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Official Committee Hansard

PARLIAMENTARY STANDING COMMITTEE ON PUBLIC
WORKS

**Reference: Fit-out of the Anzac Park West building, Parkes, Australian Capital
Territory**

TUESDAY, 4 AUGUST 2009

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PARLIAMENTARY STANDING
COMMITTEE ON PUBLIC WORKS

Tuesday, 4 August 2009

Members: Senator McLucas (*Chair*), Senator Troeth (*Deputy Chair*), Senator Forshaw and Mr Champion, Mr Forrest, Ms Hall, Mr Lindsay, Mr Price and Mr Slipper

Members in attendance: Senator McLucas and Ms Hall, Mr Price and Mr Slipper

Terms of reference for the inquiry:

To inquire into and report on:

Fit-out of the Anzac Park West building, Parkes, Australian Capital Territory

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Committee met at 2.16 pm**GILVARRY, Mr James, Southern NSW-ACT Manager, APP Corporation****HAMMOND, Mr Owen, Branch Manager, Project Inception Branch, Department of Finance and Deregulation****HEALY, Mr Michael, Assistant Secretary, Property Services, Department of Defence****LEWIS, Mr Simon, General Manager, Asset Management Group, Department of Finance and Deregulation****MORRIS, Mr Brett, Director, ACT Office Accommodation, Department of Defence****PETSAS, Mr Arthur, Project Director, Project Inception Branch, Department of Finance and Deregulation****SCOTT-MURPHY, Mr Rick, Division Manager, Property and Construction Division, Department of Finance and Deregulation**

CHAIR (Senator McLucas)—I declare open this public hearing of the Parliamentary Standing Committee on Public Works inquiry into Anzac Park West. I call the representatives of the Department of Finance and Deregulation. I put on record our thanks for the visit we had this morning. I think it was very useful to actually physically be in the building that we are now discussing. Thanks for your hospitality and your time.

Although the committee does not require you to give evidence under oath I should advise you that these hearings are formal proceedings of the parliament. Consequently they warrant the same respect as proceedings of the parliament itself. I remind witnesses that giving false or misleading evidence is a serious matter and may be regarded as contempt of the parliament.

This morning I spoke with Mr Scott-Murphy and I suggested it might be a good way to start this hearing to invite you to give some introductory remarks but also to provide the committee with an update of what has occurred in discussions between Defence and DOFD in the intervening period since May when the statement of evidence was provided to the committee.

Mr Lewis—Thank you for the opportunity to brief the committee on the proposed fit-out of Anzac Park West. This proposal seeks approval to complete the recycling of this heritage asset and to provide a fit-out that facilitates accommodation by the Department of Defence. You will be aware that the project was previously brought to this committee in May 2004 as a refurbishment and fit-out for occupancy by the Australian Federal Police. While evidence was provided, the hearing did not take place as the project was exempted on expediency grounds when an election was called. This work was rescinded by a resolution in the House of Representatives on the grounds of urgency on 24 June 2004.

The project was originally to be delivered in two parts, with the base building works to be delivered by Finance and the fit-out to be delivered by the AFP. Approaching the completion of the base building works, the AFP advised that the building was no longer sufficient for their

needs and they sought alternative accommodation. The committee subsequently conducted its inquiry—in November 2008—into the AFP occupying the Edmund Barton offices. Finance did not complete the entire base building works and placed the fit-out of Anzac Park in hiatus, awaiting identification of a suitable alternative tenant.

I am pleased to be joined today by our Defence colleagues, who have agreed to take up occupancy in Anzac Park West subject to the agreement of the parliament. At Defence's request, Finance is to deliver a generic fit-out of the building. The project is estimated to cost \$45.5 million including GST. This cost estimate includes construction cost; management and design fees; furniture fittings and equipment and the necessary contingencies. Subject to parliamentary clearance, it is intended to commence construction works in late 2009, with the works being substantially complete in late 2010.

Rick Scott-Murphy, who heads the Property and Construction Division, will now run through some minor amendments in relation to the evidence.

CHAIR—Thank you, Mr Lewis.

Mr Scott-Murphy—The first amendment to the statement of evidence that I would like to introduce is on page 6 of the evidence at paragraph 26. That should read:

... construction will not commence unless the memorandum of understanding and lease are formally executed, and each has now been signed.

The second amendment is also on page 6 of the evidence.

Mr PRICE—Sorry; what was the change?

CHAIR—Could you read that again, please, Mr Scott-Murphy.

Mr PRICE—What does it change?

Mr Scott-Murphy—It is changed to include 'and lease' and 'both have now been signed'.

Mr PRICE—So they have both been executed and signed.

Mr Scott-Murphy—Yes.

Ms HALL—I was going to ask that question.

Mr PRICE—Okay, thanks.

Mr Scott-Murphy—The second amendment is also on page 6 of the evidence at paragraph 28, and that should read:

Market rental is estimated at \$5.6 million per annum under a 15-year lease term from occupation which, subject to PWC endorsement and parliament's agreement to this proposal, could commence as early as December 2010.

The third amendment is on page 16 of the evidence, at paragraph 63. That should read:

The fitout hydraulic services will modify ...

CHAIR—Sorry, Mr Scott-Murphy. You are running a bit faster than we can catch up.

Mr PRICE—Where are you?

Mr Scott-Murphy—Page 16, paragraph 63. That should now read:

The fitout hydraulic services will modify the base building hydraulic services in the following areas: ...

The fourth amendment is also on page 16 of the evidence, at paragraph 64. That should read:

The fitout electrical services will modify the base building electrical services and provide additional electrical services to the tenancy areas as follows: ...

The fifth amendment is on page 18 and relates to the project cost:

The identified estimated out-turn cost of this project is approximately \$45.5 million (including GST) ...

It excludes the following costs: allowances for active IT equipment, switches or patching, estimated at \$7.4 million. The allowances made in the cost estimates are restricted to passive ICT infrastructure only.

Those are the minor amendments that we have to the evidence. Before inviting questions, I might give a brief statement about what has changed since May 2009, when we first sought approval to commence the design.

Mr PRICE—Could we just have an explanation of the last amendment. What does that mean?

Mr Scott-Murphy—It seeks to make clear that the work in the fit-out does not include active ICT infrastructure, only passive ICT infrastructure.

Mr PRICE—What is active and what is passive? Pardon my ignorance.

Mr Scott-Murphy—We say that the active IT equipment is the switches and the patches, and the estimated cost of that is \$7.4 million.

CHAIR—Who is funding that \$7.4 million?

Mr Scott-Murphy—I will ask my colleague from Defence, Mr Healy, to respond.

Mr Healy—The active equipment, including all the desktop equipment—the file servers and equipment of that nature—is separate to the building fit-out. It will be funded directly by Defence.

CHAIR—Essentially, that is your IT system, which is quite separate from Finance’s system?

Mr Healy—Correct. The building will be fitted out with the cabling through the walls and through the conduits et cetera so that we can connect our active equipment to it and connect it to the Defence networks.

Mr Scott-Murphy—I will move to the progress that has been made since May 2009. In the intervening period we have refined the project’s scope so that we have greater clarity of the scope of work that is being brought forward for consideration. We have progressed the development of the design to approximately 25 per cent of completion; again, with the aim of bringing greater clarity to the design and greater certainty to the out term cost. We have also refined the project program, which would aim to bring forward the target completion date from December 2010 to October 2010, though we are still maintaining the target occupancy date at December 2010.

We have also done quite a lot of work in refining the project risk schedule to ensure that our provisions for risk and the contingencies are appropriately aligned to our refined risk schedule. We have negotiated a contract, subject, of course, to PWC endorsement and the parliament’s approval, with Bovis Lend Lease to undertake the managing contract for the delivery of this work. As I mentioned earlier, we have now executed memorandum of agreement for lease and the lease document with the Department of Defence.

CHAIR—For the record, I want to confirm that they have been signed.

Mr Scott-Murphy—Yes, they have been signed.

CHAIR—And are they conditional at all?

Mr Scott-Murphy—There are schedules which we call ‘annexures’ to the lease document which can only be completed when we have completed the design development phase of the project. So there is greater clarity brought to those annexures during the design development phase. They will, of course, only be done at that time.

Mr SLIPPER—If it is not possible for you and your proposed tenant to agree on the contents of the schedule, does the tenant have the right to walk away from the memorandum of understanding that has been signed?

Mr Scott-Murphy—As a point of law?

Mr Lewis—No. We have a firm arrangement with the Department of Defence in relation to occupation of Anzac Park West, and I am sure that my colleague from Defence will endorse that. We have the firm, signed arrangement which governs—

Mr SLIPPER—Excuse me, sir, I am really asking the other witness a question. It was a very specific question. I do not want any prevarication and I want a precise answer, please. If you are unable to agree on the contents of the schedule, would you agree that your memorandum of understanding is simply an agreement to agree and that it is not fully binding on the Department

of Defence until those schedules have been satisfactorily completed in the minds of both contracting parties? It is a bit more like an option?

Mr Scott-Murphy—It is as firm an agreement as can be reached at this stage of any project whether it were between Commonwealth departments or between a tenant agency and a private sector landlord. At this stage of the project where the design work is yet to be completed those schedules cannot be completely articulated

Mr SLIPPER—So could you give me a comparison between the legal status of what you have signed with the Department of Defence and the legal status of the document which you had previously signed with the Australian Federal Police?

Mr Scott-Murphy—They are very similar, in that agreement between Commonwealth agencies seeks to mirror those that would apply between private sector companies. However, being Commonwealth agencies they are all one under the Commonwealth, so we are unable to have the same standard that you might see between private sector corporations, but this is the extent to which the Commonwealth can formally agree.

Mr SLIPPER—What you are saying is that essentially the Crown cannot contract with the Crown.

Mr Scott-Murphy—That is correct, Senator. They are not separate legal entities

Mr SLIPPER—I am not a senator, much as one might like to be in that exalted position. Certainly, that would be our chairman's view. Coming back to our private conversation—which we maybe should not have had on-site—you mentioned that, when the AFP walked away from the document that they had signed, they had paid you rental up until January of this year and then they paid you a termination fee which meant that your rent was really covered up until the present time and beyond and that if anything the department would show a small profit. They are my words but what you said was that the department financially would be better off given the anticipated time frame for occupation by the Department of Defence.

Mr Scott-Murphy—I do not believe I used those words, with respect. We said at that time that we had reached agreement with the AFP under the break lease provisions as with any lease whereby they paid two years rent in advance plus some expenses that included security and some maintenance costs for the period that we anticipated the building would be vacant without a tenant as a consequence of their decision. I am not saying that the department of finance made any profit from that, quite the opposite, there was a cost to finance for the period between where the rent ceases and rent commences under the Defence agreement.

Mr SLIPPER—Why did you let them out so lightly? Why did you not insist that they adhere to the terms of their lease and pay you rent up until such time as they, as a tenant breaking their lease, were able to make sure that you were not out of pocket as a landlord.

Mr Scott-Murphy—It was the situation at that time where we had to agree that we were going in a separate direction and negotiate a suitable break lease payment. That is no different if it were a commercial lease in the private sector.

Mr SLIPPER—My understanding—and I once was a lawyer—is that if a tenant has a binding lease and wants to break it, usually the tenant either has to pay the rent until such time as the lease expires or the landlord, if they wanted to be generous, would insist that the tenant pay the lease payments up until such time as a replacement tenant could be found. But the important thing was to make sure that the landlord is not out of pocket as a result of the breach by the tenant of his or her obligations.

Mr Scott-Murphy—It is not quite so specific in the lease that we had with the Australian Federal Police that they would be caught by that provision. We were in a position where we needed to reach agreement so that they had certainty about their ability to enter into a lease with the then Stockland group, which was the owner at that time of the Edmund Barton building, and at the same time meet break lease provisions relating to that building.

Mr SLIPPER—Given the fact that the department finds itself out of pocket as a result of inadequate terms in the original lease signed with the Australian Federal Police, with respect to the proposed lease or the lease or memorandum of agreement that you are entering into with Defence, will you make sure that that drafting oversight is not present again so that the department might find itself out of pocket once again in the event that this department decides to do a walk as well?

Mr Scott-Murphy—We structure our leases around the risk profile that we see with the tenant agency, and there is a significant difference.

Mr PRICE—Defence is more reliable; I would agree with that.

Mr SLIPPER—So Defence is more reliable than the Australian Federal Police—is that what you are saying?

Mr Scott-Murphy—The point of difference is that the Australian Federal Police were seeking to accommodate their entire staff in one building. Of course Defence are not seeking to accommodate their entire staff in one building but are satisfied that 900 of their staff can be satisfactorily accommodated in this building. With the Australian Federal Police, when it became apparent to them that the single building, Anzac Park West, could not accommodate their entire staff, they made a strategic decision that they would terminate the lease and enter into a lease with Stockland on the EBB building.

Mr SLIPPER—Could you give an undertaking on behalf of the department to come back to the committee to give us a specific comparison between the lease document you had with the Australian Federal Police and the memorandum of understanding, with schedules yet to be agreed, that you currently have with the Department of Defence?

Mr Scott-Murphy—Yes, I can give that commitment. I would be happy to bring back to this committee a copy of each of the leases with an explanatory statement comparing the differences.

Mr PRICE—I am sorry, I am confused now. You signed a memorandum of understanding with Defence. That is on page 6. Is that not right? It says a heads of agreement does form ‘the basis of a memorandum of understanding’. Is that not correct?

Mr Scott-Murphy—We have signed two documents with the Department of Defence: a memorandum of understanding and a lease. I am sorry, we have signed a heads of agreement and a lease document.

Mr PRICE—Sorry, a heads of agreement. You have got a heads of agreement that has formed the basis of a memorandum of understanding.

Mr Scott-Murphy—Yes.

Mr PRICE—So that is two documents.

Mr Scott-Murphy—Yes, and in addition there is a signed lease document. That is three documents.

Mr PRICE—With schedules?

Mr Scott-Murphy—Schedules yet to be completed.

Mr PRICE—So, although you have a lease, the lease may be signed but will not be executed until the schedules are complete. Am I correct there, or can you help me there?

Mr Scott-Murphy—If you will bear with me one moment, I will check the standing of that.

Ms HALL—When was the lease signed, what date?

Mr Scott-Murphy—It was only last week, on Thursday, 30 July.

CHAIR—Mr Healy, in a moment I will ask you, from Defence's point of view, to make a comment about the discussions we are having about the various legal instruments.

Mr Scott-Murphy—I was checking just that we have indeed three documents. Each have been signed, which, to me, makes the documents executed. The document that is the lease will have the annexures, which will be completed to add clarity to that during the design and development phase. I think the risk of us not reaching agreement with Defence on the terms of the schedules is extremely low because we are working to meet Defence's needs in the fit-out of this building.

Mr PRICE—I cannot understand how you can claim a lease is executed if there are schedules to the lease yet to be completed? There is a completed lease and you seem to have something that is not quite there, at the penultimate stage of being executed. Or am I being obtuse about this?

Mr Scott-Murphy—I doubt that very much.

Mr PRICE—I have been found guilty before!

Mr SLIPPER—And will be again!

Mr Scott-Murphy—At this stage in the project the most binding agreement that we could possibly achieve is the lease and a heads of agreement and a memorandum of understanding signed between the parties acknowledging that there is further work to be done by both parties to define precisely the schedules that are attached to the annexures. There is no higher level of security by way of agreement that could be achieved at this stage of the project.

Mr PRICE—What will be in the schedules?

Ms HALL—Was this the level you were at with the AFP? Had you signed the lease with the AFP?

Mr Scott-Murphy—Yes, we had. It is exactly the same as we would with the AFP.

Mr PRICE—So what will be in the schedules?

Mr Hammond—Can I give an example? We have got a design review meeting at the 25 per cent design stage scheduled for next week. In that we are also undertaking value management to the scope of work that Defence have requested be put into the fit-out. We both agree that there is scope to reduce the standard that is provided in their fit-out requirements, and the purpose of that meeting will achieve that. We cannot have a schedule on the back that says we are going to have \$1,000 chairs and \$2,000 desks and commit both departments to providing that level of standard if, indeed, that is not the standard that we are going to provide at the end of the value management and design review.

So next week's design review meeting looks at the fit-out brief, the base building brief and the landscape brief—the landscape in terms of whether there is bollard protection to prevent trucks, or whether there are retaining wall protections. These are things that we would normally develop through the design process, and not something that we would establish up front. So three of the schedules are the fit-out brief, the base building brief and the landscape brief, none of which are not going to be subject to that value management exercise next week, where we try and reduce the scope and cost that Defence want to satisfy their needs.

Mr SLIPPER—It seems to me that, undoubtedly, your department and the Department of Defence quite genuinely want to be landlord and tenant with respect to the premises you are talking about. I am not suggesting that this is a sham or a fraud, or anything like that. I accept that the Department of Finance and Deregulation wants to lease to the Department of Defence, and the Department of Defence wants to lease from the Department of Finance and Deregulation, the premises in question. I also accept that you have, you said, two—though they seem to have multiplied into three—documents which have been signed between the two departments. I also accept that there is a technical, legal nicety as to whether the Crown can actually contract with the Crown in the same right. I know the Crown and the right of the state and the Crown and the right of the Commonwealth, but here you have got two Commonwealth agencies so it is the Commonwealth Crown entering into a contract with the Commonwealth Crown.

But it does seem to me that, while I accept there is an intention to proceed on the part of both departments, technically what you have is an agreement to agree, in which most of the terms of the agreement have been agreed but there are still terms which have to be agreed, and that the

Department of Defence, if it wanted to, could walk away from this. Sure, I realise it would not be very popular with their minister, but the thing is that the Department of Defence could technically do this. What you would tell us, I suppose, is that the form of contract you have with Defence is the highest form of contract that you can have, even though, technically, it is not legally binding?

Mr Lewis—The reality was that the AFP did walk, to use your language, but they ended up writing some pretty substantial cheques, and I do not know whether we have the precise number here but I am sure we could provide it to you. So they did not walk away in a costless way. I think it was a very expensive decision that the AFP took to move to the—

Mr SLIPPER—Had you agreed on their schedules? You have not agreed on schedules with the Department of Defence. Had you agreed on them with the AFP?

Mr Scott-Murphy—No. At this stage of the fit-out we are at the same stage, where the schedules will be completed through the design, development and value management process. We are always competing with scope and cost, where we are trying to keep the cost well under control and, of course, the tenant agency is seeking to get the maximum value.

Mr SLIPPER—As the former parliamentary secretary in finance I understand the approach of the department—

Mr PRICE—So you are giving a personal explanation now, are you?

Mr SLIPPER—but effectively what you are really saying is that the payment that was made by the AFP was a payment that they were morally obliged to make and did. They were honourable, and hopefully Defence would do the same in the same situation, but technically they could have walked away from their situation.

Mr Lewis—I suspect that if they had attempted to do that, there might have been a discussion between senior ministers because, essentially, to the extent to which we could have a deal, we had a deal. We believe we are at the same point with Defence. Yes, there are some arrangement details to be sorted out, but, as you said yourself, for technical reasons we cannot legally contract from Commonwealth to Commonwealth. But we basically have all the elements of an agreement.

CHAIR—Mr Healy, would you like to make a contribution at this point?

Mr Healy—Thank you, Madam Chair. Defence has a large leased estate in addition to the owned estate. This committee has looked at the owned estate on many, many occasions. We have 349 properties leased in Australia and a further 219 properties leased overseas, with a total rental bill of around \$150 million a year. A little under half of that money is spent in the ACT, and we have some very large leased properties in the ACT. We have the Campbell Park offices, Northbourne House, Deakin offices, the special purpose aircraft hangar at the Canberra Airport, several buildings at Brindabella Park and part of a building in Tuggeranong. We also have many other small leases in the ACT, and Defence are keen to move out of those small leases and to consolidate into some larger sites. This building that is owned by the Commonwealth, unlike all

those others that are owned by the private sector, is available to lease and for the two departments that work closely to come to terms and conditions that will make that possible.

Moving to the specifics of what we have and have not agreed, we did agree on heads of agreement back in October 2008. That was basically an intention to move forward, develop and come to an agreement on scope of work and price for the Anzac Park West building. We also last week signed a memorandum of understanding and a lease. From my perspective, the memorandum of understanding is as much an agreement to lease. If you were doing a precommitment lease with the private sector, you would normally enter into an agreement to lease which says that subject to you, the developer, delivering this building to this specification, we will then agree to lease it from its completion. Those three documents have those sorts of effect. The lease is between two agencies of the Commonwealth, and it is difficult from a legal perspective to say that that is binding, but it is clearly Defence's intention to take up this lease.

Subject to the parliament agreeing to the works and subject to the works being completed by the Department of Finance and Deregulation, it is Defence's intention to occupy this building for a 15-year term, initially. Unlike for the AFP—and I know little about the details about the AFP—the Anzac Park West site is well located from a Defence perspective. Defence's centre of mass in Canberra is in the Russell-Campbell-airport type area. This building is very close to Russell. It is within a short walking distance. There are many efficiencies for us from people working together and being able to reduce the need for cars and shuttles and other transport. It is more efficient for us because we are not trying to work together spread out over 12 little sites. So Defence are happy with the deal and we intend to honour the deal.

Mr PRICE—I will just ask one question, in relation to the expected occupancy date. Is that predicated on the length of time the work will take or on you getting out of current leases—or is it a combination of both?

Mr Healy—No, it is predicated on the length of time to do the work. Obviously the leases that we need to vacate are a sensitive commercial issue, and I do not really want to go into the details of that here, but it is primarily predicated on how long it takes to do the work.

Mr PRICE—Okay, thank you.

CHAIR—Mr Healy, I have two questions. I think you were saying to us that the process that you have undertaken with the Department of Finance and Deregulation is very similar to what you would go through if you were leasing a property which was going to be renovated, for want of a better word, in the private sector?

Mr Healy—That is correct.

CHAIR—The second question is: when do you propose to start paying rent?

Mr Healy—The rent is due from occupation. The terms of the lease provide some incentives for Defence, as is normal in this sort of leasing arrangement. That incentive is almost equal to one year's rent. Therefore we may use the incentive to defer the first year's rent, and therefore actual cash payments would not occur until nearly one year after occupation, but Defence will be liable for rent, deducting any incentives that we wish to use, from occupation.

CHAIR—Mr Scott-Murphy, that seems to be different to the arrangement you had with the AFP, where they started paying rent before occupancy.

Mr Scott-Murphy—No, we offered a similar incentive to the AFP. It was not quite 12 months of incentive. From memory—and I will check for accuracy with my colleagues—I think it was a six-month rent free period that was part of the deal that was struck with the AFP. Of course, the market conditions are always volatile, and we try to mirror the market conditions in all of our leases, so when the market is softening and our competitors, if you like, would be offering larger lease incentives then we do the same.

Mr SLIPPER—You are not saying you are better negotiators?

Mr Scott-Murphy—I think that in all negotiations we act as commercial proprietors of our particular portfolio. We manage, as you know, the Commonwealth's non-Defence property estate, so we have more than 100 properties. We enter into and negotiate these leases on quite a regular basis. In this case, the rent-free period that was enjoyed by the AFP was refunded as part of the break-lease provision, so effectively we ended up out of pocket by six months rent.

Mr SLIPPER—It seems to me that maybe the government or the nation would be better served if Defence handed over its property management to the Department of Finance and Deregulation. It was always a bugbear, because Defence seemed to have special rules for Defence and it was always frustrating to the Department of Finance and Deregulation, Mr Scott-Murphy—but I do not expect you to comment on that.

CHAIR—That is a policy question.

Mr SLIPPER—I have a broader question, if I may. I personally find it disturbing—I suspect my colleagues do—that under successive governments this building has been empty for approximately 10 years.

Mr PRICE—We have only been in for 18 months; give us a break!

Mr SLIPPER—I said 'under successive governments'. Is this an uncommon situation? Are there any other government buildings under the control of your department which have been empty for a considerable period as well? I find it astounding. I think I asked what it cost, and I was told it cost \$400,000 a year when you have security, but the reality is that, if you look at the capital value of that building and the fact that it has been sitting there like a white elephant for 10 years, it is pretty unacceptable. No private business could bear that sort of cost. So is this a one-off? Are there other buildings in Canberra or elsewhere like that? What sort of guarantee can we as a committee get from the department that, if there are other examples, there will not be future repetitions?

Ms HALL—And can you add to that, please, whether or not there are any special circumstances for it being vacant for that period of time?

Mr Scott-Murphy—Yes. Anzac Park West and Anzac Park East are special buildings. They are special for their location as well as for how they are registered for their heritage value. They frame, as a portal, Anzac Avenue and sit, of course, on the land access and within the

parliamentary visa, which is also heritage listed. So we treat the heritage buildings with respect and dignity and do our best to get an appropriate rate of return on the Commonwealth's investment in those properties. With Anzac Park West, of the 10 years that it has been vacant, we have effectively received rent for four years. In the intervening period it has cost on average about \$420,000 per annum to maintain that building.

Mr SLIPPER—Plus loss of rent.

Mr Scott-Murphy—Plus the loss of rent, yes. The normal life expectancy of a commercial office building is in the order of 25 to 30 years. These buildings, both East and West, were constructed in about 1965, so theoretically they had reached the end of their economic life when they became vacated. When we brought evidence to this committee previously on Anzac Park West and East, it was to invest an amount of money to refurbish and extend the building to extend the economic life, to get the best value to the taxpayer, of those assets. In Anzac Park West I believe we have done that: we have extended the building, we now have a reliable tenant and we will enjoy revenue to repay that investment over the next 15 years.

Turning to your question about other assets that might be similarly at the end of their economic life, Anzac Park East of course is still vacant and we have spent nothing other than maintenance and security on that building. We are in negotiations with prospective Commonwealth tenants and we hope to be bringing forward to this committee for consideration a proposal once we have been through the budget first pass approval process.

Mr SLIPPER—My question did not relate to buildings at the end of their economic life. My question related to whether there are other buildings owned by the Department of Finance and Deregulation which are empty and which have been for a considerable period.

Mr Scott-Murphy—Turning to that, the Anzac Park East building is empty and we are doing our best to secure a Commonwealth tenant and then refurbish the building to meet their needs. We have recently completed the refurbishment of the Royal Australian Mint process building. As part of the refurbishment, we are going through the refurbishment at the moment of the administration building to suit a Commonwealth tenant, but as of today we do not have a secured Commonwealth tenant to occupy that building. Other than that, all of our property portfolio is fully tenanted.

Mr SLIPPER—Madam Chairman, without wanting to unduly strain your patience, I have one more question for Mr Scott-Murphy. Is it possible under your rules and regulations to actually find private sector tenants for these buildings, provided of course that the heritage failure and those are the matters were respected? Are you bound to have a Commonwealth tenant and, if so, what compels that situation?

Mr Scott-Murphy—The controls for that are embedded in the National Capital Plan administered by the National Capital Authority. In the case of Anzac Park West and East, they are designated as 'Commonwealth purposes', so only Commonwealth tenants can occupy those buildings.

Mr SLIPPER—Unless the plan was altered?

Mr Scott-Murphy—Unless the plan was altered, yes.

CHAIR—We have a number of questions about the submission that go to the time when it was actually put together. For example, on page 6 you go through the density options that were at that time, I imagine, being negotiated with the Department of Defence. You have made a number of amendments in the hearing today, but from what I have learned this morning option C is now agreed. Is that correct?

Mr Scott-Murphy—Yes, that is correct. In the period since May, in refining the needs of the tenant, we have settled on 900 work points, which will give an average density of 16 square metres net lettable area per occupied workstation.

CHAIR—I suppose my question goes to: do we need to upgrade this submission so that it reflects what is happening now? That option has been considered and moved on—we are now at a point where we know 900 workstations are going to be put in, so we could rewrite that to say: ‘We have negotiated to this point. It will be 16 square metres each.’

Mr Scott-Murphy—Yes.

CHAIR—My point is that maybe there are other places in the submission that also need to be brought up to speed, so to speak.

Mr PRICE—Could you take on notice an option to update the submission to the current status of negotiations?

Mr Scott-Murphy—Yes, I would be very happy to do that.

Mr Lewis—Just by written submission in a very short period of time, within a few days or thereabouts.

CHAIR—I think that would be very useful to the committee.

Mr PRICE—In the inspection and in evidence you pointed out that the building was originally constructed in the 1960s, I think, and there do not seem to be any rating rewards in the guidelines for extending the life of an existing building. Would you like to elaborate on that?

Mr Scott-Murphy—If I could just be clear on the question, the building was designed and constructed in the 1960s to totally different building standards than those we hold today. We are striving for and we believe we will achieve a 4.5 star ABGR on the design of the building, which was the rating tool applicable at that point, and also, at the point of occupancy, a 4½-star neighbours energy rating, which is the rating tool that we hope will be applicable in December 2010. This has been not without its challenges, to bring a building that was never designed for such high efficiency up to modern standards. Is there any other point of the modification you were looking for a response on?

Mr PRICE—No, but it is an infinitely better approach than knocking it down and rebuilding it, I would have thought, from an environmental point of view.

Mr Scott-Murphy—Indeed. The big saving in extending the economic life of a building in this way is that the energy that it would cost to demolish the building, the energy that it would take to construct a building plus the energy that is embodied in all the materials to construct a building and, of course, the disposal to landfill of the wasted material are all avoided by extending the life of a building in this way.

CHAIR—Briefly, because we are almost out of time, for the record I wonder if you could provide the committee with advice about the Pavilion. What are we going to do with that little building?

Mr Scott-Murphy—Under our proposal to this committee we are seeking authority to refurbish the Pavilion building even though it is not part of the lease or memorandum of agreement between Defence and finance. Our purpose is to again achieve an appropriate return on that asset for the Australian taxpayer. We are involved in negotiations at the moment with prospective tenants or licensees so that we could get occupation of a refurbished Pavilion building to the benefit of the local staff and community.

CHAIR—But it is not part of the negotiations with Defence at the moment?

Mr Healy—Defence have no intention of leasing the Pavilion building.

CHAIR—Thank you, I just wanted that on the record. That is all the questions I have in open session at this point. I do want to go into an in camera hearing. We can only have in the room those people who are authorised by their department to be in the hearing. I understand there are a number of public servants who are here. I need to ask that you are authorised to be here by your department.

Evidence was then taken in camera—

Committee adjourned at 3.33 pm