National Audit Office
MALTA

Joint Audit

Government Leasing of Private Property – Insights from selected case studies

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Report by the Auditor General

This report has been prepared under sub-paragraph 6 and 8(a)(ii) of the First Schedule of the Auditor General and National Audit Office Act, 1997 for presentation to the House of Representatives in accordance with sub-paragraph 8(b) of the First Schedule of the said Act.

Charles Deguara
Auditor General

The Auditor General is head of the National Audit Office, Malta. He and the National Audit Office are totally independent of Government. He examines the accounts of all Government Ministries and Departments and may also examine other public sector bodies. He also has statutory authority to report to the House of Representatives on the economy, efficiency and effectiveness with which Departments and other bodies have used the resources voted annually to them in the Estimates.

National Audit Office
July 2026

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Abbreviations

CRF	Change Request Form
CRPD	Commission on the Rights of Persons with Disabilities
DoC	Department of Contracts
EAC	Equivalent Annual Cost
ECA	European Court of Auditors
EoI	Expression of Interest
EVS	European Valuation Standards
GCC	General Contracts Committee
ISSAI	International Standards of Supreme Audit Institutions
KTP	Kamra tal-Periti
LA	Lands Authority
MAFA	Ministry for Agriculture, Fisheries and Animal Rights
MCCAA	Malta Competition and Consumer Affairs Authority
MFIN	Ministry for Finance
MGA	Malta Gaming Authority
MSA	Malta Standards Authority
NAO	National Audit Office
NIA	Net Internal Area
SCM	SmartCity Malta
S.L.	Subsidiary Legislation
VAT	Value Added Tax

Key facts: Government Leasing of Private Property – Insights from selected case studies

Government leased private properties analysed by the NAO

(Report issued February 2024)

	Total	Office use
Number of Government leased private properties	260	167
Leasing costs for 2022 (€ excl. VAT)	21.97M	18.89M
Areas of leased private properties (sqm)	212,112	156,994

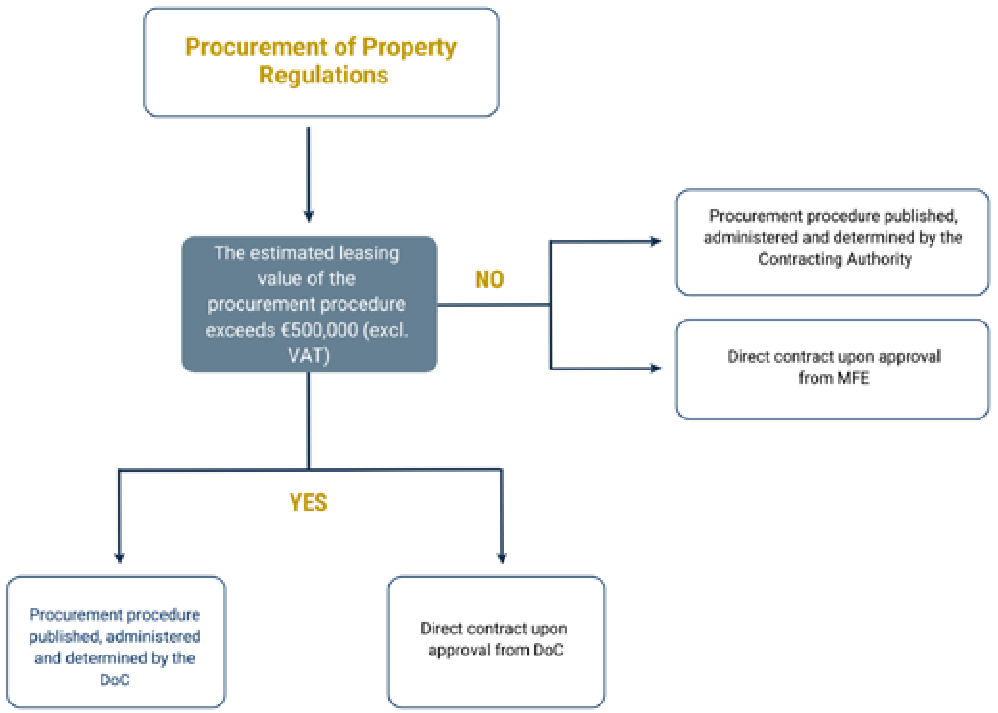
Leasing of private property procurement process

The process regulating the procurement of Government leasing of private property was addressed through the introduction of Subsidiary Legislation (S.L.) 601.12 **Procurement of Property Regulations.**

This legislation came into force on **30 April 2020.**

Selecting case-studies through risk based criteria

i) All four cases were selected from different Ministries
ii) All four cases were selected from different Lessors
iii) Two cases were selected prior to the introduction of Subsidiary Legislation (S.L.) 601.12 in April 2020.
iv) Two cases were selected post the introduction of S.L. 601.12 in April 2020.



Case Studies Under Review

	MGA	MAFA	MCCAA	CASE STUDY 4
Site	Smart City Malta	Pinto Business Centre Qormi	Mizzi House Blata l-Bajda	Case study 4 will not feature in this publication as further investigations are underway.
Duration of Lease	15years	3 years and 162 days	17 years, 2 months, 19 days	
Office space	2,562 m²	800 m²	3,103 m²	
Car parking spaces	10	25	30	
Total leasing cost	€8.1M (excl VAT)	€0.8M (excl VAT)	€8.3M (excl VAT)	
Major refurbishment costs	€4.3M (excl VAT)	N/A	N/A	

Contract Extensions

	Original Contract	First Extension	Second Extension
MGA	15 years 1,747m²	No change in duration Increase in area from 1,747 m² to 2,206 m²	No change in duration Increase in area from 1,747 m² to 2,206 m²
MAFA	2 years 800m²	Additional 162 days No change in area	Additional 1 year No change in area
MCCAA	9 years, 11 months, 13 days 3,103 m²	Additonal 3 years, 3 months, 6 days No change in area	Additional 4 year No change in area

Procurement method of leased sites

	Procurement type of original contract	Procurement type of first extension	Procurement type of second extension
MGA	Expression of Interest	Direct Order - Increase in area	Direct Order - Increase in area
MAFA	Direct Order - Due to urgency	Direct Order - Awaiting refurbishment works to be completed in relocation site at Ghammieri	Direct Order - Awaiting refurbishment works to be completed in relocation site at Ghammieri
MCCAA	Direct Order - Due to urgency	Direct Order - Awaiting relocation	Direct Order - Awaiting relocation

Executive Summary

Why this Study?

Building on the *Preliminary Review: Leasing of Private Property by Government* (February 2024), which flagged concerns within estate management, the National Audit Office (NAO) conducted a Joint Audit to analyse the extent to which leasing arrangements between Government and the private sector followed the applicable procedural framework and if they represented value for money. This Review focused on four leasing arrangements. Due to further investigations involving one of the case studies, this Report will discuss three case studies relating to the Malta Gaming Authority (MGA), the Ministry for Agriculture, Fisheries and Animal Rights (MAFA), and the Malta Competition and Consumer Affairs Authority (MCCAA).[1] The total leasing costs pertaining to these three case studies amounted to €8.1, €0.8 and €8.2 million respectively.[2]

NAO's Key Observations

The audit revealed that the three cases elicited governance-related issues which to varying degrees undermined the leasing process. Decision-making was in some instances ad hoc and not fully documented, with little or no evidence of strategic needs assessments and comparative evaluations of different property acquiring options. These circumstances affected operations and costs.

In some cases, transparency was found to be limited, particularly in the procurement phase, where Governmental Entities either did not clearly define the selection criteria or resorted to direct order due to urgency. Weak internal oversight, undocumented evaluation procedures, and overlapping advisory roles by external consultants further eroded accountability. The absence of a unified and enforceable leasing policy left entities to interpret obligations on a case-by-case basis, resulting in inconsistent practices and reduced transparency.

The foregoing, to varying degrees, was conducive to concerns related to contract execution. While some agreements included strong contractual clauses, others suffered from ambiguity over key terms.

Value for money was diluted by minimal consideration to capital investments required in the leased premises. In one instance, MGA incurred over €4 million in capital costs which were included in the leasing arrangement rather than through a separate public call for tender, as good practices dictate, regardless that this was not restricted prior to the introduction of legislation measures in Subsidiary Legislation (S.L.) 601.12 '*Procurement of Property Regulations*'. Moreover, the total capital costs involved were not specified in the leasing agreement. These expenditures, which were incurred without the Department of Contracts' approval, raised significant concerns about procedural fairness and the safeguarding of public funds.

Overall, the audit concludes that these leasing arrangements were characterised by governance and administrative weaknesses that had material implications for transparency, efficiency, and financial prudence. Without a unified strategic framework and stronger institutional safeguards, public sector leasing remains vulnerable to administrative fragmentation and suboptimal outcomes.

What the NAO recommends

Following the introduction of S.L. 601.12, the review of the case studies illustrated the urgent need for further systemic reform in how Government departments and entities plan, procure, and manage office leasing. A case in point relates to a centralised public leasing framework that establishes clear standards for needs assessments, cost-benefit analysis, and leasing procedures. This framework should embed governance mechanisms to ensure consistency and accountability across entities. Leasing is not to be considered as an administrative formality, but as a strategic investment with long-term financial and operational implications, ultimately ensuring the best use of public funds.

[1] Ministry's nomenclatures represent the situation as at December 2023.
[2] These figures exclude any capital expenditure and additional addenda entered into by Government post 2025.

Chapter 1

Terms of Reference

1.1. Introduction

1.1.1. The leasing of private property by Governmental Departments and Entities is a significant aspect of public administration, facilitating the accommodation of government operations without the long-term commitment of property ownership. In view of the financial materiality involved and their contribution towards improving the provision of public services and client interface, it becomes critical that leasing arrangements embrace high levels of good governance principles, including, but not limited to, value for taxpayers, regulatory compliance as well as transparency and accountability.

1.1.2. In February 2024, this Office issued the Report titled *Preliminary Review: Leasing of Private Property by Government*. This Report was primarily intended to identify the private properties being leased by Governmental Entities across Malta and Gozo and to analyse their main characteristics. Other objectives were to assess compliance with the regulatory framework and assess the adequacy of records maintained by the Lands Authority (LA) with respect to government-owned properties, which could potentially be used in lieu of leasing arrangements with the private sector. A National Audit Office (NAO) survey showed that at the end of December 2022, Governmental Entities were leasing at least 260 properties from the private sector. This figure excluded property where leasing costs were less than €1,000 annually. The 2024 Report identified a number of concerns including those related to regulatory compliance together with issues affecting the economy, efficiency, effectiveness, as well as accountability and transparency. These elements affected the degree to which some of the leasing arrangements could be considered as conducive to value for money. The Preliminary Review concluded that that Government needs to strengthen its estate management function, both with respect to the state-owned as well as leased properties from the private sector.

1.1.3. In view of the findings elicited in the Preliminary Review, the NAO sought to delve deeper into the leasing function through analysing four case studies This approach allowed for a comprehensive examination of specific leasing arrangements, highlighting both successes and areas for improvements. By analysing selected cases, this audit aims to assess the effectiveness of the property selection, lease negotiation, and management practices as well as the governance structures in place to oversee these activities. The findings and recommendations derived from these case studies are intended to guide future leasing practices, promoting transparency, efficiency, and fiscal responsibility in the use of public funds.

1.2. Audit Objectives

1.2.1. The audit's primary focus is to determine the extent to which the leasing arrangements selected as case studies followed the applicable procedural framework and if they represent value for money. To this effect, the main audit objectives entail establishing the degree to which:

i. Governmental Entities have carried out detailed needs assessments, prior to leasing from the private sector;
ii. Governmental Entities complied with relevant legislation, policies relating to the leasing of private properties as well as other good governance practices;
iii. contractual provisions relating to leasing arrangements appropriately safeguarded Government's interests;
iv. the paid amounts aligned with the lease agreement; and
v. the leasing arrangements were cost-effective.

1.3. Audit Methodology

1.3.1. The attainment of the above audit objectives entailed a mix of methodological approaches to enable triangulation of the audit evidence elicited. The following refers:

i. Adherence to international standards and guidelines – This audit was carried out in accordance with the Standards for Financial and Performance Auditing, International Standards of Supreme Audit Institutions (ISSAI), namely ISSAIs 2000 and 3000. Moreover, reference was also made to guidelines establishing performance audit methodology, particularly the European Court of Auditors (ECA) performance audit manual.

ii. Documentation review – This included a thorough analysis of the legislative framework, leasing contractual arrangements together with related planning and procurement documentation where applicable.

iii. Financial analysis – Payments related to the leased properties were reviewed to ensure amounts paid were in line with negotiated rates and duly substantiated. Where applicable, data from the Corporate Financial Management System was also analysed.

iv. Semi-structured interviews with key stakeholders – These interviews enabled the collation of qualitative data, which in turn was used to corroborate information arising from other sources. To this end, the NAO interviewed key officials within the LA, the Department of Contracts (DoC) and other governmental officials responsible for the specific leasing arrangements pertaining to the selected case studies.

v. Case study analysis – A case study approach was adopted to review a number of leasing arrangements applicable between Governmental Entities and the private sector. To this end, four case-studies of Government leasing of private properties were selected based on a risk analysis approach as outlined in further detail in the Audit Scope Section below.

vi. Value for money analysis – This Office sought to determine whether the agreed leasing rates paid by Governmental Entities reflect market prices and are fair and reasonable. Similarly, this audit entailed determining whether additional costs incurred by Government to refurbish and upgrade the leased buildings are justifiable and constitute value for money. This appraisal was undertaken according to the Kamra tal-Periti Valuation Standards as issued in 2012 for valuation of premises, which draws heavily on TEGOVA's European Valuation Standards (EVS) issued in 2009. Another key point addressed by this Joint Audit related to the feasibility of refurbishing and utilising government property listed in the LA's books in lieu of leasing arrangements with the private sector. In view of the foregoing the NAO engaged the service of a consultant to assist the audit team in technical matters, mainly with respect to the valuation of properties.

1.3.2. Unless otherwise indicated, all issues presented in this Report reflect the situation as at 2024. Moreover, all figures presented in this Report are stated exclusive of Value Added Tax (VAT). This approach has been adopted as the computation of VAT fell outside the scope of this audit. It also ensures consistency and facilitates comparability by avoiding variations arising from differing VAT treatments, including exemptions and other applicable considerations.

1.3.3. For the purposes of this audit, references to third parties are made only where the contractor was engaged directly by the entity under review. Any sub-contractors engaged by such third parties in fulfilment of their obligations to governmental entities are therefore not explicitly referred to.

1.4. Audit Scope

1.4.1. The selection of the case studies considered the results generated from the survey which was carried out during the first stage of this assignment, that is, the Preliminary Review Report published by NAO in February 2024. This entailed the undertaking of a risk scoring exercise to determine the selection of the four leasing arrangements. This exercise considered leased sites whose primary use was declared as office use in the questionnaire conducted as part of the NAO survey. The latter showed that this type of property constituted 64 per cent of the total leased property. Based on different weighting, this risk scoring exercise considered various risk factor elements, such as amongst others, the leasing rate, any costs incurred related to capital expenditure, the method of procurement and the adherence to standing legislation.

1.4.2. Following the identification of these risk factor elements and the allocation of risk scoring to each respective element. Another level of selection was carried out. This time round, the selection criteria considered the following:

i. All four cases were selected from different Ministries.
ii. All four cases were selected from different Lessors.
iii. Two cases were selected prior to the introduction of Subsidiary Legislation (S.L.) 601.12 '*Procurement of Property Regulations*' in April 2020.
iv. Two cases were selected post the introduction of S.L. 601.12 in April 2020.

1.4.3. Following this risk scoring exercise, four case studies were selected as per Table 1 below.

Table 1: Selected Case Studies

Governmental Entity	Ministry[3]
Malta Gaming Authority	Ministry for the Economy, Enterprise and Strategic Projects
MAFA Ministry, Parliamentary Secretary Office and Office of the Permanent Secretary	Ministry for Agriculture, Fisheries and Animal Rights
Malta Competition and Consumer Affairs Authority	Office of the Prime Minister
Case study 4	

1.4.4. For ethical and prudence considerations, this Report will not refer to the fourth case study due to on-going investigations. In the circumstances, this Report highlights the audit results and conclusions of the three case studies listed in Table 1 and will publish the report concerning the fourth case study in due course.

1.5. Audit Limitations

1.5.1. Despite the various methodological approaches adopted, this Review encountered a number of limitations. These limitations and the mitigating approaches adopted will be discussed in detail in the relevant Chapters. Nonetheless, hereunder is a brief outline of the difficulties encountered:

i. ***The sampled leasing arrangements selected as case studies for this Review are not representative as they were selected following a risk scoring exercise***. However, given their materiality and complexity, these provide a reliable indicator of the management of such Government leases with the private sector. To mitigate such limitations, this Office carried out a risk scoring exercise to determine the selection of case studies based on several risk elements.

[3] Ministry's nomenclatures represent the situation as at December 2023.

ii. As already outlined in the Preliminary Review Report, ***no framework that regulated government leasing of private property was in place prior to the introduction of S.L. 601.12 in April 2020.*** The introduction of this new legislation regulated the way Governmental Entities undertake the procurement of property in both cases of leasing as well as purchase of new properties. A number of leasing agreements signed between Governmental Entities and the private sector, and which to date are still *in vigore*, pre-dates the introduction of S.L. 601.12. Therefore, prior to April 2020 when this legislation came into force, such leasing arrangements were not covered by a standing legislation. As indicated in the Audit Scope Section above, this scenario is also reflected in the case studies selected for the scope of this Review and which pre-date the introduction of this legislation. To mitigate this limitation, the audit team compared and benchmarked such leasing agreements with good practices incorporated in the current applicable legislation which came into force in 2020.

iii. ***Evaluation assessments comparing the cost-effectiveness of different possible options for Government estate management were not always readily available.*** This limitation was mitigated through the carrying out of market research and where possible through benchmarking with property leased by another Government Entity within the same building. Moreover, advice from an external technical consultant was also considered.

iv. ***In some instances, documentation related to the selected case studies was not always available.*** This Office encountered challenges in retrieving archived records which could be attributable to the absence of a systematic archiving process. The impact of such a situation was that, in some instances, this Office was unable to review all the relevant evidence due to the absence of required documentation. In turn, this could affect the comprehensiveness of the findings and conclusions presented in this Report. To mitigate this audit limitation caused by the unavailability of documentation, this Office, where possible, sought alternative sources of evidence, such as conducting semi-structed interviews with key stakeholders or corroborating documentation with other sources of information. This Review also considered the materiality of the missing documentation and determined whether this will impact on the overall audit conclusion.

1.6. Report Structure

1.6.1. Following this introductory Chapter, the Report proceeds to discuss the following:

i. Chapter 2 - discusses the Malta Gaming Authority's leasing arrangement in Smart City, Kalkara.

ii. Chapter 3 - considers the Ministry for Agriculture, Fisheries and Animal Rights' leasing arrangement at Pinto Business Centre in Qormi.

iii. Chapter 4 - goes into the Malta Competition and Consumer Affairs Authority's leasing arrangement in Mizzi House, Blata l-Bajda.

iv. Chapter 5 - presents the conclusions drawn from this assignment through a comparative analysis of the three case studies and eliciting lessons learned.

1.6.2. The overall conclusions and recommendations related to this Joint Audit are presented in Chapter 5 from page 50 to 53.

Chapter 2

MGA Leasing Arrangement

2.1. Introduction

2.1.1. This Chapter examines the leasing arrangement entered into between the Malta Gaming Authority (MGA)[4] and SmartCity Malta (SCM) Limited for office space located at Levels 3 and 4 in SCM 02/03 at SmartCity Malta, Kalkara. The premises serve as the MGA's main operational headquarters and represent one of the most substantial office lease agreements within Government's portfolio. The lease, covering an eventual area of 2,562m² and including 10 car parking spaces, was formalised through a series of agreements signed with SCM Limited between May 2014 and September 2015. The leasing arrangement is of particular audit interest due to the cumulative contractual value for a maximum of 15 years, which exceeds €8 million (excl. Value Added Tax {VAT}), and the subsequent capital expenditure of around €4.3 million (excl. VAT) incurred for fitting-out works. MGA outlined that the Authority falls within the remit of Article 12 of the VAT Act (Cap. 406 of the Laws of Malta), and hence, is fully exempt from paying VAT charges on the rental cost of the premises itself. At this juncture, it is to be noted that this exemption applies exclusively to the leasing of office space and does not extend to the service charge associated with this lease, the rent of car park spaces and capital expenditure incurred. Consequently, within this Chapter, the note excluding VAT, refers only to the latter circumstances and should not be interpreted that any VAT is due on the leasing element of office space.

2.1.2. It is to be noted that this leasing arrangement predates the introduction of Subsidiary Legislation (S.L.) 601.12, '*Procurement of Property Regulations*' in April 2020. The procurement process was initiated through an Expression of Interest (EoI) published in January 2014 by Nexia BT Advisory Services Limited on behalf of the MGA. The legal framework for leasing property did not envisage or oblige governmental entities to go through public tendering procedure and the issue of an EoI is considered as a best practice.

2.1.3. Following an evaluation of fifteen proposals, SmartCity Malta was selected as the preferred bidder based on a weighted technical and financial scoring system. The original lease agreement was signed in May 2014 and was subsequently amended twice through addenda in December 2014 and September 2015. These modifications significantly altered the leased area and consequently the total financial commitment, with the lease duration set at 15 years- five years '*di fermo*' and ten years '*di rispetto*'.

2.1.4. This Chapter presents the following analysis on the MGA leasing arrangement at SmartCity Malta:

i. An overview of the MGA leasing arrangement;
ii. Governance and transparency gaps in the planning and procurement processes;
iii. Some issues of clarity regarding some contractual provisions concerning financial matters; and
iv. Opportunities to attain better value for money through a more holistic negotiation of the total leasing package.

2.1.5. Against this backdrop, this Chapter aims to provide a comprehensive review of the key decisions and financial implications underpinning the MGA's long-term lease at SCM and to offer recommendations for improving governance and procurement practices in future leasing arrangements.

2.2. MGA's leasing arrangement will amount to €12.3 million over a 15-year period

2.2.1. To ensure objectivity in the interpretation of NAO's assessment and evaluation of contractual best practices and value for money considerations, this Section provides the context and background of this leasing agreement.

2.2.2. MGA entered into a leasing arrangement with SmartCity (Malta) Limited for office space located within the SCM02/03 buildings at SmartCity Malta, Ricasoli, Kalkara. The original lease agreement was signed on 6 May 2014, covering Unit 302 at Level 3 and the entire Level 4 of SCM02/03, with a total internal area of 1,747m² and 10 dedicated car parking spaces. Over the following 16 months, two addenda were signed - on 17 December 2014 and 25 September 2015 - which progressively expanded the leased area to 2,562m², comprising multiple units across SCM02 and SCM03 buildings. These modifications also reaffirmed the allocation of 10 car parking spaces throughout the lease term. Table 2 refers.

[4] Formerly known as the Lotteries and Gaming Authority (LGA).

Table 2: Developments in MGA leasing agreements

Contract	Signing date	Rent Commencement Date	Duration	Leased Site		Total cost (€ excl VAT)
				Administrative Offices	Car Parking Spaces	Cost of leasing the Offices, Service Charge and Car Park Spaces
Original Agreement	06-May-14	01-Mar-15	**15 yrs** – 5 yrs di fermo and 10 yrs di rispetto	Unit 302 (Level 3) and full floor Level 4 in SCM02/03 [1,747 m²]	10	5,497,939
Addendum No 1	17-Dec-14	01-Jul-15	**15 yrs** – 5 yrs di fermo and 10 yrs di rispetto	SCM 03 – Units 301,302, 303, 304 SCM 02 – Unit 303 SCM 02-03 – full floor Level 4 [2,206 m²]	10	6,941,935
Addendum No 2	25-Sep-15	01-Jul-15	**15 yrs** – 5 yrs di fermo and 10 yrs di rispetto	SCM 03 – Units 301,302, 303, 304 SCM 02 – Unit 303 SCM 02-03 – full floor Level 4 [2,562 m²]	10	8,053,097

2.2.3. The leasing term was structured as a 15-year agreement, consisting of a five-year mandatory period (*di fermo'*)[5] followed by a ten-year optional extension period (*'di rispetto'*).[6] The total value of the lease, inclusive of rent and service charges, is estimated at €8,053,097 (excl. VAT) throughout the whole lease duration. As of 2024, the annual lease-related costs amounted to €556,641 (excl. VAT), including office rent of €461,181, service charges amounting to €80,177, and ten parking spaces totalling €15,283. In the case of office rent, this translates to a rental cost of €180 per m² per annum (excluding service charges and parking spaces).

2.2.4. In parallel to the leasing commitments, significant capital expenditure was incurred for the embellishment and fit-out of the premises. Available records indicate that MGA financed approximately €4.3 million (excl. VAT) in capital works. This expenditure was additional to the lease payments and was not explicitly detailed in the original lease agreement. The contract between SCM and MGA outlined that for capital works:

- *The Lessor shall, on the Handover Date, nominate an individual (hereinafter the "Project Manager") who shall be entrusted with the project management of the Lessee's Works to be carried out in accordance with the methodology set out in the document entitled "Methodology for the Fit-Out Design and Build Processes carried out by SmartCity Malta" herewith attached and marked Appendix 3 that forms part of the SmartCity Malta Procedures Manual.*
- *All costs and expenses of any sort whatsoever incurred for executing the Lessee's works, except* for the costs for providing the Project Manager, shall be borne by the Lessee.

[5] *Di fermo* defines the obligatory minimum lease duration.

[6] *Di rispetto* signifies the optional period post-*di fermo* expiry. During this period, the lessee may terminate the lease within a pre-determined period, without incurring penalties.

2.2.5. It is to be noted that MGA engaged INSIGHT Internal Auditors to strengthen MGA's oversight by providing a negative assurance[7] review with respect to the capital expenditure incurred by the Authority during the carrying out of fit-out works. The scope included the accuracy of invoices and analysis of purchases, as well as the cost-effectiveness of MGA's activities. In this regard, the INSIGHT report has concluded that the expenditure incurred with respect to the fit-out works was kept in line with the Authority's final approved budget.

2.3. The planning and tendering process elicited scope to strengthen some governance aspects in relation to this leasing arrangement

2.3.1. MGA's planning and tendering process for the leasing of office space was constrained by governance, including transparency shortcomings. While a formal EoI process was conducted, the needs assessment underpinning the leasing decision lacked depth, documentation, and strategic evaluation of alternatives, including cost-benefit analysis and a review of available public property options. Simultaneously, although the procurement exercise broadly followed regulatory procedures, it was affected by critical weaknesses such as the undocumented outsourcing of key functions, limited internal oversight and insufficient justification for awarding a significantly costlier proposal.

MGA did not prepare a comprehensive needs assessment prior to the procurement of the Smart City property lease

2.3.2. A structured and well-documented needs assessment is a fundamental pre-requisite for any major leasing decision, ensuring that the property acquired aligns with operational requirements, space demands, and long-term organisational strategy.

2.3.3. In the case of the MGA's leasing arrangement at SmartCity Malta, the needs assessment was primarily reflected through the specifications included in the EoI prepared and issued by Nexia BT Advisory Services Limited on 16 January 2014. While this indicates that a formal process was undertaken, further examination reveals notable gaps and limitations in the scope, depth, and documentation of the assessment exercise.

2.3.4. Firstly, the EoI outlined basic requirements for a commercial space of approximately 2,000m², with appropriate planning permission and adequate access and parking provisions. However,

[7] A negative assurance review is a form of limited assurance engagement in which the practitioner performs less extensive procedures than a full audit and concludes that nothing has come to their attention to indicate that the subject matter is materially misstated or not prepared in accordance with the applicable framework.

MGA did not present consideration of alternative options such as the refurbishment of existing Government-owned properties or the investment by MGA in new properties. The lack of such analysis limits this Office to determine whether opting for a leasing arrangement was, at the time, the most cost-effective and strategically sound option available. Exploring alternatives was even more critical when considering that a substantial capital investment had to be made in the leased property in Smart City. A robust assessment would have compared different leasing models, capital expenditure implications, and long-term occupancy needs based on projected organisational growth.

2.3.5. Following the signing of the original lease agreement with Smart City Malta in May 2014, Grant Thornton on behalf of MGA carried out a review of the Lotteries and Gaming Authority's organisational structure, and determined what appropriate resources were required to rightsize the Authority for the future. The report, entitled "Rightsizing the Lotteries and Gaming Authority for the Future", published in December 2014 outlined the need to increase the number of employees from 57 in 2013 to 135 in 2015. In this regard, the leased area increased progressively through two addenda - from 1,747m² to 2,206m² and later to 2,562m² within 17 months Since the study was commissioned after the signing of the original agreement, this situation may have influenced the evaluation report's results, had these requirements been known in advance. Reference is made to paragraph 2.3.9.

2.3.6. Thirdly, the lease was structured as a 15-year agreement, comprising five years mandatory (*di fermo'*) and ten years optional (*'di rispetto'*). The original EoI only defined an optional renewal ('di rispetto') of just five years rather than 10 years. Moreover, the NAO did not receive documentation illustrating the need for such an increase in the lease duration. Consequently, this Office is not in a position to comment on the appropriateness of the lease arrangement relative to the Authority's needs.

2.3.7. Lastly, despite issuing an EoI, it is not clear whether MGA or Nexia BT sought independent technical advice- such as that of a Government architect or real estate valuer- before finalising the lease rate or confirming that the proposed property met its needs in terms of layout, efficiency, and accessibility. This lack of third-party validation may have limited the Authority's ability to ensure strategic alignment and value for money in its final leasing decision.

The procurement process for the leasing of office space was undermined by transparency gaps

2.3.8. As indicated in previous Section, MGA initiated a procurement process for the leasing of office space through an EoI issued in January 2014. The process, involved drafting the EoI, receiving and evaluating the fifteen submissions received, and compiling the final Evaluation Report. However, the audit identified several transparency gaps within the process. The following refers:

i. Outsourcing of procurement without formal engagement – Nexia BT managed the entire EoI process, including drafting, receiving, evaluating bids, and issuing the final report. While MGA confirmed that Nexia BT was engaged through a direct order, no documentation was provided by MGA to substantiate the engagement, and its terms including the expenses involved. This Office requested copies of both the engagement letter and the subsequent payments, but MGA contended that this information could not be traced. While acknowledging the implications related to the passage of time, the unavailability or the possibility of not having a formal agreement raises concerns over procedural compliance and oversight.

ii. No record of payments effected in relation to this engagement – MGA could not trace the amounts paid to Nexia BT in relation to this engagement. This Office only traced a request for payment made by Nexia BT to MGA in relation to an advert in a local newspaper, regarding the EoI issued.

iii. Critical supporting documentation was not made available – MGA made available to this Office the evaluation report submitted by Nexia BT. It is to be noted that this evaluation report did not include a copy of the bids submitted. Moreover, MGA did not make available to this Office, the respective bids submitted during the tendering process carried out by Nexia BT, stating that the Authority could not trace such documentation. This Office could not ascertain whether this documentation was not available since such data was not forwarded from Nexia BT to MGA or due to other issues relating to the retention of data over the passage of time. In the circumstances, this Office could not carry out an independent analysis of the bids to ascertain that the selected offer was the most competitive bid.

iv. Deviation between EoI provisions and agreed contractual terms on lease duration – The EoI outlined that the contract duration was for five years *di fermo* and another five years *di rispetto*. However, the leasing contract, increased the latter to ten years. Thus, such a situation increases the maximum duration of the contract from 10 to 15 years. The Authority contended that the extension of the lease term from 10 to 15 years following the issuance of the EoI, allowed MGA to utilise the fit-out works for an even longer period thereby reaping the benefits of the investment over a longer period. Moreover, MGA also indicated that the Authority is also exploring the possibility of extending the lease beyond the 15-year period. While, with the benefit of hindsight, such an approach might be viewed as a reasonable course of action, the circumstances, nonetheless, give rise to significant concerns regarding the fairness and transparency of the procurement process. This is particularly due to the apparent misalignment between the provisions outlined in the EoI and the agreed contractual terms.

v. The evaluation report did not consider all the different financial parameters of this leasing arrangement –

a. The evaluation report focuses on the lease rate and does not consider the capital costs involved to transform the area from shell format to office space. Based on a financial review of the capital costs involved, this Office notes an expenditure of over €4.3 million (excl. VAT) which was not taken into consideration during the evaluation process.

b. The leasing rate considered for the purpose of the evaluation exercise is different than the one reflected in the contract. The evaluation report considers a starting leasing rate of €150 per m² while the contract highlights a starting rate of €140 per m². Both rates were planned to experience an annual increase of three per cent. The evaluation report also considers an area of 2,000m² while the first leasing contract considered an area of 1,747m². While this approach, may appear to be prudent, the evaluation report does not appropriately reflect the situation as agreed upon through the first leasing contract. In view that the bids submitted were not made available, this audit was not in a position to verify whether such a situation materialised due to miscalculations in the evaluation report or changes in the parameters between the evaluation stage and contract signing.

c. This Review also noted that through contractual addenda the leased area increased from 1,747m² to 2,562m² over a span of 16 months. These changes in the specifications, could potentially have implications on the evaluation process and affects the concept of fair competition.

vi. Award made despite a significant financial differential – Nexia BT presented the evaluation criteria in the EoI, whereby bidders were cognisant that 80 per cent of the total score will be attributed to the technical specifications while the remaining 20 per cent will consider the financial bid. Using this methodology, SmartCity Malta received the highest total score (71.57) and was awarded the contract in line with the pre-established evaluation criteria. Such situation materialised despite SmartCity Malta proposal being €280,673 higher annually - and €1.4 million more expensive over five years - than the lowest-priced bid, amongst the final four shortlisted bids. No documented cost-benefit analysis was presented to justify the financial trade-off. Due to documentation gaps relating to the marking scoring registered with respect to each bid's technical and financial compliance, this Office was not in a position to evaluate the extent to which the award was justified.

vii. Unclear evaluation committee structure – The final Evaluation Report referred to an evaluation team but failed to identify its members and provide evidence of independence and absence of conflicts of interest. This Review could not trace additional supporting documentation confirming MGA's oversight of this process.

viii. Limited internal oversight by MGA – An absence of internal documentation on procurement parameters, evaluation approvals, or Department of Contracts (DoC) consultation, significantly reduced MGA's control and auditability of the process.

2.3.9. Therefore, although the procurement exercise led to the selection of a technically strong proposal, the process was weakened by a lack of transparency, poor documentation, and limited internal oversight.

2.3.10. Moreover, issues with the procurement to lease the property under review, impact also on the capital works required to transform the leased site from shell format to office use. Such a situation resulted due to contractual gaps in the agreement between MGA and SCM. This arrangement stipulated that the capital works were to be borne by MGA, without stipulating the total costs. Section 2.4 will provide further details.

2.3.11. Nevertheless, it is to be noted that the award of over €4.3 million (excl. VAT) in capital works was through a closed tender issued by Smart City Malta, where a selected group of contractors were invited to participate in the submission of bids. Whilst MGA did not issue a call through the DoC, in view of the latter's vast experience, it may have been beneficial and enhanced good governance.

2.4. The MGA's leasing agreements were undermined by transparency and accountability issues

2.4.1. This Review noted that this lease agreement did not fully comply to best practice contractual provisions relating to "*rent and payments*". This situation arises from the absence of estimated refurbishment costs in the lease agreement and the increase in car parking costs through contract addenda, applying an area-based pricing mechanism. The following Section examines these issues in detail. Moreover, Appendix I provides an analysis of the agreements between SCM and MGA against what is considered to constitute best practice clauses.

The leasing contract did not specify the total refurbishment costs involved to transform the leased space to office use, which eventually amounted to €4.3 million

2.4.2. The contract between MGA and SCM outlined that the former was to transform the leased premises in accordance with a pre-established guidance document, outlining the type of fit-out works required. The agreement outlines that these costs were to be borne by the Authority. The same contract also outlined that SCM were to appoint and cover the costs of a Project Manager responsible for such works. Nevertheless, the contract did not specify the total costs involved to finish and furnish the property in line with the proposed guidelines. At the end, these costs amounted to a total cost of €4.3 million (excl. VAT). The Authority notes that these works were executed to a high specification, resulting in minimal ongoing maintenance requirements throughout the term of the lease. Nevertheless, such a situation, whereby the contract did not specify the total costs, raises transparency concerns and financial management issues.

2.4.3. One of the four contracts between SCM and a third party, which constituted the main tender for fitting-out works, resulted in an increase in total costs of 61 per cent. In this regard, the total capital expenditure for this contract, increased by €1,345,883 to €3,550,156 as a direct result of multiple change request forms (CRFs) issued during the project implementation phase. These CRFs modified the original scope of works, which were initially outlined under the main contract, and significantly contributed to cost escalations. These changes can be mainly attributed to the expansion of the lease area through the contract addenda and the change in the design to accommodate the change in the number of employees.

Due to area-based pricing mechanism, the costs for ten parking spaces increased by €66,677 through contract addenda

2.4.4. This Review identified a material increase in the cost of parking spaces in the MGA's leasing arrangement at SmartCity Malta. Notably, the number of parking spaces remained constant at ten throughout the duration of the lease agreement and the two subsequent contract addenda. Nevertheless, the associated parking costs increased by €66,677.

2.4.5. This increase stemmed from the pricing methodology applied in the leasing agreement, whereby parking charges were calculated based on the total leased floor area rather than the number of parking spaces. As shown in the table below, the area used for car parking spaces calculation increased progressively from 1,747m² to 2,464m² between the signing of the original agreement in 2014 and the second Addendum in September 2015, while the number of parking spaces remained unchanged.[8] Table 3 refers.

Table 3: Progression of parking costs relative to leased area

Agreement	Signing Date	Leased Area (m²)	Number of Parking Spaces	Total Car Parking Cost throughout the 15-year contract duration[9] (€ excl VAT)	Cummulative Increase (€)
Original Agreement	06-May-2014	1,747	10	162,462	–
Addendum No 1	17-Dec-2014	2,206	10	205,146	+ €42,684
Addendum No 2	25-Sep-2015	2,464	10	229,139	+ €66,677

2.4.6. This area-based pricing mechanism for car parking introduced an indirect cost escalation of 41 per cent over and above the parking costs envisaged in the original lease agreement. This situation effectively penalised the Authority for expanding its leased office footprint. This practice diverges from typical leasing norms, where parking fees are usually determined per space. The approach undermines value for money principles.

2.5. Value for money was diminished through high parking costs and refurbishment costs

2.5.1. The NAO sought to assess the value for money of this leasing arrangement through three cost elements: the lease of the property in shell form, the car parking spaces and the refurbishing costs. To this end, the assessment focused on these variables individually as well as their collective sum total.

2.5.2. As will be presented below, the MGA's leasing arrangement of the property at SmartCity Malta in shell form generally offered good value in terms of the agreed office rental rate, which was competitive when benchmarked against market rates. However, the overall value for money was weakened by excessively high car parking costs and a capital investment of €4.3 million in refurbishment works. These high upfront costs, combined with a lease duration of only 15 years, limited the ability to fully amortise the investment over time. Within this context, MGA contends that it is heavily considering extending the lease beyond the 15-year period.

[8] Actual office leased area increased to 2,562m² but only 2,464m² of the area was considered for car parking spaces charges.

[9] Quoted costs related to the whole contract duration of 15 years.

The office leasing rate in shell form of the MGA agreement generally reflected market prices

2.5.3. To compare rental values, the assessment used the Malta Grand Harbour rental rate as a reference. The leased office space, spread over two floors at Smart City, is located within the Grand Harbour region, which is considered a prime area due to its high-quality development and surrounding amenities. The premises were leased in shell form, with the cost for all high-end finishes borne by the tenant. In this regard, shell form rates for the region were used in the comparison. Table 4 below shows how the estimated market value of the MGA lease was calculated and compares this to the actual rental rates agreed in the leasing contract.

Table 4: Comparison of rental market value in shell form with MGA leasing rates

Year	MGA Lease Agreement €/m² (based on Net Internal Area[10] of 2,546m²) (€)	Market Value - Rental in Shell Form on NIA[11] (€)	% Difference - Lease Agreement / Market Value Rental Rate (Shell Form)	€ Difference - Lease Agreement / Market Value Rental Rate (Shell Form)
2015[12]	141	107	31.7%	43,159
2016	143	107	33.7%	91,699
2017	147	149	-0.8%	(3,164)
2018	152	172	-11.7%	(51,056)
2019	156	152	2.6%	10,104
2020	161	196	-18.0%	(90,162)
2021	166	170	-2.2%	(9,711)
2022	171	176	-3.0%	(13,444)
2023	176	217	-19.1%	(105,856)
2024	181	207	-12.4%	(65,281)
2025[13]	187	219	-14.7%	(81,995)
2026	192	232	-17.0%	(100,076)
2027	198	245	-19.2%	(119,588)
2028	204	259	-21.3%	(140,646)
2029	210	275	-23.5%	(164,560)
2030[14]	213	290	-26.4%	(97,309)
Total				**(897,886)**

[10] The contracted leased floor area of 2,562m² correlates with Gross Floor Area (GIA) measured from Acad plans provided by MGA. However, this area does not include common areas and excludes part of office space at Level 3 (as per Final Addendum signed in September 2015). Moreover, the leased Net Internal Area (NIA) was measured at 2,422m². However, as per *Kamra tal-Periti* 2012 standards, it is customary to include common toilet areas, with leased NIA now amounting to 2,546m² (inclusive of toilets). As per such standards, meeting rooms, conference rooms and archive areas are also included in such prime use areas.

[11] This has been estimated via a residual valuation, by capitalising the market rental value for the particular year at six per cent, after having deducted five per cent for management/maintenance expenses and then considered nine per cent for purchase expenses. From the estimated market value for the particular year, the low upgrading costs (varying at €500/m² as at 2024 down to €295/m² for 2014), together with interest charges accrued over 50 per cent of the upgrading period taken at six months and deducting a profit element of 25 per cent on the upgrading costs.

[12] Lease period initiates in July 2015.

[13] Rates for the period from 2025 to 2030 have been extrapolated at an annual office rental increase of 5.65 per cent per annum.

[14] Lease period terminates in June 2030.

2.5.4. Table 4 shows that the contracted rental rate for office space was generally lower than the Grand Harbour market value for rental office space in shell form. At the initiation of the lease in 2015, the contracted lease rate was noted as being 31.7 per cent higher than the market rate for shell form offices. However, as from 2017 onwards, with a slight exception in 2019, this trend was overturned as contracted rates became favourable when compared to shell market rates. Based on this valuation, this Office estimates that between 2015 and 2030, MGA would be incurring savings of €897,886 in leasing costs when compared to the respective shell market value rates.

The leasing rate for ten car parking spaces incurred exceeded the prevailing market value

2.5.5. Expanding further on the discussion portrayed in Section 2.4, the NAO, also compared the leasing rate for ten car parking spaces leased by MGA at Smart City with the market value rate of car spaces leased in areas close to the property. Table 5 refers.

Table 5: Comparison of MGA leased parking spaces with the market value of leased parking spaces

Year	MGA Lease Agreement (€/car space)	Market Value - Rental Rate of MGA (€/car space)	Difference - MGA Lease Agreement / Market Value Rental Rate	Difference - Lease Agreement / Market Value Rental Rate €
2015[15]	1,232	345	257%	4,435
2016	1,250	356	252%	8,948
2017	1,288	367	251%	9,213
2018	1,327	378	251%	9,485
2019	1,366	390	251%	9,766
2020	1,407	402	250%	10,055
2021	1,450	414	250%	10,353
2022	1,493	427	250%	10,659
2023	1,538	440	249%	10,975
2024	1,584	454	249%	11,300
2025	1,632	468[16]	249%	11,634
2026	1,681	483	248%	11,979
2027	1,731	498	248%	12,333
2028	1,783	513	247%	12,698
2029	1,836	529	247%	13,074
2030[17]	1,864	545	242%	6,591
Total				163,498

2.5.6. Table 5 shows that the agreed rental rates for car spaces were much higher than typical market rates- starting at €345 in 2015 and rising to €454 in 2024 and €545 in 2030. On average, the contracted rates were 249 per cent higher than the market rate over the 15-year lease period.

[15] Lease period initiates in July 2015.

[16] Rates for the period from 2025 to 2030 have been extrapolated at an annual rental car space increase of 3.1 per cent per annum.

[17] Lease period terminates in June 2030.

2.5.7. While having dedicated car spaces may be important in a business complex like Smart City, especially with multiple offices in the area, the cost for each space was found to be too high. This is particularly notable given that the parking provided was basic off-street parking with marked bays on a paved concrete surface and no barriers or added features.

Considering the elements making up this leasing arrangement, the total deal is considered to exceed the high-end market prices

2.5.8. To enable a fair year-on-year comparison, the NAO methodology necessitated that the yearly refurbishment cost is converted into an Equivalent Annual Cost (EAC). The EAC calculations entailed applying a discount rate of four per cent over the 15-year lease duration, resulting in an annualised cost of €263,624, equivalent to €104 per square metre annually.

2.5.9. This EAC was then added to the annual lease rate specified in the contract to determine the total effective cost per square metre. The resulting figure was benchmarked against equivalent leasing rates in the Grand Harbour district, which were considered to represent the prevailing market rate for comparable office space in Smart City. Moreover, this exercise also considered the costs incurred with respect to ten car parking spaces. Appendix II provides further details on the methodology employed to derive these calculations.

2.5.10. The analysis showed that apart from the final two and a half years, the combined leasing and refurbishment cost consistently exceeded market levels. Table 6 refers.

Table 6: Resultant variances following the benchmarking with market prices of all the cost elements composing the MGA lease arrangement

Year	Office leasing variance (€)	Car parking spaces variance (€)	Total Variance (€)
Jul- Dec 2015	136,144	4,435	140,579
Jan- Dec 2016	273,851	8,948	282,799
Jan- Dec 2017	177,842	9,213	187,055
Jan- Dec 2018	127,990	9,485	137,475
Jan- Dec 2019	182,861	9,766	192,627
Jan- Dec 2020	82,773	10,055	92,829
Jan- Dec 2021	156,172	10,353	166,525
Jan- Dec 2022	145,921	10,659	156,581
Jan- Dec 2023	46,941	10,975	57,916
Jan- Dec 2024	75,651	11,300	86,951
Jan- Dec 2025	52,853	11,634	64,487
Jan- Dec 2026	28,402	11,979	40,380
Jan- Dec 2027	2,194	12,333	14,527
Jan- Dec 2028	-25,881	12,698	-13,183
Jan- Dec 2029	-55,939	13,074	-42,865
Jan- Jun 2030	-48,122	6,591	-41,532
	1,359,653	**163,498**	**1,523,151**

2.5.11. Table 6 shows that over the lease duration of 15 years, the cumulative net variance amounted to €1.5 million. This indicates that, overall, the leasing arrangement is considered to exceed the high-end market prices. Such a variance could be mainly attributed to the high level of finishings that MGA had to incur within its leased site.

2.5.12. The audit also observed that the lease agreement was set for a maximum duration of 15 years (including both the '*di fermo*' and the '*di rispetto*' lease duration). While this timeframe may be considered reasonable in general leasing terms, it was not optimal when viewed against the total capital investment of approximately €4.3 million (excl. VAT) incurred for the refurbishment of the premises. The scale of this investment warranted a longer lease period to allow for more effective amortisation of costs. In this context, the 15-year lease duration limited the opportunity to fully maximise value for money, as the significant upfront expenditure was spread over a relatively constrained occupancy period. Moreover, MGA contends that it is heavily considering extending the lease beyond the 15-year period.

The office space per employee at MGA's leased site generally satisfies established standards

2.5.13. An analysis of MGA's current office space allocation indicates that the employee-to-office area ratio is generally in line with established benchmarks. Based on data submitted by the Authority, 178 employees are presently based at the site, including 22 inspectors who make limited use of the premises. For the purpose of assessing space utilisation, a working headcount of 160 employees was adopted. The net internal area (NIA) dedicated to MGA use, adjusted for the vacated 168m² formerly occupied by GamingMalta, thus excluded from this calculation, totals 2,254m². This results in an average space allocation of 14.1m² per employee, which aligns with post-COVID benchmarks typically ranging between 12m² and 15m² per employee.

2.5.14. The calculated NIA includes shared facilities such as the Casino and auditorium areas, which, while not used as desk space, remain actively utilised for meetings and internal events. In line with Kamra tal-Periti 2012 standards, such multifunctional areas are considered part of the prime useable office space.

2.6. Conclusion

2.6.1. The MGA's leasing arrangement at SmartCity Malta was a major commitment involving over €8 million in lease obligations and more than €4 million in capital outlay for refurbishment. The arrangement was weakened by notable governance deficiencies and value for money concerns that affected transparency, efficiency and effectiveness throughout the lease lifecycle.

2.6.2. From the outset, the planning and procurement phases were flawed as needs assessment prior to the procurement of the leased property was not comprehensive and the absence of documented analysis of alternative property options or long-term financial scenarios. The delegation of procurement responsibilities to an external advisor without formal agreements diluted MGA's accountability. Although the selected site met the Authority's spatial and operational needs, the procurement process lacked the procedural safeguards necessary to ensure full transparency and robust financial justification - particularly given that the awarded bid was significantly costlier than the lowest offer received.

2.6.3. The lease itself offered a competitive office rental rate over time. However, broader value for money was undermined by several factors. Car parking charges were inflated - averaging nearly 250 per cent above market rates - and structured in a manner that tied their cost to office floor area rather than quantity. Meanwhile, the substantial refurbishment expenditure was incorporated in the leasing agreement and awarded without a public tender or involvement of the DoC, bypassing key pillars of public procurement integrity.

2.6.4. In conclusion, while the MGA secured a strategically located and well-equipped office hub, the governance and financial management of the leasing arrangement fell short of public sector standards. Greater diligence in planning, stronger procurement oversight, and a holistic approach to cost management would have enhanced both accountability and value for money. These lessons underscore the importance of transparent, evidence-based decision-making in safeguarding public funds across the full lifecycle of leasing commitments.

Chapter 3
MAFA Leasing Arrangement

3.1. Introduction

3.1.1. This Chapter examines the arrangements undertaken by the Ministry for Agriculture, Fisheries and Animal Rights (MAFA) for the leasing of 800 square metres (sqm) of office space from United Estates Limited situated on Level 3 of the Pinto Business Centre, Qormi, as well as 25 car parking spaces at basement level. In 2022, the Ministry resorted to this temporary lease arrangement while at the same time embarked on the conversion to office use of a historic building within Għammieri, Agriculture Research and Innovation hub. This lease was to accommodate the private secretariats of both the Minister and the Parliamentary Secretary together with the office of the Permanent Secretary into a single building in lieu of the then offices in Valletta. This Joint Audit examined the rationale, procurement process, and cost-effectiveness of this lease, focusing on the decisions made throughout the leasing period.

3.1.2. Within this context, this Chapter presents the following analysis on the leasing agreement between MAFA and United Estates Limited:
i. MAFA's leasing arrangement amounted to €780,850 over almost three and a half years;
ii. The urgent need for office space resulted in limited needs assessment reviews, direct orders, and shifting specifications;
iii. Capital works at the Għammieri offices were behind schedule leading to continuous extensions of leasing agreements;
iv. The MAFA's leasing agreements generally included the relevant best-practice clauses; and
v. MAFA's lease generally met reasonably pricing criteria.

3.2. MAFA's leasing arrangement amounted to €780,850 over almost three and a half years

3.2.1. Following the 2022 General Election, MAFA's remit was extended. Concurrently, a Parliamentary Secretary was assigned responsibility for Fisheries, Aquaculture, and Animal Rights. In this regard, the Office of the Permanent Secretary was tasked to identify suitable premises to accommodate the Private Secretariats of both the Minister and the Parliamentary Secretary together with the Office of Permanent Secretary in one building. Later, the Directorate for Food Systems within the same Ministry was also accommodated in the same premises.

3.2.2. As outlined in the Ministry's requirements and specifications, specifically within its formal request to the Lands Authority (LA), the office space needed to be located in the central area of Malta and ready to move into in a short period of time. As MAFA did not have Government-owned properties in its inventory which suited the Ministry's requirements, and the LA did not entertain the Ministry request, a real estate agency was engaged to submit quotations for the leasing of a property portraying the required specifications. This Office is not privy to documentation, including initial engagement correspondence between the Ministry and the real estate agency, regarding the specifications requested by MAFA.

3.2.3. The Ministry evaluated the three quotations referred to by the real estate agency. MAFA selected the Pinto Business Centre for its competitive pricing and immediate availability, given the urgency of relocating various MAFA offices under one roof. The leased site consisted of 800 sqm of office space, including its two terraces, situated on Level 3 of the block. The decision also reflected a preference for a site offering finished spaces, including partitions and 25 car parking spaces, which were critical for operational needs. Issues relating to the procurement process will be further detailed in Section 3.3 below.

3.2.4. This arrangement involved three agreements, all secured through direct orders.[18] It should be noted that this leasing arrangement came into effect following the introduction of Subsidiary Legislation (S.L.) 601.12 '*Procurement of Property Regulations*'. This S.L. provides for procurement via direct order in case of urgency. Table 7 refers.

Table 7: MAFA leasing agreements for Pinto Business Centre, Qormi

Signing date of leasing agreement	Commencement date	Termination date	Duration	Rent (€ excl. VAT)[19]	
				Premises	Car Spaces
21-Jun-2022	21-Aug-2022	20-Aug-2024	2 years (di fermo)	Year 1- €200,000 annually	€18,750
				Year 2- €206,000 annually	€18,750
22-Nov-2023	21-Aug-2024	30-Jan-2025	162 days (di fermo)	€94,173	€8,572
12-Jul-2024	1-Feb-2025	31-Jan-2026	1 year (di fermo)	€215,058	€19,574

3.2.5. The **first agreement** covered two years from 21 August 2022 to 20 August 2024 with a total cost of €443,500 (excluding VAT). The annual rent for the office spaces was set at €200,000 for the first year, increasing with a three per cent annual rent to €206,000 in the second year. In addition, it was agreed that MAFA pays €18,750 annually for the provision of 25 parking spaces.

[18] This audit reviewed the first three agreements between MAFA and United Estates Limited. The subsequent addendum, covering the period from February 2026 onwards, was not considered in view that this did not fall within the audit period under review.
[19] It is to be noted that the rental of office space by MAFA falls outside the scope of VAT due to the Ministry's VAT status.

3.2.6. In the second agreement, the leasing arrangement was extended by an additional 162 days from 21 August 2024 to 30 January 2025, with an additional cost of €102,745 (excluding VAT) - €94,173 being the lease for the same office space and €8,572 being the lease for parking spaces. This extension was triggered by the delays in the completion of the Għammieri offices restoration project, which was initially scheduled to be completed in 2024. .

3.2.7. In the third agreement, the lease was extended by a further one year from 1 February 2025 to 31 January 2026, costing an extra €234,632 (excluding VAT) – €215,058 for the 800sqm office space and €19,574 for 25 car parking spaces. This extension was once again triggered by the delay in the completion of the Għammieri project.

3.3. MAFA's urgent need for office space resulted in limited needs assessment, direct orders, and shifting specifications

3.3.1. The audit found that MAFA's leasing arrangement at the Pinto Business Centre was largely shaped by urgent circumstances following the Ministry's rapid expansion. While this urgency explained the need for quick decisions, it also limited the robustness of the planning and procurement process. As a result, the arrangement was characterised by an incomplete needs assessment, reliance on direct orders rather than a competitive tendering process and changing lease specifications.

Due to urgency, the needs assessment exercise undertaken by MAFA was not comprehensive

3.3.2. MAFA's leasing arrangement at Pinto Business Centre in Qormi was not supported by a fully developed needs assessment exercise. Although MAFA commissioned a local real estate agency to seek quotations of three possible leasing options, which provided some level of market understanding, it did not carry a full evaluation of options, a formal needs assessment and a risk analysis. This situation mainly materialised due to the urgency in acquiring such an office space and keeping in view that this leasing arrangement was considered as a short-term measure – originally set for two years and which was later extended to an additional one and a half year through two new additional leasing arrangements.

Given the pressing circumstances and the short-term lease requirements MAFA opted for a direct order

3.3.3. At the point that MAFA realised that it needed new premises, the Ministry submitted a formal request to the LA to be allocated suitable premises, which among others included finishings and adequate size to meet the Ministry's remit. MAFA also repeated such a request prior to embarking on extending the original contract. However, in both instances the LA replied in the negative to these enquiries.

3.3.4. In view of the compelling circumstances, MAFA resorted to direct orders for both the initial lease signed in June 2022 and the subsequent leasing contracts signed in November 2023 and July 2024. Of note is that the Ministry obtained all the required authorisations in line with S.L. 601.12 to proceed with the procurement through a direct order.

3.3.5. Subsequently, MAFA consulted with a real estate agent, who provided MAFA with three property options. Table 8 outlines the main characteristics of these three options. In view of commercial sensitivity, the non-successful bids were marked as B and C.[20]

Table 8: Three potential premises identified through real estate agency

	Option 1	Option 2	Option 3
Premises	Pinto Business Centre	"B"	"C"
Location	Qormi	Floriana	Mrieħel
Area	800 sqm	600 sqm	840 sqm
Price	€250 per sqm	€450 per sqm	€295 per sqm
Parking	€750 per space (25 available)	No availability	€1,240 per space (17 available)
Finish Level	Finished including partitions	Finished including furniture	Finished excluding partitions

3.3.6. The three options were assessed based on availability, size, and cost. MAFA selected Pinto Business Centre in Qormi due to the following reasons:

i. **Timing:** Premises C were still under construction and required six more months to be completed, which did not align with MAFA's immediate need for office space.
ii. **Area:** Premises B were deemed too small to accommodate all MAFA staff, as it provided only 600 sqm compared to the required 800 sqm. This Review, however, noted that the size requirement increased from 400 sqm when requesting space to the Lands Authority to 800 sqm in the actual leasing contract. Section 3.3.9 will discuss the area required by MAFA.
iii. **Cost:** Pinto Business Centre offered the most economical rate at €250 per sqm, compared to €450 for Premises B and €295 for Premises C.

3.3.7. Considering these factors, MAFA opted to secure this procurement through a direct order for the Pinto Business Centre, with the Ministry for Finance (MFIN) approving the decision, citing urgency as a key factor.

MAFA's first leasing arrangement was not published in the Government Gazette

3.3.8. This Review also noted that the direct order for the first contract (signed in 2022) and for the first lease extension (signed in 2023) were not published in the Government gazette as was required in the direct orders approval issued by MFIN and under the relevant procurement regulations. This procedure of publishing the direct order in the gazette was only followed in the second lease extension (signed in 2024). MAFA contended that this was an error and moving forward the Ministry has now established a Central Procurement Unit within the Office of the Permanent Secretary, which is now monitoring all tenders (including direct orders), to ensure that these are all reported. This also follows a recommendation from a recent NAO Audit on Contractual and Professional Fees which MAFA has positively agreed to implement.

[20] The chosen lessor – United Estates Limited – submitted two additional options for MAFA's consideration but these were not considered during the evaluation process. A summary of these additional bids is presented in Appendix III.

The planning process was characterised by changes in the lease specifications

3.3.9. The planning process for leasing office space for MAFA was characterised by significant revisions to the lease characteristics relative to the original specifications submitted to the LA. In April 2022, MAFA submitted a formal request to the LA to be allocated suitable premises in order to accommodate a number of offices pertaining to the same Ministry. The premises had to be finished and satisfy several specifications, including, amongst others, that premises had to be circa 400 sqm and located into Valletta or in the vicinity. This Review, however, noted some changes from the original set requirements as referred to the LA and the final specifications as per awarded contract lease.

i. Increase in office space requirement – The original request by MAFA to the LA specified a need for 400 sqm of office space. However, the final option selected at the Pinto Business Centre involved 800 sqm.

ii. Parking facilities were not part of the original request – Parking spaces were not included in the initial request submitted by MAFA to the LA in April 2022, which focused solely on office space leasing. The Pinto Business Centre, nonetheless, offered 25 parking spaces as part of its package. MAFA contended that this feature became a critical factor in the decision-making process, as inclusion of parking spaces would enhance operational convenience. The inclusion of parking, although beneficial, could have been factored into the initial planning stages. Not including parking spaces in the original request led to a shift in priorities that may have affected both the selection process and cost considerations. The inclusion of the 25 parking spaces amounted to an additional cost of €65,646 over the duration of the three agreements.

iii. A change in the preferred location from Valletta to Qormi – The original request to the LA indicated a preference for office space in Valletta or its vicinity to align with government operations and reduce travel times. Following the presentation of the three options in Qormi, Floriana and Mrieħel presented by the commissioned real estate agent, MAFA selected the Qormi option. While the premises in Floriana were an alternative, with a larger area than that noted in original request made to the LA, MAFA outlined that this was both smaller and more expensive than Pinto Business Centre. The latter option, despite being further from the desired location, was deemed the best option due to its larger space and overall cost-effectiveness in terms of cost per sqm. The shift from Valletta to Qormi indicates a compromise between location preferences and available options.

3.4. Delays of capital works at the Għammieri offices led to two extensions of the leasing agreement

3.4.1. As discussed earlier, the two leasing extensions mainly materialise following delays in the completion of the Għammieri Offices upgrading project. Although outside the scope of this audit, this Office noted that further delays to the completion of these works are envisaged as six tenders are still at various stages of evaluation or implantation following their award. These tenders include the procurement of mechanical and electrical engineering services, ceiling replacements, roof membrane reapplication, and other finishing works.

3.4.2. The delay in capital works at Għammieri offices raise the following concerns:

i. Cost overruns and extended leasing costs – Delays in the Għammieri project prolonged reliance on leased offices, adding €337,377[21] in additional expenses with respect to leasing costs.

ii. Lack of contingency planning – Inadequate initial site assessment and contingency planning failed to anticipate structural issues, worsening delays and lease dependence.

iii. Procurement delays – By June 2024, six key tenders were still pending, underscoring weak procurement controls and further delaying project completion.

iv. Strategic decision-making on leasing – Uncertainty about the project's completion hindered MAFA's long-term office planning and limited earlier consideration of more cost-effective alternatives.

v. Operational impact – Ongoing delays risk further lease extensions, disrupt operations, and postpone MAFA's move to a permanent consolidated facility.

3.5. The MAFA's leasing agreements omitted clauses related to variations as well as penalties and incentives

3.5.1. This Office reviewed the three lease agreements signed between MAFA and United Estates Limited against best practice contractual procedures, which are discussed in further detail in Appendix I. The MAFA leasing agreements for office space at the Pinto Business Centre generally adhered to established best-practice clauses. Nevertheless, this Review noted that contract provisions with respect to "***contract variations***" as well as "***penalties and incentives***" were omitted from the leasing agreements.

3.5.2. Provisions relating to "***contract variations***" are an important aspect of lease agreements, allowing adjustments to be made during the lease term due to unforeseen circumstances or evolving needs. It is crucial that variations are properly documented, clearly outlining the nature of the changes, their financial implications, and their impact on the original terms of the contract. Failure to adequately manage variations may undermine the overall objectives of the agreement, such as value for money and timely deliverables. The inclusion of robust provisions governing contract variations could minimise such risks, ensuring that any amendments are transparent and mutually beneficial.

3.5.3. On the other hand, the "***penalties and incentives***" clause is crucial for ensuring that both parties fulfil their obligations over the course of the lease. Penalties are typically enforced when a party

[21] This amount does not consider the fourth agreement between MAFA and Pinto Business Centre signed after January 2026. The latter was outsider the scope of this audit.

fails to meet agreed terms, such as late rent payments or not delivering promised services or facilities. Conversely, incentives reward parties for timely or exceptional performance, such as early rent payments or exceeding maintenance expectations. Incorporating clear penalty provisions for non-compliance, along with incentives for outstanding performance, would enhance accountability and better align both parties' interests with the goals of the lease.

3.6. MAFA's lease generally met reasonable pricing criteria

3.6.1. The MAFA leasing arrangement for office space at the Pinto Business Centre generally satisfied the key value for money criteria adopted by the NAO. This assertion considers the office leasing rate and parking space rent against their market value. This Office noted an overall difference of six per cent which generally falls within the acceptable range for valuations.

3.6.2. This Office adopted a two-pronged approach to assess the cost-effectiveness and value-for-money of MAFA's leasing arrangement. Firstly, this Review noted and evaluated the report prepared by a MAFA's engaged architect in May 2022, prior to the signing of the leasing arrangement, which partly addressed the needs assessment requirements. Secondly, the NAO engaged the service of a technical consultant to assist the audit team in determining whether the leasing rate paid by MAFA for the lease of office space in Pinto Business Centre, Qormi was comparable to prevailing market rates.

Assessment prepared by MAFA's engaged architect confirmed the property's suitability and rental value as fair and reasonable

3.6.3. The architect engaged by MAFA provided a comprehensive assessment of the property, taking into account key factors such as location, permits, and the condition of the building. The report highlighted the following features:

i. The finishes and services required by the Ministry's layout and specifications can be installed without costly modifications.

ii. The availability of a large, open office space on a single floor offers sufficient capacity to house all ministerial departments and offices, with the added benefit of being centrally located near major road networks.

iii. Raised flooring is already in place, facilitating the installation of electrical and data systems.

iv. A standby generator is already fitted, ensuring uninterrupted electricity supply.

v. The atrium provides natural light to interior office spaces.

vi. Immediate car parking is available within the same complex.

vii. Multiple lifts are available for efficient vertical access.

3.6.4. The architect also considered the rental values of comparable large, single-floor commercial properties in Malta, which range from €220 to €290 per sqm annually, excluding VAT. Based on these comparisons, the charged rent of €250 per sqm per year, excluding VAT, was deemed fair and reasonable for this property.

Despite initial above-market office rates, the overall lease arrangement, including parking spaces, aligned closely with prevailing market values

3.6.5. The NAO compared the leasing rates paid by MAFA at Pinto Business Centre in Qormi with prevailing market rates. Due to the appropriateness of the property location, situated near the Mrieħel Bypass, this assessment considered the average of two rental rates. These were the average of Malta's weighted average office rental rate as well as Malta's Central Business District weighted average office rental rate. This average rate also reflects that the property's location, in the centre of Malta, is also located along a main road with a very good frontage and visibility from the road. In addition, a factor of 1.25 has been applied to this average leasing rate due to the high level of finishes in the leased property. Table 9 below compares the agreed lease rate by MAFA to market prices as sourced herein.

Table 9: MAFA office market rental rates over the contract years - €/m²

Year	Market Value - Rental Rate[22]	MAFA Lease Agreement Rates[23] (€/m²)	Difference - Lease Agreement / Market Value Rental Rate	Difference - Lease Agreement / Market Value Rental Rate (€)
2019	220			
2020	237			
2021	246			
2022	197	250	27.0%	15,507[24]
2023	226	258	13.8%	25,000
2024	250	265	6.1%	12,180
2025[25]	264	269	1.8%	3,772
2026	279	269	-3.7%	(679)[26]
Total				55,779

3.6.6. Table 9 shows that the initial rental rate in 2022 was significantly higher than the market value for office spaces at the time. During this period, office rental rates declined due to the COVID-19 pandemic, as the rise in remote work reduced the demand for office space. Despite this trend, the property- which was newly available on the market- was leased at a pre-pandemic rate.

[22] Due to the high level of finishes, a factor of 1.25 had been applied on the average of the two rental rates.
[23] Leasing rates are quoted as per rate at year of signing of leasing agreement and/or rate at the beginning of each consecutive year. Leasing rates are not adjusted to actual amount paid throughout the 12-month calendar year.
[24] Amount adjusted as from the commencement date of the leasing agreement on 21 August 2022.
[25] Rates for 2025 and 2026 have been extrapolated at an annual office rental increase of 5.65 per cent per annum.
[26] Amount adjusted up to the termination date of the leasing agreement on 31 January 2026.

The market rental rate at the start of the lease was estimated at €197 per sqm, whereas the property was leased at €250 per sqm - 27 per cent higher than the market rate.

3.6.7. In the following years, office rental prices began returning to pre-pandemic levels. As shown in Table 9, the difference between the leased rate and the market rental rate was now minimal for 2025 - and even becomes favourable in 2026, with the leased rate being 3.7 per cent lower than the market value. Based on this valuation, this Office estimates that between 2022 and 2026, MAFA would be incurring €55,779 in extra leasing costs when compared to the corresponding market value rates – mostly reflecting property values during 2022 - that is, during the peak of the pandemic.

3.6.8. Despite the general reflection to market prices, opportunities existed where MAFA could have decreased the leasing rate. As outlined in Appendix III, the €250 per sqm rate could have been reduced to approximately €210 per sqm if MAFA had managed to carry the gypsum works internally.

3.6.9. The NAO also compared the rate for car spaces leased by MAFA at the Pinto Business Centre with the market value rate of car spaces leased in areas close to the property. Table 10 refers.

Table 10: Comparison of MAFA leased parking spaces with the market value of leased parking spaces

Year	MAFA Lease Agreement (€/car space)[27]	Market Value - Rental Rate of MAFA (€/car space)	Difference - MAFA Lease Agreement / Marlet Value Rental Rate	Difference - Lease Agreement / Market Value Rental Rate (€)
2022	750	800	-6.3%	(455)[28]
2023	750	825	-9.1%	(1,875)
2024	773	850	-9.1%	(1,937)
2025[29]	783	878	-10.9%	(2,385)
2026	783	908	-13.7%	(260)[30]
Total				**(6,912)**

3.6.10. Table 10 above shows that parking spaces leased out to MAFA were priced below the average market rate. Throughout the duration of this leasing agreement, such parking spaces became increasingly advantageous over time. Based on this valuation, this Office estimated that MAFA's agreed leasing rates for parking spaces were €6,912 cheaper than the corresponding market value rates over the entire leasing period.

[27] Leasing rates are quoted as per rate at year of signing of leasing agreement and/or rate at the beginning of each consecutive year. Leasing rates are not adjusted to actual amount paid throughout the 12-month calendar year.

[28] Amount adjusted as from the commencement date of the leasing agreement on 21 August 2022.

[29] Rates for 2025 and 2026 have been extrapolated at an annual car space rental increase of 3.33 per cent per annum.

[30] Amount adjusted up to the termination date of the leasing agreement on 31 January 2026.

3.6.11. Thus, when considering both office and parking spaces leasing rates, this Review found that a net variance of €48,867 between the agreed leasing rates and the corresponding market value rates was recorded over the entire leasing arrangement. This overall variance of six percent, is generally considered as within acceptable limits.

3.7. Conclusion

3.7.1. The Review of MAFA's leasing arrangement at the Pinto Business Centre in Qormi reveals a complex balancing act between addressing urgent operational needs and achieving long-term fiscal prudence. On one hand, the process was marked by some procedural shortcomings, including an incomplete needs assessment, and significant deviations from initial lease specifications. In part, these factors, coupled with the delays in the Għammieri restoration project, contributed to extended lease periods. Conversely, the leasing arrangement ultimately provided an acceptable level of value for money.

Chapter 4

MCCAA Leasing Arrangement

4.1. Introduction

4.1.1. This Chapter discusses the leasing arrangement between the Malta Competition and Consumer Affairs Authority (MCCAA) and Mizzi Estates Limited for the rental of Mizzi House, located at National Road, Blata l-Bajda. This arrangement commenced with the signing of the original leasing agreement in October 2011 and has since was subject to two additional extensions.

4.1.2. Within this context, and taking into account the objectives of this Audit, this Chapter presents the following analysis on the leasing agreement between MCCAA and Mizzi Estates Limited:

i. MCCAA leasing arrangement could exceed €8.2 million if the Authority opts to extend the lease up to 2028;
ii. In some cases, MCCAA's leasing was characterised by governance issues;
iii. The MCCAA's leasing agreements generally included the relevant best-practice clauses;
iv. Due to deviating contractual provisions, rent payments were paid extremely in advance upon the signing of the two extension agreements;
v. The MCCAA lease rate generally satisfied market prices; and
vi. The office space per employee at MCCAA's leased site is on the high side.

4.2. MCCAA leasing arrangement could exceed €8.2 million if extended up to 2028

4.2.1. In October 2011, MCCAA signed a leasing agreement with Mizzi Estates Limited following an Expression of Interest (EoI). The lease covered office space of 3,102.5 square metres and a garage with 30 parking spaces at Mizzi House, Blata l-Bajda. This original contract was for almost 10 years, ending in September 2021, at a total cost of just under €3.8 million.

4.2.2. Since then, MCCAA extended the lease twice. The first extension was signed in December 2020, covering the period from September 2021 until December 2024. A second extension was signed in June 2024, prolonging the lease until at least December 2026, with the possibility of a further two years up to December 2028. These extensions were meant as temporary measures until MCCAA could relocate to new offices. Table 11 shows the timeline of the leasing agreements.

Table 11: Developments in MCCAA leasing agreements of Mizzi House, Blata l-Bajda

Contract	Signing date of leasing agreement	Commencement date	Termination date	Duration
Original Contract	12-Oct-2011	12-Oct-2011	25-Sep-2021	Almost 10 years
Extension Agreement 1	17-Dec-2020	26-Sep-2021	31-Dec-2024	Over 3 years and 3 months[31]
Extension Agreement 2	13-Jun-2024	01-Jan-2025	31-Dec-2026 /2028	2 years / 4 years[32]

4.2.3. If this leasing arrangement is extended until December 2028, the MCCAA will have been based at Mizzi House for more than 17 years. By then, the total leasing costs are expected to exceed €8.2 million, out of which, €4.5 million will have been spent on the two extensions. Table 12 portrays the financial arrangements in relation to this lease agreement.

Table 12: MCCAA contracted leasing payments relating to Mizzi House, Blata l-Bajda

Contract	Period	Rent (€ excl. VAT)		
		Mizzi House	Garage	Total
Original Agreement	12/10/11 – 31/12/11	21,233	-	21,233
	01/01/12 – 31/12/12	300,000	18,000	318,000
	01/01/13 – 31/12/13	300,000	18,000	318,000
	01/01/14 – 31/12/14	315,000	18,750	333,750
	01/01/15 – 31/12/15	330,000	19,500	349,500
	01/01/16 – 31/12/16	345,000	20,250	365,250
	01/01/17 – 31/12/17	360,000	21,000	381,000
	01/01/18 – 31/12/18	377,500	21,800	399,300
	01/01/19 – 31/12/19	395,000	22,600	417,600
	01/01/20 – 31/12/20	410,000	23,400	433,400
	01/01/21 – 25/09/21	427,000	24,200	451,200
	Total	**3,580,733**	**207,500**	**3,788,233**
Extension Agreement 1	26/09/21 – 31/12/21	154,549	8,759	163,308
	01/01/22 – 31/12/22	581,549	32,959	614,508
	Sub-Total	**736,098**	**41,718**	**777,816**
	01/01/23 – 31/12/23	581,549	32,959	614,508
	01/01/24 – 31/12/24	581,549	32,959	614,508
	Total	**1,899,196**	**107,636**	**2,006,832**
Extension Agreement 2	01/01/25 – 31/12/25	581,549	32,959	614,508
	01/01/26 – 31/12/26	581,549	32,959	614,508
	Sub-Total	**1,163,098**	**65,918**	**1,229,016**
	01/01/27 – 31/12/27	581,549	32,959	614,508
	01/01/28 – 31/12/28	581,549	32,959	614,508
	Total	**2,326,196**	**131,836**	**2,458,032**
Total – Full contract duration		**7,806,125**	**446,972**	**8,253,097**

[31] Provided that the Lease Agreement shall be automatically extended for four further periods of six months each unless the Tenant, with respect to each extension period, gives, prior notice in writing to the landlord of its intention not to extend for such period at least nine months prior to each of the four extension periods.

[32] With the possibility to extend for a further four (4) periods of 6 months each at an additional cost of €1,229,015 (excl. VAT).

4.2.4. Table 12 shows that what started as a 10-year leasing arrangement has turned into a commitment of nearly two decades, with costs more than doubling as a result of unforeseen delays and changes in relocation plans.

4.3. MCCAA's leasing arrangement was characterised by governance issues during the planning stage

4.3.1. This Review noted that the leasing arrangement undertaken by MCCAA encountered issues at various stages of the process, from the initial needs assessment to the subsequent lease extensions. Some gaps in the planning and evaluation of bids, coupled with the absence of a documented audit trail and unclear relocation strategy, limited transparency and accountability. These factors impinged on the procurement exercise and also exposed MCCAA to prolonged financial commitments that could have been better addressed through more structured decision-making and contract management.

Needs assessment exercise was not comprehensive

4.3.2. This joint audit revealed some key gaps in the needs assessment undertaken. There was an absence of formal and documented evaluation of options prior to the issuing the EoI, meaning that viable alternatives - such as refurbishing dormant government buildings or investing in new properties - were not fully explored or compared to. Similarly, cost-benefit analysis to assess the financial implications and potential benefits of different options were generally absent, potentially leaving decision-makers without a clear understanding of relative costs and value. During the course of this audit, this Office was not presented with any documented preliminary risk assessment exercises that were carried out, limiting the ability to anticipate potential liabilities and ensure a fair allocation of risks between parties.

The MCCAA has neither established a pre-defined selection criteria nor maintained a full audit trail of the EoI process

4.3.3. The leasing of private property for office use entailed the issuance of two EoIs in 2011. The first EoI was issued by the Malta Standards Authority (MSA) in March. A second EoI was issued by MCCAA in May, after the MSA was amalgamated with other entities. Both processes were characterised by significant shortcomings that undermined the integrity, transparency, and fairness of the procurement exercise.

4.3.4. This was most notable by the absence of predefined and well-structured selection criteria, which may not adequately consider cost-efficiency and value-for-money principles. The first EoI lacked clear criteria to guide the evaluation and shortlisting of bids, leading to the Ministry for Finance (MFIN) highlighting a number of issues such as that the timely inclusion of requirements at the outset could have led to a more effective procurement process. Although a second EoI was subsequently issued, similar problems persisted. Despite two separate shortlisting exercises, Mizzi House in Blata l-Bajda remained the preferred option, even though it was the most expensive of the shortlisted bids and not fully compliant with accessibility guidelines.

4.3.5. Compounding these shortcomings was the lack of an appropriate audit trail to support the evaluation process. No formal evaluation report was produced, and the basis for shortlisting or eliminating bids remained unclear. The absence of predefined scoring criteria further weakened the process, as decisions were not supported by a transparent or standardised methodology. The rationale for selecting Mizzi House, despite accessibility shortcomings and higher costs, was not documented.

Prolonged lease extensions for Mizzi House were resorted to in the absence of robust relocation options

4.3.6. This audit showed that the original 10-year office lease was extended by another seven years as the Authority could not secure a site to relocate its premises. This situation materialised as an agreement for the potential relocation of the MCCAA's offices to new premises was not reached with INDIS Malta.

4.3.7. The planned relocation of MCCAA offices, which started in 2020, has been subject to repeated changes, where a binding commitment was not reached, particularly in view that INIDS Malta's primarily role relates to the management of industrial parks and industrial space rather than the provision of office space. Nonetheless, discussions between the two entities focused on the possible relocation of MCCAA to new office premises in Mrieħel, which were to be leased from INDIS Malta. In April 2025, the two parties agreed to terminate the discussions on the potential relocation as following updated requirements for MCCAA office space could not be entertained. Subsequently, MCCAA commenced a public procurement process for the leasing of office premises. As at May 2026, the tender was at evaluation stage.

4.3.8. The ensuing delays and shifts in relocation plans have prolonged the Mizzi House lease significantly. What was initially intended to be a short-term solution, the lease now extends for over five years, with projections indicating that the total duration could surpass seven years if further delays occur. The estimated leasing cost of extending the lease at Mizzi House over a period of five years or more is projected to range between €3,235,845 and €4,464,860 (depending on whether the lease is terminated in 2026 or extended up to 2028). This Review acknowledges that the leasing rates charged during the extension period remained constant and did not increase (Section 4.6 refers). On its part, the Authority contended that such a situation occured due to external dependencies that did not materialise despite substantive efforts by MCCAA.

4.3.9. Within this context, MCCAA had to rely on direct orders for these extensions, which exclude the benefits derived from open competition. The financial burden of these prolonged extensions highlights the need for improved governance and the need for a more expedited administrative process in the leasing and relocation of government offices

4.4. The MCCAA's leasing agreements omitted contract variations, confidentiality as well as penalties and incentives clauses

4.4.1. This Office reviewed the three lease agreements signed between MCCAA and Mizzi Estates Limited against best practice contractual procedures, which are discussed in further detail in Appendix I. As noted in Table 18 of this Appendix, the MCCAA leasing agreements for office space at the Mizzi House in Blata l-Bajda embraced a range of established best-practice clauses. Nevertheless, this Review noted that contract provisions with respect to "*contract variations*", "*confidentiality*" as well as "*penalties and incentives*" were omitted from the leasing agreements.

i. Contract variations – Provisions relating to contract variations are an important aspect of lease agreements, allowing adjustments to be made during the lease term due to unforeseen circumstances or evolving needs. However, the MCCAA's lease agreements for Mizzi House, particularly the original agreement signed in October 2011, reveal that variations were not clearly defined or structured, leading to ambiguities in the obligations of the parties involved. It is crucial that variations are properly documented, clearly outlining the nature of the changes, their financial implications, and their impact on the original terms of the contract. Problems with adequately managing variations may undermine the overall objectives of the agreement, such as value for money and timely deliverables.

ii. Confidentiality - Confidentiality clauses are standard in leasing agreements to protect sensitive information shared between the parties. These clauses are critical for safeguarding proprietary or business-sensitive data that may be disclosed during lease negotiations or ongoing operations. Best-practice guidelines recommend including detailed stipulations about the duration of confidentiality obligations, exceptions to confidentiality (such as legal disclosures), and clear definitions of what constitutes confidential information. Strengthening these clauses would help the parties avoid potential disputes and ensure that sensitive information remains secure even after the agreement concludes.

iii. Penalties and incentives - Penalties and incentives play a key role in ensuring that both parties adhere to their commitments throughout the lease term. Penalties typically apply when a party fails to meet agreed-upon terms offering incentives for superior performance, further aligning both parties' interests with the lease's objectives.

4.5. Due to varying contractual provisions, rent payments were paid extremely in advance upon the signing of the two extension agreements

4.5.1. The two extension agreements signed by MCCAA in December 2020 and June 2024, introduced payment terms which deviated from the original leasing agreement clauses. In the 2011's leasing contract, rent payments were scheduled quarterly in advance and on specific dates, namely: 1 January, 1 April, 1 July, and 1 October. However, in the extension agreements, payments were agreed to be made substantially earlier than in the original contract.

4.5.2. The first extension agreement, signed on 17 December 2020 but effective from 26 September 2021 stipulated that the leasing payment was due nine months in advance.

4.5.3. Similarly, with respect to the second extension signed on 13 June 2024 and which became effective on 1 January 2025, MCCAA was obliged to effect payment, with respect to the first three months of the leasing period, six months in advance.

4.5.4. This shift in payment terms, negotiated outside the original framework, represents a departure from the original financial planning expectations, as outlined in the first lease agreement. It placed greater immediate financial pressure on MCCAA. Additionally, this shift raises questions about the rationale for such prepayments and the implications for the lessee's financial management strategy during lease renegotiations.

4.6. The MCCAA leasing rates generally reflect market prices

4.6.1. The MCCAA leasing arrangement for the provision of office space and car parking facilities at Mizzi House in Blata l-Bajda generally satisfied value for money criteria. The agreed annual rates per square metre for office space and parking slots were generally competitive when compared against the market rental value of similar properties in the area. The office space also met the necessary standards in terms of location, accessibility and facilities, ensuring that MCCAA's operational efficiency was not compromised.

4.6.2. The methodology adopted by this Office to determine the degree to which MCCAA's leasing arrangement was cost-effective and whether it considered value for money aspects was mainly based on the valuation appraisal undertaken by the NAO engaged technical consultant. The main objective of the appraisal was to determine whether the leasing rate incurred by MCCAA for the lease of office space and underneath garage at Mizzi House was comparable to prevailing market rates.

4.6.3. The assessment considered the average of two rental rates. These were the average of Malta's weighted average office rental rate as well as Malta's Central Business District weighted average office rental rate. Blata l-Bajda is classified as located in Malta's Central Business District. However, since this leased site is located on a main arterial road, the rental rate for this location was taken as an average for these two variables. Table 13 compares the market value with the actual contractual rates agreed in the leasing agreement.

Table 13: Comparison of rental market value with actual MCCAA agreed contractual leasing rates

Year	Market Value - Rental Rate of MCCAA (€)	MCCAA Lease Agreement €/m²	Difference - Lease Agreement / Market Value Rental Rate	Difference - Lease Agreement / Market Value Rental Rate[33] (€)
2011	92	97	5.1%	14,573
2012	113	97	-14.5%	(50,689)
2013	109	97	-11.4%	(38,457)
2014	105	102	-3.4%	(11,225)
2015	113	106	-6.0%	(21,130)
2016	121	111	-8.3%	(31,036)
2017	147	116	-21.1%	(96,064)
2018	164	122	-25.8%	(131,307)
2019	176	127	-27.7%	(151,037)
2020	176	132	-24.9%	(136,037)
2021	172	187	9.0%	47,923
2022	157	187	19.1%	93,082
2023	181	187	3.6%	20,001
2024	200	187	-6.3%	(38,947)
2025[34]	211	187	-11.3%	(73,962)
2026	223	187	-16.0%	(110,953)
2027	236	187	-20.5%	(150,032)
2028	249	187	-24.8%	(191,316)
Total				(1,056,612)

4.6.4. Table 13 notes the fluctuations and the adequacy of the contracted leasing rates when compared to the leasing market value over the years. The initial leasing rate in 2011 was slightly higher than the market value for office spaces at the time by around five per cent. However, over the course of the original agreement, up to 2020, this disadvantage for MCCAA fizzled out and the contracted leasing rates tended to be more advantageous for the Authority.

4.6.5. In 2021, a new lease extension became effective. At the start of this agreement, the leasing rate was set at €187 per square meter, which was nine per cent higher than the market rate of €172 per square meter. This marginally unfavourable situation for MCCAA continued until 2023 but gradually improved from 2024 onwards. Within this scenario, it's also important to note that the COVID-19 pandemic disrupted office leasing rates, as more people shifted to remote working, thus reducing the demand for office space. In 2022, the market rate dropped to €157 per square meter from €172 the previous year, but this decline was corrected in the following years.

[33] Based on a total floor area of 3,102.5 square metres.

[34] Rates for the period from 2025 and 2028 have been extrapolated at an annual office rental increase of 5.65 per cent per annum.

4.6.6. In June 2024, a second extension agreement was signed which covered the leasing period of 2025 and 2026, with a possible two-year extension up to 2028. As the contracted leasing rates remained fixed for this period at €187 per square meter, MCCAA's position was further strengthened as these rates were always below the leasing market value. Over the total contracted years, it is estimated that that the average saving in the office rental rate gauged at 10.3 per cent per annum. Based on this valuation, this Office estimated that the leasing rates for office space agreed by MCCAA for the whole duration of the leasing arrangement, were €1,056,612 lower than the corresponding market value rates.

4.6.7. The NAO engaged architect also compared the agreed leasing rates for car spaces leased by MCCAA at Mizzi House in Blata l-Bajda with the market value rate of car spaces leased in areas close to the property. Table 14 refers.

Table 14: Comparison of MCCAA leased parking spaces with the market value of leased parking spaces

Year	MCCAA Lease Agreement (€ /car space)	Market Value - Rental Rate of MCCAA (€/car space)	Difference - MCCAA Lease Agreement / Marlet Value Rental Rate	Difference - Lease Agreement / Market Value Rental Rate[35] (€)
2011	600	600	0.0%	-
2012	600	635	-5.4%	(1,035)
2013	600	671	-10.6%	(2,130)
2014	625	710	-11.9%	(2,537)
2015	650	750	-13.4%	(3,011)
2016	675	794	-14.9%	(3,555)
2017	700	839	-16.6%	(4,174)
2018	727	887	-18.1%	(4,822)
2019	753	938	-19.7%	(5,552)
2020	780	992	-21.4%	(6,371)
2021	1100	1000	10.0%	3,000
2022	1100	1033	6.4%	1,999
2023	1100	1068	3.0%	964
2024	1100	1103	-0.3%	(104)
2025[35]	1100	1140	-3.5%	(1,209)
2026	1100	1178	-6.6%	(2,351)
2027	1100	1218	-9.7%	(3,530)
2028	1100	1258	-12.6%	(4,749)
Total				(39,167)

4.6.8. Table 14 notes that, except for the period from 2021 to 2023, the car space parking facilities may be considered generally advantageous for MCCAA. Over the entire lease period, MCCAA's parking lease was around €39,167 cheaper than the market rate. Additionally, MCCAA benefited

[35] Rates for the period from 2025 to 2028 have been extrapolated at an annual rental car space increase of 3.3 per cent per annum.

from a basement parking setup that allowed for double parking, effectively increasing the number of usable spaces beyond the agreed 30.

4.6.9. Thus, when considering both the leasing rates for office space and the leasing rates for parking spaces, this Review noted that based on this valuation, the agreed leasing rates were around €1,095,779 lower when compared to the corresponding market value rates over the whole duration of the leasing arrangement. To this end, this confirms that from a leasing rate perspective, MCCAA's agreement at Mizzi House generally provided good value for money.

4.7. The 1965 building layout allocates a higher-than-average office space per employee

4.7.1. During 2024, the Authority's number of employees on-site, ranged from 131 to 165[36]. This leads to an employee-to-office space ratio of approximately 20m² per person. This exceeds the upper end of contemporary planning standards, which, typically range between 12m² and 15m² per employee.

4.7.2. The high office space per employee results in an inefficient utilisation of leased premises, which may lead to higher leasing costs than necessary. The design and layout of the building, particularly around the lift and stairwell, contribute to inefficient space usage, with a significant portion of the floor area allocated to the lobby. The 1965 construction of Mizzi House followed space allocation criteria that differ from modern-day office requirements. Moreover, the presence of extensive communal areas, such as a large canteen and multiple meeting rooms, further contributes to the overall high space allocation per employee.

4.7.3. Additionally, when the decision to lease the premises was made in 2011, the availability of office space options was more limited compared to present market conditions. The location in Blata l-Bajda was considered advantageous, and the space may have been selected with potential future staff expansion in mind. However, given the current workforce and the evolving nature of office space utilisation, a re-assessment of space requirements may be warranted.

4.7.4. The high office space per employee could lead to various implications. These include value for money concerns, space utilisation efficiency and better space planning considering market considerations. By addressing these issues, MCCAA could benefit from operational efficiency, optimise space usage, and potentially reduce leasing costs ensuring better alignment with contemporary office standards and fiscal responsibility.

4.8. Conclusion

4.8.1. The leasing agreement provided reasonable value for money in terms of rental rates, particularly in the later years as the leasing rates remained constant during the contracts' extension period. MCCAA's negotiated leasing rates for both office space and parking facilities were, on average, lower than prevailing market rates. On the other hand, these financial benefits must be weighed against the governance risks posed by weak procurement controls, inadequate planning, and the lack of a structured relocation strategy.

4.8.2. To enhance future leasing decisions, MCCAA are encouraged to implement a more robust procurement framework that includes a structured evaluation of options, rigorous cost-benefit analyses and comprehensive risk assessments. Strengthening financial controls, ensuring greater transparency in lease negotiations, and adopting a long-term strategic approach to office space planning will be essential to safeguard public funds and improve operational efficiency.

[36] MCCAA employs a number of inspectors who generally spend most of their working day out of office.

Chapter 5
Concluding Remarks

5.1. Introduction

5.1.1. This Joint Audit set out to examine whether the three leasing arrangements, featuring in this Report, undertaken by distinct public sector entities - namely, the Malta Gaming Authority (MGA), the Ministry for Agriculture, Fisheries and Animal Rights (MAFA), and the Malta Competition and Consumer Affairs Authority (MCCAA) - were underpinned by sound planning, transparent procurement, and effective contract management. The audit also evaluated whether these arrangements delivered value for money and aligned with established public sector leasing standards.

5.1.2. A cross-cutting review of these three cases points to recurring and in cases systemic weaknesses that warrant strategic attention. While some of the leasing agreements demonstrated commendable practices in contract drafting and physical suitability of premises, gaps in best practice approaches were evident within the overall governance, planning, and procurement environment, which impacted decision making process and the outcomes of the arrangements.

5.2. Strategic Findings

5.2.1. Needs assessments often lacked depth and formality – All three leasing arrangements revealed deficiencies in the preliminary needs assessment phase. While some entities undertook rudimentary exercises to determine spatial and operational requirements, none conducted a robust evaluation that included alternative options such as the refurbishment of government-owned buildings, scenario planning, or detailed cost-benefit analysis. This weakened the strategic foundation upon which leasing decisions were based.

5.2.2. Procurement pathways were frequently circumvented or undermined – While two entities (MGA and MCCAA) issued Expressions of Interest, the processes were marred by transparency gaps, inconsistent evaluation criteria, and poor documentation. In the other case (MAFA), as well as the MCCAA lease extensions, the reliance on direct orders circumvented competition altogether. A lack of forward planning contributed to missed opportunities for competitive procurement under the pre-text of urgent circumstances.

5.2.3. In some instances, contractual provisions were inconsistent in protecting the public interest – The MGA lease incorporated a broad array of best-practice clauses. On the other hand, in the case of MAFA and MCCAA, despite some limitations, the lease agreements generally adhered to established best-practice contractual clauses. This uneven approach across entities reflects a lack of centralised legal or procurement guidance for real estate leasing in the public sector.

5.2.4. Contract amendments frequently altered the original lease intent – Modifications in scope, duration, and financial obligations - often introduced via addenda - substantially changed the leasing arrangements post-award. This was particularly evident in the MGA case, and to a lesser extent in the other leasing arrangements, where lease durations and costs (including refurbishment costs) expanded far beyond original plans, raising questions on value for money and procurement integrity.

5.2.5. Lease extensions and delayed capital projects increased cost exposure – In the MAFA and MCCAA arrangements, delays in capital projects (e.g. Għammieri restoration, relocation to permanent premises) led to repeated lease extensions. These incurred ongoing costs with limited justification and reflected the absence of a clear exit strategy or timeline, undermining the temporary nature of the arrangements.

5.2.6. Summary Table below provides a graphical illustration of the main strategic findings against each leasing arrangement. Table 15 refers:

Table 15: Strategic Findings by Leasing Arrangement

Strategic Finding	MGA	MAFA	MCCAA
Needs assessments lacked depth and formality	●	●	●
Procurement pathways were circumvented or undermined	●	●	●
Contractual provisions were inconsistent	●	●	●
Contract amendments altered original lease intent	●	●	●
Lease extensions and delayed capital projects increased cost exposure	NA	●	●

Legend: ● = No major concerns | ● = Partially addressed | ● = Key issues identified

5.3. Recommendations

5.3.1. Drawing on the audit's systemic observations, this Office recommends that government adopt a structured and future-facing approach to office leasing. Reforms should address governance gaps, improve coordination, and reinforce transparency. In this context, the following audit recommendations are being proposed:

i. Develop and enforce a centralised leasing policy framework
The Government, in consultation with the Department of Contracts, should establish binding public sector leasing guidelines. This framework should define uniform standards for needs assessments, market research, cost-benefit evaluations, and contractual clauses. These mechanisms should be embedded for leases above defined thresholds within a stipulated lease duration.

ii. Institutionalise scenario-based needs assessments

Before any lease commitment is made, entities should be required to carry out structured, scenario-based needs assessments. These should examine refurbishment of government-owned space, cost comparisons, and long-term organisational needs. Templates and tools should be issued centrally to guide these exercises.

iii. Introduce independent pre-lease evaluation mechanisms

To safeguard value for money, leasing proposals above a set financial or duration threshold should be subject to independent scrutiny within government entities who are assigned overall responsibility for the leasing function. This should include technical and financial experts who will be responsible for the validation of rental rates, assessing premises suitability, and vetting of contractual terms. Reference to this matter was highlighted also in the *Preliminary Review: Leasing of Private Property by Government*.

iv. Prioritise open competition and strictly regulate the use of direct orders

Public sector leases should primarily be procured through open and competitive processes. Direct leasing must remain the exception and should only be allowed in time-critical or highly justified cases, subject to prior authorisation from the Ministry for Finance. In all such instances, entities must obtain at least three market quotations, provide written justification, and ensure full documentation is published. Market testing should go beyond single-agent sourcing to encourage fair comparisons and support transparent, value-for-money decisions.

v. Define clear selection criteria and ensure full transparency in procurement leasing processes

Public entities issuing call for tenders for leased office space must clearly define and publish objective, measurable selection and evaluation criteria from the outset. These criteria should align with value-for-money principles and include considerations such as cost, accessibility, location, and compliance with relevant guidelines. Evaluation processes must be supported by a complete audit trail documenting decisions, justifications, and approvals. This will strengthen transparency, enable effective oversight, and reduce the risk of subjective or unsupported decision-making in property selection.

vi. Adopt standardised lease agreement templates

A government-wide model lease agreement should be introduced, incorporating mandatory best-practice clauses. These should cover rent escalation, maintenance, insurance, termination, penalties, dispute resolution, and audit rights. Inconsistencies and informal side letters must be eliminated.

vii. Make capital investments in leased properties more transparent and better planned

Any major spending on leased properties - like refurbishing or customising office space - should go through clear and open procurement processes that follow public procurement rules. This helps ensure value for money and avoids unclear or direct spending. When reviewing lease proposals during the procurement stage, the full cost of getting the space ready for office use should also be considered.

viii. Standardise the process for lease renewal, extension, and transition planning

Leasing renewals and extensions should be systematically tied to documented relocation or transition plans. Justifications for extending lease durations - especially in the case of government-owned premises being developed in parallel - must be substantiated through formal internal approvals and planning schedules.

ix. Institutionalise continuous space utilisation reviews and adaptive needs assessments

Entities should conduct regular space utilisation assessments to ensure efficient use of leased premises and prevent long-term underutilisation. These reviews should feed into strategic estate planning and inform decisions on whether to renew, downsize, relocate, or exit lease arrangements in line with organisational evolution.

5.3.2. In addition to the above recommendations, this Office reiterates the strategic recommendations put forward in its *Preliminary Review: Leasing of Private Property by Government*. The recommendations therein aim to address the framework to manage the leasing of private properties as well as strengthen the Lands Authority's role in this regard. During this audit, this Office noted that Government is to some extent already addressing some of the issues presented therein. However, a follow-up audit, in due course, will measure the progress registered against these recommendations.

5.3.3. This Chapter brings to a close the Joint Audit on leasing arrangements in the public sector. While this Office acknowledges that leasing may occasionally be necessary to meet urgent or evolving operational needs, such decisions must invariably be framed within a transparent, cost-efficient, and accountable process. The patterns identified in this audit highlight the need for systemic reform. If acted upon decisively, the lessons drawn from these cases can strengthen long-term planning, optimise public spending, and ensure the integrity of leasing decisions across the public administration.

Appendix I

Review of leasing agreements against best practice contractual clauses

The leasing agreements pertaining to the three case studies under review were benchmarked against best-practice contractual clauses, derived from generally accepted practices and other literature on the subject matter. The analysis was carried out using a traffic lights system, whereby:

i. green means that the contractual provision is included in the agreement under review;
ii. orange means that the clause is included in the agreement but there is room for improvement; and
iii. red relates to contractual provisions not included in the agreements under review

Tables 1 to 3 outline the benchmarking exercise regarding the three case studies under review.

Table 1: Malta Gaming Authority

General Conditions	Description	MGA's original leasing agreement (signed 6 May 2014)	Contract Addendum No 1 (signed 17 December 2014)	Contract Addendum No 2 (signed 25 September 2015)
Validity and enforcement	If parts of the lease are invalidated, other provisions remain enforceable.	●	●	●
Definitions and Parties Involved	Definitions of lessor, lessee, and relevant roles clarified, with provisions for joint and several liabilities where applicable.	●	●	●
Applicable law and jurisdiction	Governed by specific laws with an emphasis on the entirety of the agreement being contained within the written contract.	●	●	●
Use of Property	This specific condition is crucial as it dictates how the lessee can utilize the leased space and often includes stipulations on permissible business activities or other uses to ensure compliance with zoning laws and lease terms.	●	●	●
Access, Inspection, and Disclosure	Lessor's right to access the property for inspection and conditions for disclosing lease-related information.	●	●	●
Assistance and Support to the Lessee	Provisions for the lessor's support to the lessee, ensuring smooth operations of the leased premises.	●	●	●
Contract variations	Any amendments or adjustments made to the terms of the original agreement during its duration. These variations can include changes to rental amounts, lease duration, maintenance responsibilities, or other key contractual elements. The clause provides a framework for how such changes are negotiated, approved, and documented, ensuring both parties agree to and are bound by the new terms.	●	●	●
Confidentiality	Clauses that require the protection and proper handling of sensitive information.	●	●	●
Dispute Resolution	Agreed methods for handling disputes, including mediation and arbitration.	●	●	●
Insurance and Liability	Requirements for insurance coverage and provisions for indemnities regarding potential losses or damages.	●	●	●
Liabilities and indemnities	Provisions that outline the responsibilities of each party for costs, damages, or losses arising from specific events related to the lease. This clause delineates the extent to which each party agrees to compensate the other for any harm or legal liabilities incurred due to negligence, breaches of the contract, or other actionable circumstances. It aims to clearly allocate financial risks and protect each party against potential claims or legal actions during and possibly after the term of the lease.	●	●	●

General Conditions	Description	MGA's original leasing agreement (signed 6 May 2014)	Contract Addendum No 1 (signed 17 December 2014)	Contract Addendum No 2 (signed 25 September 2015)
Rent and Payments	Clauses detail rent amounts, schedules, adjustments, and penalties for late payments.	🔴	🔴	🔴
Utilities and Bills	Lessee's responsibility for utilities and procedures for handling these payments.	🟢	🟢	🟢
Penalties and Incentives	Consequences for non-compliance and rewards for fulfilling or exceeding obligations.	🟢	🟢	🟢
Sub-contracting	Conditions under which the lessee can delegate responsibilities to third parties, often requiring lessor's approval.	🟢	🟢	🟢
Commencement, Term, and Termination	Details on lease commencement, duration, and specific conditions for early termination or natural expiration.	🟢	🟢	🟢
Transition Agreements	The provisions that outline the procedures and responsibilities for both parties during the handover phase either at the beginning or the end of the lease term. This clause is designed to ensure a smooth transition by detailing steps for transferring responsibilities, services, utilities, and management duties. It typically includes timelines, specific actions required from each party, and how to handle any ongoing operations to minimize disruption. Transition agreements are crucial for maintaining continuity and operational efficiency during changes in lease ownership or management.	🟢	🟢	🟢
Warranties and Fitness for Purpose	Assurances that the property meets operational needs and legal requirements, with provisions for addressing deficiencies.	🟢	🟢	🟢
Improvements, Alterations, and Maintenance	Restrictions on alterations without consent and responsibilities for maintenance and repairs outlined.	🟢	🟢	🟢

Table 2: Ministry for Agriculture, Fisheries and Animal Rights

General Conditions	Description	MAFA's original leasing agreement (signed 21 June 2022)	Extension No 1 (signed 22 November 2023)	Extension No 2 (signed 12 July 2024)
Validity and enforcement	If parts of the lease are invalidated, other provisions remain enforceable.	🟢	🟢	🟢
Definitions and Parties Involved	Definitions of lessor, lessee, and relevant roles clarified, with provisions for joint and several liabilities where applicable.	🟢	🟢	🟢
Applicable law and jurisdiction	Governed by specific laws with an emphasis on the entirety of the agreement being contained within the written contract.	🟢	🟢	🟢
Use of Property	This specific condition is crucial as it dictates how the lessee can utilize the leased space and often includes stipulations on permissible business activities or other uses to ensure compliance with zoning laws and lease terms.	🟢	🟢	🟢
Access, Inspection, and Disclosure	Lessor's right to access the property for inspection and conditions for disclosing lease-related information.	🟢	🟢	🟢
Assistance and Support to the Lessee	Provisions for the lessor's support to the lessee, ensuring smooth operations of the leased premises.	🟢	🟢	🟢
Contract variations	Any amendments or adjustments made to the terms of the original agreement during its duration. These variations can include changes to rental amounts, lease duration, maintenance responsibilities, or other key contractual elements. The clause provides a framework for how such changes are negotiated, approved, and documented, ensuring both parties agree to and are bound by the new terms.	🔴	🔴	🔴
Confidentiality	Clauses that require the protection and proper handling of sensitive information.	🟢	🟢	🟢
Dispute Resolution	Agreed methods for handling disputes, including mediation and arbitration.	🟢	🟢	🟢
Insurance and Liability	Requirements for insurance coverage and provisions for indemnities regarding potential losses or damages.	🟢	🟢	🟢
Liabilities and indemnities	Provisions that outline the responsibilities of each party for costs, damages, or losses arising from specific events related to the lease. This clause delineates the extent to which each party agrees to compensate the other for any harm or legal liabilities incurred due to negligence, breaches of the contract, or other actionable circumstances. It aims to clearly allocate financial risks and protect each party against potential claims or legal actions during and possibly after the term of the lease.	🟢	🟢	🟢

General Conditions	Description	MAFA's original leasing agreement (signed 21 June 2022)	Extension No 1 (signed 22 November 2023)	Extension No 2 (signed 12 July 2024)
Rent and Payments	Clauses detail rent amounts, schedules, adjustments, and penalties for late payments.	🟢	🟢	🟢
Utilities and Bills	Lessee's responsibility for utilities and procedures for handling these payments.	🟢	🟢	🟢
Penalties and Incentives	Consequences for non-compliance and rewards for fulfilling or exceeding obligations.	🔴	🔴	🔴
Sub-contracting	Conditions under which the lessee can delegate responsibilities to third parties, often requiring lessor's approval.	🟢	🟢	🟢
Commencement, Term, and Termination	Details on lease commencement, duration, and specific conditions for early termination or natural expiration.	🟢	🟢	🟢
Transition Agreements	The provisions that outline the procedures and responsibilities for both parties during the handover phase either at the beginning or the end of the lease term. This clause is designed to ensure a smooth transition by detailing steps for transferring responsibilities, services, utilities, and management duties. It typically includes timelines, specific actions required from each party, and how to handle any ongoing operations to minimize disruption. Transition agreements are crucial for maintaining continuity and operational efficiency during changes in lease ownership or management.	🟢	🟢	🟢
Warranties and Fitness for Purpose	Assurances that the property meets operational needs and legal requirements, with provisions for addressing deficiencies.	🟢	🟢	🟢
Improvements, Alterations, and Maintenance	Restrictions on alterations without consent and responsibilities for maintenance and repairs outlined.	🟢	🟢	🟢

Table 3: Malta Competition and Consumer Affairs Authority

General Conditions	Description	MCCAA's original leasing agreement (signed 12 October 2011)	Extension No 1 (signed 17 December 2020)	Extension No 2 (signed 13 June 2024)
Validity and enforcement	If parts of the lease are invalidated, other provisions remain enforceable.	🟢	🟢	🟢
Definitions and Parties Involved	Definitions of lessor, lessee, and relevant roles clarified, with provisions for joint and several liabilities where applicable.	🟢	🟢	🟢
Applicable law and jurisdiction	Governed by specific laws with an emphasis on the entirety of the agreement being contained within the written contract.	🟢	🟢	🟢
Use of Property	This specific condition is crucial as it dictates how the lessee can utilize the leased space and often includes stipulations on permissible business activities or other uses to ensure compliance with zoning laws and lease terms.	🟢	🟢	🟢
Access, Inspection, and Disclosure	Lessor's right to access the property for inspection and conditions for disclosing lease-related information.	🟢	🟢	🟢
Assistance and Support to the Lessee	Provisions for the lessor's support to the lessee, ensuring smooth operations of the leased premises.	🟢	🟢	🟢
Contract variations	Any amendments or adjustments made to the terms of the original agreement during its duration. These variations can include changes to rental amounts, lease duration, maintenance responsibilities, or other key contractual elements. The clause provides a framework for how such changes are negotiated, approved, and documented, ensuring both parties agree to and are bound by the new terms.	🔴	🟢	🟢
Confidentiality	Clauses that require the protection and proper handling of sensitive information.	🔴	🔴	🔴
Dispute Resolution	Agreed methods for handling disputes, including mediation and arbitration.	🟢	🟢	🟢
Insurance and Liability	Requirements for insurance coverage and provisions for indemnities regarding potential losses or damages.	🟢	🟢	🟢
Liabilities and indemnities	Provisions that outline the responsibilities of each party for costs, damages, or losses arising from specific events related to the lease. This clause delineates the extent to which each party agrees to compensate the other for any harm or legal liabilities incurred due to negligence, breaches of the contract, or other actionable circumstances. It aims to clearly allocate financial risks and protect each party against potential claims or legal actions during and possibly after the term of the lease.	🟢	🟢	🟢

General Conditions	Description	MCCAA's original leasing agreement (signed 12 October 2011)	Extension No 1 (signed 17 December 2020)	Extension No 2 (signed 13 June 2024)
Rent and Payments	Clauses detail rent amounts, schedules, adjustments, and penalties for late payments.	●	●	●
Utilities and Bills	Lessee's responsibility for utilities and procedures for handling these payments.	●	●	●
Penalties and Incentives	Consequences for non-compliance and rewards for fulfilling or exceeding obligations.	●	●	●
Sub-contracting	Conditions under which the lessee can delegate responsibilities to third parties, often requiring lessor's approval.	●	●	●
Commencement, Term, and Termination	Details on lease commencement, duration, and specific conditions for early termination or natural expiration.	●	●	●
Transition Agreements	The provisions that outline the procedures and responsibilities for both parties during the handover phase either at the beginning or the end of the lease term. This clause is designed to ensure a smooth transition by detailing steps for transferring responsibilities, services, utilities, and management duties. It typically includes timelines, specific actions required from each party, and how to handle any ongoing operations to minimize disruption. Transition agreements are crucial for maintaining continuity and operational efficiency during changes in lease ownership or management.	●	●	●
Warranties and Fitness for Purpose	Assurances that the property meets operational needs and legal requirements, with provisions for addressing deficiencies.	●	●	●
Improvements, Alterations, and Maintenance	Restrictions on alterations without consent and responsibilities for maintenance and repairs outlined.	●	●	●

Appendix II

Year-on-year comparison of MGA's leasing and refurbishment cost using Equivalent Annual Cost

To assess whether the lease rate remained cost-effective once refurbishment expenses were taken into account, this Review compared both elements on a year-on-year basis. As refurbishment is a one-time investment, it was converted into an ***Equivalent Annual Cost*** (EAC) to allow a like-for-like comparison with annual lease payments.

The total refurbishment expenditure amounted to €4,356,389 (excl. VAT). However, for the purpose of calculating the EAC, only the portion of the expenditure that relates to bringing the premises from shell form to an advanced level of finishing was included. Costs that are typically borne by the tenant in most leasing arrangements - such as furniture, IT setup, telephony, and related professional fees - were excluded. The eligible refurbishment cost therefore stood at €2,931,071, as shown below. Table 1 refers.

Table 1: Determining refurbishment expenditure for EAC exercise

Cost element	€
Total Refurbishment Expenditure	4,356,389
Less: Furniture and Fittings	964,598
Less: IT Network Tender	178,056
Less: Telephony Solutions tender	124,295
Less: 12.5% Professional Fees	158,369
Refurbishment cost for EAC	**2,931,071**

The EAC was calculated by applying a discount rate of four per cent over the 15-year lease duration, resulting in an annualised cost of €263,624, equivalent to €104 per square metre annually. To this end, the following EAC formula was applied:

EAC Formula

$$A = \frac{PV \times r}{1-(1+r)^{-n}}$$

Where:
A = annual amount
PV = €2,931,071
r = 0.04
n = 15 years

Calculation

$$A = \frac{€2{,}931{,}071 \times 0.04}{1-(1.04)^{-15}}$$

$$A = \frac{€117{,}242.84}{0.4447} \approx €263{,}624$$

The annualised refurbishment cost was then added to the annual lease rate specified in the contract to determine the total effective annual cost per square metre when combining the two cost elements – the lease rate and the annualised refurbishment cost. This combined figure was benchmarked against market leasing rates for comparable finished office spaces within the Grand Harbour district, which represents the prevailing market value for office space in Smart City. Table 2 refers.

Table 2: Variance between market value and combined office lease rate and refurbishment costs

	Office Leasing							
Year	Area sqm	Office Leasing Rent (€/m²)	Refurbishment Expenditure (EAC)	EAC / sqm	Total (Office Leasing Rent plus EAC)	Market Value (Malta Grand Harbour Rate)	Variance / sqm	Total Variance (€)
Jul- Dec 2015	2,546	141	263,624	104	244	138	106.95	136,144
Jan- Dec 2016	2,546	143	263,624	104	247	139	107.56	273,851
Jan- Dec 2017	2,546	147	263,624	104	251	181	69.85	177,842
Jan- Dec 2018	2,546	152	263,624	104	255	205	50.27	127,990
Jan- Dec 2019	2,546	156	263,624	104	260	188	71.82	182,861
Jan- Dec 2020	2,546	161	263,624	104	265	232	32.51	82,773
Jan- Dec 2021	2,546	166	263,624	104	269	208	61.34	156,172
Jan- Dec 2022	2,546	171	263,624	104	274	217	57.31	145,921
Jan- Dec 2023	2,546	176	263,624	104	279	261	18.44	46,941
Jan- Dec 2024	2,546	181	263,624	104	285	255	29.71	75,651
Jan- Dec 2025	2,546	187	263,624	104	290	269	20.76	52,853
Jan- Dec 2026	2,546	192	263,624	104	296	285	11.16	28,402
Jan- Dec 2027	2,546	198	263,624	104	302	301	0.86	2,194
Jan- Dec 2028	2,546	204	263,624	104	307	318	-10.17	-25,881
Jan- Dec 2029	2,546	210	263,624	104	314	336	-21.97	-55,939
Jan- Jun 2030	2,546	213	263,624	104	317	354	-37.80	-48,122
								1,359,653

The analysis showed that the cumulative net variance - that is, the difference between the combined cost (lease + EAC) and market values - amounted to €1,359,653. Section 2.5 of this Report elaborates further on this analysis.

Appendix III

Three options presented by United Estates Limited for Pinto Business Centre, Qormi

The chosen lessor - United Estates Limited- submitted three options for MAFA's consideration. These options factored in whether the cost of gypsum works within the proposed leased site in Pinto Business Centre in Qormi would be borne by the lessor or the lessee and whether the *di fermo* lease term was to be for two or four years. During the evaluation process, only the first option was considered. Table 1 below provides a summary of these three options.

Table 1: Three options proposed by United Estates Ltd for the lease of Level 3 in Pinto Business Centre

Option 1	800 sqm at €200,000 per annum (€250 per sqm) + 25 parking slots at €750 each (Lease term of 2 years *di fermo*, Lease to be increased by 3% per annum)
Option 2	800 sqm at €168,000 per annum (€210 per sqm) + 25 parking slots at €750 each (Lease term of 2 years *di fermo*, Lease to be increased by 3% per annum) Gypsum to be done by a third-party supplier managed by United Estates Ltd, but the payment to be made directly by MAFA to the third-party supplier.
Option 3	800 sqm at €164,000 per annum (€205 per sqm) + 25 parking slots at €750 each (Lease term of 4 years *di fermo*, Lease to be increased by 3% per annum) Gypsum to be catered for separately by MAFA

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