Board of Management. Our discussions with Board staff indicated the policy had not been enforced for a number of years. However, the Department of Supply and Services has been receiving various notifications directly from departments regarding land surplus to their needs. The Department notifies the Board of properties it intends to sell. The Board is not notified of surplus properties that are not being sold.

### **Conclusion**

**7.84** The policy is not being followed. Departments are not informing the Board of Management about their surplus properties. Also, listings of properties held are not submitted to the Board.

### **Notifying Supply and Services about surplus properties**

**7.85** The policy states “the administration and control of surplus properties will be transferred to the Department of Supply and Services for disposal”.

**7.86** Adherence to this policy implies the Department of Supply and Services be notified as part of the transfer process.

**7.87** In our questionnaire to departments, we asked who was notified once properties were identified as surplus. Of the eight departments interviewed, six departments said they notified the Department of Supply and Services of all surplus property under their administration and control.

**7.88** There were two Departments, Natural Resources and Energy and Transportation, that notified the Department of Supply and Services of surplus properties only to a “certain extent”.

**7.89** Under section 20(1) of the *Crown Lands and Forests Act*, the Department of Natural Resources and Energy can, subject to the approval of the Lieutenant-Governor in Council, exchange land for freehold parcels of land. It is our understanding that the Department may hold onto some parcels of land for the purpose of future exchanges. This appears to be a case where the policy is superseded by legislation.

**7.90** The other possible exception noted was in the Department of Transportation. We were informed that, given the significant number of remnant properties and the limited number of available staff, some properties may not be identified as “surplus” on a timely basis. Since the proceeds from disposal of these properties directly benefit the Land

Management Fund, the Department of Supply and Services has a direct interest in the timely identification of surplus properties.

**Recommendation**

**7.91 We recommended that the Departments of Transportation and Supply and Services work together to develop strategies to identify surplus properties on a more timely basis.**

**Department of Transportation response**

*7.92 The Department of Transportation and the Department of Supply and Services have mutual agreement that the Department of Transportation would dispose of surplus land valued at less than \$10,000. There are a significant number of small remnant properties and direct disposal saves resources otherwise required for title transfers between departments. The Department of Transportation has, on an ongoing basis, identified larger parcels of surplus lands to the Department of Supply and Services and will continue to work with that department related to its responsibilities for land management.*

**Conclusion**

**7.93** The policy is not being followed. There is no system that ensures all surplus property gets identified.

**Notifying departments that surplus land is available**

**7.94** The policy states “the Department of Supply and Services should advise other Departments and agencies of surplus properties, which have been received for disposal.”

**7.95** Our review of disposal files demonstrated that the Department of Supply and Services does notify other departments of surplus land. A standard inter-office memo is distributed to departmental contacts to provide details of the surplus land. It is our understanding that the only time this is not done is when the parcel of land is too small, or when it is “landlocked” and can only be sold to adjacent owners.

**Conclusion**

**7.96** This policy is being followed. The Department of Supply and Services advises other departments and agencies of surplus properties.

**Report to the Board**

**7.97** Finally, the policy states:

*the Department of Supply and Services should prepare for presentation to the Board, a list of properties that it is intending to dispose of within the fiscal year and a status report on surplus properties which will not be disposed of in the coming years.*

**7.98** We found that the Department submits a memorandum to Executive Council indicating a list of properties that it intends to sell. The information provided on the memorandum includes details of the property and the suggested price. The Department estimated it goes through this process eight to ten times a year.

**7.99** We could not find any evidence of the Department providing status reports on surplus properties that are not to be disposed of in the

coming years. Most surplus properties are actively advertised for sale. One exception would be if the Department believed a change in market conditions might lead to a marked increase in the value of a property. For example, an anticipated commercial development in a municipality might greatly increase the value of a property. In such a case, it would be prudent to hold the property in anticipation of the price increase.

**7.100** It should be noted that the Department does provide a regular status report on the balance of the Fund. The report indicates anticipated property sales, purchases, acquisitions to be approved and other costs, which include mostly maintenance and administration costs for land yet to be sold, and expected proceeds.

**Recommendation**

**7.101 We recommended the Department of Supply and Services provide the Board with a status report on surplus properties not to be disposed of in the coming years. The report should state the reasons the properties are being held and explain the strategy for eventual disposition.**

**Conclusion**

**7.102** The Department of Supply and Services partially complies with the policy. Although it provides a listing of properties intended for disposal within the fiscal year, it does not provide a status report on “surplus properties which will not be disposed of in the coming years.”

**Overall conclusion on compliance with the property disposal policy**

**7.103** Currently, procedures followed by departments in identifying surplus land are not consistent with government policy. Although the policy is not being enforced in its present form, there certainly seems to be merit in having a policy initiative in this area. It would seem appropriate to revisit the policy and determine how it should be revised and/or enforced to promote economical and efficient identification and disposal of surplus property.

**Recommendation**

**7.104 We recommended that compliance with policy AD-6204, Disposal of real property be actively enforced. Alternatively, if the policy is not appropriate, it should be appropriately revised.**

**Department of Finance response**

**7.105** *The Department of Finance, in cooperation with departments, is in the process of reviewing this policy with the intent of revising it to reflect best practices.*

**Comments from the Department of Supply and Services**

**7.106** The Deputy Minister of Supply and Services provided comments on points of detail in our report. He also made the following overall comments:

*Generally speaking I find the report to be very comprehensive, covering most aspects of the Land Management Fund, and presenting reasonable recommendations.*

*I will be ensuring that my staff address all these recommendations in due course.*

**7.107** With regard to the land inventory system, the Deputy Minister made the following additional comments:

*In the section on the land inventory system, I am not sure it is clear that most departments do have a land inventory system for the lands that they have under their administration and control. The issue as it relates to the Department of Supply and Services is the fact that a formal land inventory system is not yet developed. As you know, we are working on this, and do consider it somewhat of a priority. One of the difficulties has been in determining the extent of the land inventory system, the necessary complexity; whether it should include all land across government, either by inclusion or by the ability to reference or include in the future, and the appropriate technologies. My own priority is that we put in place a basic land inventory system for the Public Works properties handled by the Land Management Fund, and if appropriate, expand it in the future to other areas.*