



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

PARLIAMENTARY STANDING COMMITTEE ON PUBLIC
WORKS

(Subcommittee)

Reference: Fit-out of new leased premises for the Department of Education, Employment and Workplace Relations at block 9, section 31, Canberra, Australian Capital Territory

FRIDAY, 6 JUNE 2008

CANBERRA

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PARLIAMENTARY STANDING
COMMITTEE ON PUBLIC WORKS

Friday, 6 June 2008

Members: Mr Butler (*Chair*), Senator Troeth (*Deputy Chair*), Senators Mark Bishop and Forshaw and Mr Champion, Mr Forrest, Mr Hale, Mr Lindsay and Mr Slipper

Members in attendance: Senator Troeth and Mr Forrest

Terms of reference for the inquiry:

To inquire into and report on:

Fit-out of new leased premises for the Department of Education, Employment and Workplace Relations at block 9, section 31, Canberra, Australian Capital Territory

WITNESSES

BURMESTER, Mr William Peter, Deputy Secretary, Department of Education, Employment and Workplace Relations 1

CUTHBERT, Mr Mark Roy, Project Director, Department of Education, Employment and Workplace Relations 1

STOREN, Mr Craig Andrew, Chief Finance Officer, Department of Education, Employment and Workplace Relations 1

WILKIN, Mr Paul Arthur, Xact Project Consultants, Project Consultant to the Department of Education, Employment and Workplace Relations 1

Subcommittee met at 11.28 am

BURMESTER, Mr William Peter, Deputy Secretary, Department of Education, Employment and Workplace Relations

CUTHBERT, Mr Mark Roy, Project Director, Department of Education, Employment and Workplace Relations

STOREN, Mr Craig Andrew, Chief Finance Officer, Department of Education, Employment and Workplace Relations

WILKIN, Mr Paul Arthur, Xact Project Consultants, Project Consultant to the Department of Education, Employment and Workplace Relations

ACTING CHAIR (Senator Troeth)—I declare open the public hearing of the Parliamentary Standing Committee on Public Works inquiry into the proposed fit-out of premises for the Department of Education, Employment and Workplace Relations in Canberra. Would you care to make any introductory remarks?

Mr Burmester—Yes. Thank you for the opportunity to make this proposal presentation today. As you have said, the proposal seeks approval for the fit-out of a new building to be constructed at block 9, section 31, Canberra City. The new building will be leased for 15 years with a five-year option. The building is being developed by Walker Corporation and will consist of 12 floors with a central core and large floor plates of approximately 3,500 square metres. The department is seeking to provide our staff with a modern, efficient work environment which complies with the government's energy policy requirements and will meet our needs for the next 15 to 20 years. We believe we can meet that objective by leasing a new, A-grade building which meets the Commonwealth standards and by providing a new fit-out that takes account of the occupational health and safety needs of our employees.

The fit-out we are proposing will also take advantage of the latest technology to deliver an energy-efficient building which is designed to reduce churn costs by adopting a modular, generic approach to the provision of work space and office sizes. The department has engaged quantity surveyors to provide us with professional assistance in managing the costs of fit-out. Based on the advice of our consultants, the department has prepared a proposed budget for fit-out of \$66 million. This amount includes coverage of workstations, furniture and fittings and appropriate allowance for contingencies, as well as designer-management fee components. The department has also established a process to manage cost control and ensure value for money. A steering committee comprising senior executives meets monthly to review progress on the project as well as to consider costs against budget. The project team are required to seek approval for expenditure prior to entering into commitments.

Currently, DEEWR's national office has 21 buildings, with approximately 4,600 staff spread across those, in different locations including City, Turner, Braddon and the airport. The new building will accommodate approximately 2,500 staff, providing an opportunity to accommodate around 50 per cent of DEEWR's Canberra based staff in a central location, with the remaining staff at overflow sites. The department will ensure equity of access and standard of amenity for all staff through its plans to consolidate the balance of our Canberra staff in another group of

buildings within the City CBD. While it would be ideal to have all staff accommodated in a single building, DEEWR's size now makes this impractical.

The flexibility that comes with having more than one lease will also help the department respond effectively to any variation in staff numbers or future machinery-of-government changes. Our current ACT tenancies have leases that expire between 2009 and 2013. A strategy is being developed that will ensure efficient use of space through the transition to our new long-term accommodation. In our view, remaining in the current buildings beyond the lease expiry would require substantial investment and considerable dislocation and disruption, as essential refurbishment would be needed to upgrade the building to meet government policy—for example, energy efficiency of government operations—as well as to provide a modern, efficient work environment for staff.

From a value-for-money point of view, we investigated options of alternative accommodation. The new-building option was the best value-for-money business proposition for the Commonwealth. The business case supporting the new building was endorsed by the Department of Finance and Administration in September 2007 following a comprehensive procurement process. There were many things we took into account, and I would like to outline a number of these to the committee.

Energy efficiency is one area where we will make considerable gains in the new building, while we will significantly reduce our energy footprint, maintenance and ongoing costs. Consistent with government policy, the building will be designed and constructed to achieve a minimum Australian building greenhouse rating of 4½ stars. While this rating will address the building's energy consumption, the building will also be designed and constructed to achieve a green star rating of five stars. In this context, it will deliver improvements in areas such as indoor air quality, water efficiency and emissions. The lease requirement requires the landlord to achieve these energy ratings and to minimise consumption of town water. The new building will incorporate ecologically sustainable development innovations in areas such as energy consumption, greenhouse gas emissions and minimisation of water consumption and waste. The building design includes a 70,000-litre stormwater catchment system and a 220,000-litre greywater treatment system. The greywater will be treated and used for toilet flushing and landscape watering. The external facade of the building will have high-performance glazing to reduce solar heat gain to the internal environment and reduce the cooling loads in general energy consumption for the building.

Subject to parliamentary approval, it is proposed to integrate the fit-out with the base-building construction. This will ensure that environmental issues are managed in a coordinated way to ensure the best outcomes while minimising the risk to the department. The integrated fit-out would be delivered by June 2010. An integrated fit-out will also minimise the department's exposure to dead rent. The alternative is to fit out the building once the base building has been completed. In this case, it is expected that the department would be paying rent for approximately nine months while the fit-out is constructed. In conclusion, the site was selected following an extensive process that looked at financial, architectural, environmental, security and other issues, and we believe that the new building will meet the department's long-term accommodation needs.

ACTING CHAIR—Thank you. You have stated in your submission, on page 8 and page 21, that your preference is to undertake the integrated fit-out. You have also said that this is to commence in March 2008. Given that this referral was only made in March 2008 and that no contracts are to be let until after the committee reports, can you tell the committee the status of the building works and of the integrated fit-out process and why the parliamentary works committee process was not considered in the building time frame?

Mr Burmester—As to the earlier reference to the March date, I think we have now revised that in line with that—

Mr FORREST—Because the earlier hearing was in camera, you need to redo all this.

ACTING CHAIR—Yes, that is right.

Mr Burmester—We would like to provide this new schedule of works, which says in paragraph 2.6.1 that the approval for fit-out design is not required until 22 September 2008, and therefore we are no longer under that March requirement and the committee will have adequate time to consider the proposition before the September requirement to finalise the design. Only at that point would we be committed to the integrated fit-out.

ACTING CHAIR—Okay. So you have adequately taken into account the need for parliamentary approval in the project planning process, in your view.

Mr Burmester—Yes, we have.

ACTING CHAIR—From what you have told us, this building will not accommodate all of the department's existing leases. You have identified that collocation will create working efficiencies. What are the plans to achieve that, given the number of leases that will still be in existence?

Mr Burmester—There are two parts to our strategy. One is to group internally, within the department, parts of the department that work more closely together so that they are located more closely together. In a department as large as DEEWR now is, there is obviously quite a range of people whose interactions are limited and who do not necessarily have to be sitting right next to each other. Where groups or divisions need to be collocated, they will have priority in getting space in the new building or in being located in buildings close to the people they interact with. The second part of the strategy is that, nevertheless, there are still gains from having all parts of the department as closely located as possible. Our long-term strategy is to seek an overall long-term accommodation solution within the north Civic area based around the new building. So, while the new building will not house the whole of the department, over time, by juggling and managing our leases that expire progressively, we will be able to consolidate—or we will seek to consolidate—as many staff in that close precinct as possible.

ACTING CHAIR—The committee also approved works of \$15.1 million in October 2006 for offices in Brindabella Park, Canberra. Are those leases going to be terminated as part of this project and, if so, how do you justify that expenditure?

Mr Burmester—There is no requirement in this proposal for those leases to be terminated. They now form part of the bigger property portfolio that DEEWR has to manage given its amalgamation through the MOG changes. They will now be part, along with the other 20-odd leases that we have across Canberra, of a strategy to juggle lease endings and relocations so that we minimise the dead rent that we are paying on any property. They actually provide for some flexibility in the way we approach the deployment of our staff. However, the overall strategy would be to move and consolidate around north Civic, so when it becomes viable and cost effective to move staff from Brindabella that will be considered. The whole strategy will be based on minimising our rental costs, and that means that we necessarily have to juggle leases, including the ones at Brindabella Park.

Mr FORREST—For the benefit of readers of the evidence, could you explain the concept of integrated fit-out and assure the committee that this is a process which can save taxpayers money because it is a new building; it is not an old one you are taking over, and you do not have to drill holes through walls and so forth. Can you just explain what is meant by integrated fit-out.

Mr Burmester—I will have a go, but maybe Paul can tidy up my explanation afterwards. The notion of integrated fit-out is that a base building with unknown internal arrangements will be designed and finished with standard fit-out of air conditioning, fire systems and so on. Once you fit out a building, those services need to be adjusted to allow that fit-out to work effectively. The air conditioning works across the whole of a floor, so if you put in an office you need to supplement the air conditioning. Where you locate kitchens and so on may well vary from where a base building would have provided services, too. Integrating the fit-out means designing the fit-out and building the base building requirements around the known, final deployment of those services. It means that you can take the base building provision and extend it to the very points that you want those services delivered to at the time that you are building the base building. If you do not do that, the only alternative is to retrofit it. Once the building is finished, you then have to design your fit-out and adjust everything that the base building has been provided with to the design that you want. As you said, for existing buildings you would be drilling holes in walls and so on. In a new building, you would end up doing the same thing because you would have to relocate some of those services. So, by getting the design specified and agreed beforehand, the base builder can actually incorporate all that work in one pass of the building, so it will be cheaper overall than subsequent retrofitting. Paul, you might want to add to that.

Mr Wilkin—No, I think that is a good explanation. Really the biggest saving with integrated fit-out is in time, because with an integrated fit-out you have simultaneous practical completion of your fit-out and the base building. If you do not do an integrated fit-out, you cannot have access to commence your fit-out until practical completion has been achieved, so you then have to add another six to nine months from practical completion on to the end of the process, which means you are paying rent for that period.

Mr FORREST—By that you mean that if levels 2, 3 and 4 are finished, and they are still working on higher levels, you can start your fit-out.

Mr Wilkin—Under an integrated fit-out that is certainly right.

Mr FORREST—My next question refers to page 7 of 37. We have talked about lease incentives. I get very nervous when I see terms like that, and it leads me to a series of questions

about the future recurrent lease costs and about whether taxpayers are getting value for money. Can you explain to me what paragraph 2.4.8 means? It says:

A lease incentive has been offered and will be used to offset the total outlays associated with the construction of the fit-out.

Mr Burmester—The way the property market works for large developments has evolved to a point where it is common practice for a developer to offer some incentive to initiate your lease in their building. The market rent is determined by the market at the time that the building is being offered for lease, but to get a new tenant in, especially a big tenant such as us—we could effectively take the whole building—it is in the builder's interest to make sure he has a tenant locked in for a long time. So he will often front load an incentive to make the overall deal attractive to a tenant so that the building becomes more competitive in the market than it would have been otherwise. With this building proposition, we went through an expression-of-interest and procurement exercise and there were, I think, nine or 10 propositions put to the department. Incentives included in a number of those proposals were incorporated into our price comparison, so the Commonwealth has benefited from those developers who offered such incentives. We have been able to capture those incentives by choosing this particular development, which offered those incentives. It is a common thing.

Mr FORREST—But it is up front. The price can often be higher escalations of rental—

Mr Burmester—Rent incentives, yes.

Mr FORREST—So I want to be satisfied that this whole process has been done, that it has been market tested and that DOFA have ticked off on it.

Mr Burmester—The rent in the lease, and the rent review arrangements, have to be approved by the Department of Finance and Deregulation. We had comparative tests. It was a market test, effectively, and quite a successful one because of the number of expressions of interest that we registered. So we think that we got a very good market test, and as a result our rent costs for this new proposal are very competitive in the market. We believe we have got a better rental outcome than some of our colleagues who similarly, in recent times, entered into significant leases across the Commonwealth. So we believe that we have achieved very attractive rents for the full duration of the lease, and the rent escalation arrangements—for which there is a mid-point market review; there is a collar-and-cap arrangement within the lease—have been approved by Finance as meeting their requirements, so that there is not an automatic, ongoing escalation arrangement in the lease. In addition, that is offset and further reduced, to the benefit of the Commonwealth, by the incentive that the developer offered us as well as that competitive rental rate.

Mr FORREST—Are you able to supply the committee with some confirmatory evidence from DOFA in that regard? You can take it on notice if you need to.

Mr Cuthbert—Absolutely. Just to make sure I have the correct detail, is that in relation to the assessment of our lease?

Mr FORREST—Yes—that the concept of lease incentive has been properly considered and approved. There must be some sort of certificates.

Mr Cuthbert—As part of seeking Finance regulation 10 approval, we had to submit the business codes to the Department of Finance and Administration. Those were agreed to, and Finance regulation 10 approval was given by the minister by September last year.

Mr Burmester—We will provide you with the evidence that convinced Finance and the minister for finance at the time that the rent was market tested and good value for the Commonwealth and, in addition, that this actually works as an incentive and an offset to reduce the overall cost of moving to a new building.

Mr FORREST—That is good. My next question goes to the plan for the fit-out—I know it is only a typical plan—on page 35 of 37, which shows drawings of fit-out for the toilets. I know that there is an explanation for the movable, partitioned male and female toilets—so that you have flexibility with that—but surely the pans and washbasins are permanent fixtures that the owner of the building should be providing.

Mr Cuthbert—They are.

Mr FORREST—They are? All right.

Mr Wilkin—The plan is showing the base building, and it depicts a mixture of the base building and the fit-out. The toilets, the lift cores and the fire stairs are base building.

Mr Burmester—Basically, the uncoloured bits are base building.

Mr FORREST—I do not have a coloured one, unfortunately.

Mr Burmester—Allow me.

Mr FORREST—That explains everything. Thank you. That is the trouble with CommDocs, you see. I warned you!

ACTING CHAIR—Everything is in black and white, as you might say.

Mr FORREST—With the staff gymnasium, which I did hear referred to—I think it is in the evidence as well—what are the future proposals for using that as a revenue source so that its operational costs will be covered? Do you propose to subcontract it out or something? How will that be managed?

Mr Cuthbert—There is no certainty that that will go in. That is one of the things that we are planning to put in there based on consultation with the staff. There is the desire to see a gymnasium in there. In terms of the operation of it, we do not expect that it will be a commercial venture. The expectation is that it will be a bit like a facility where staff can do aerobic exercises and where the social committee organises for an instructor to come in and staff pay their cost per head to get into that class. It is just a facility where staff can do that, be it yoga or pilates. It is just an amenity for them.

Mr Burmester—The intention would be to have a limited range of equipment. It certainly would not be the full gym set-up that you could get at a fitness club, for example. This is for a range of reasons. The experience across the Commonwealth departments is that the exercise activities are more important than a full gym, and if people want to participate in a full gym then it is best to go off site and do that through a commercial arrangement.

Mr FORREST—There is also the liability if someone overexerts themselves.

Mr Burmester—That is right.

Mr FORREST—The cost of the equipment is not shown in the detailed cost estimate.

Mr Burmester—As I said, there would be very limited actual equipment. It certainly would not be a fully kitted-out gym in any way. In fact, a number of departments do not even allow weights because of the liability that comes with them and the problem of policing their retention in the place where they are meant to stay. They seem to disappear at regular intervals.

ACTING CHAIR—Bolt them to the floor—that is a joke! So that would be a relatively cost neutral arrangement once you had installed basic equipment, with people paying for services and the person providing those services getting the income from them.

Mr Burmester—Yes. That already exists. There is a pilates activity offered in at least one of our buildings on a regular basis, where an external trainer comes in to provide the class.

Mr FORREST—That would be more dire than doing three hours of hyperventilating yourself, wouldn't it?

Mr Burmester—That is right.

Mr FORREST—The other question that I have—I am thinking about the future; things always change—is about whether the fit-out adequately provides for any future changes. Could you explain to me particularly the IT stuff? Is that coming through the floor or is it coming from the ceiling? What flexibility is being built in? Technology is just going to keep getting ahead of us.

Mr Cuthbert—There are two comms rooms on each floor: one in the northern end of the building and one in the southern end of the building. They will be the main receiving points for our patch rooms. We have our established off-site data centres. There are no costs associated with establishing a data facility in this building. We will actually distribute the cabling out to concentration points under the floor, so there will be a number of concentration points across each floor. We will be able to take soft wiring from those concentration points with flexibility and drop it down to the workstations through a blade system—a bit like a power pole that you can see on workstations as you walk through the offices. That will give us total flexibility.

Mr FORREST—You are going to end up with these ridiculous holes in the floor.

Mr Cuthbert—We do not propose to have false floors or floor boxes in our office spaces. There may be some floor boxes in dedicated amenities such as conference rooms so we can

avoid trip hazards associated with cable, but certainly, in the balance of all of our accommodation which is used by staff, there will be concentration points in the ceiling dropped down through a blade or a power pole and out to the workstation from there.

Mr FORREST—The future is going to demand fibre optic right to the workstation before long. That is why I am asking these questions. What about getting new cables through and things like that? Are you thinking that far ahead or just providing blue wired—

Mr Cuthbert—Not fibre. We have certainly been working with our IT people as part of our project development. The advice that we are getting from them is that category 6A wiring is more than adequate for what they can expect to see for the foreseeable future. It will take 10 megabytes to the desktop, I understand—that is the number they are talking about—so that is a significant amount of data able to travel to each work point. That is through category 6A, which is already approved through DSD for installations.

ACTING CHAIR—You did indicate that staff support was mainly for off-site, external child care, I take it. I think you pointed out to us, when we were at the site, that there was a childcare centre quite close by.

Mr Burmester—There is a childcare centre just across the road, but how long it will stay there in the CBD area is unknown. We did survey staff for their preferences on amenities in the building. There were a number of people interested in on-site child care. However, if you have child care, it has to be of a certain size to be economically viable. That comes with requirements for outdoor play space and it changed the whole design of the building. So, with the closeness of at least one service provider, and the fact that a lot of staff access child care closer to their homes rather than closer to their work, the department's view is that it should address childcare concerns of staff not by providing child care in-house but by seeking to ensure provision in other ways or support in other ways, and so the HR people are now trying to do that. It was examined but it was not found to be sustainable within the building, so we now have to solve it another way.

Mr FORREST—What will the consequences be if the committee does not sign off on this request for \$66 million in funding?

Mr Burmester—We would have to change our accommodation strategy over the next few years. There would be other requirements presented to the committee for other accommodation solutions, but what they would be I do not know. As I said earlier, as our leases expire over the next few years we will need to test them in the market. We have no certainty about where we would end up and what sort of facilities we would end up with. They would include new fit-out requirements. But they may not be crystallised into a single point in time, which this proposal does. As you saw on your site visit, the department has been in some of its accommodation for over 15 years. Some of it is not particularly good accommodation, and none of it now meets the environmental energy requirements or security requirements of the Commonwealth. So we would be looking to substantially refurbish, refit or move to another location. If this proposition does not proceed, there would be other consequences that the committee would have to consider. But it would be spread out over time, I would imagine.

Mr FORREST—Is it likely that cost would be less or more than \$66 million?

Mr Burmester—I think the overall benefit to the Commonwealth would be greater, even though it would be more expensive to the Commonwealth overall, because we have locked in a very good lease in terms of ongoing rental for 15 plus five years in this particular location. If we were going out to the market there would be no guarantee that we would get such a fortuitous outcome on our rent costs. The total cost to the Commonwealth would still involve some fit-out. It might be less than \$66 million, depending on what we ended up with. But, on a per square metre basis, \$66 million, because of the size of this building, I understood was pretty competitive, and I thought we said that in our submission. So we would still be facing a fit-out over time of equivalent size, and we would not be guaranteed the attractive rent arrangements that we have now locked in, in this lease.

Mr FORREST—That is pretty convincing!

ACTING CHAIR—Very good. I thank you very much for your attendance here today.

Resolved (on motion by **Mr Forrest**):

That this subcommittee authorises publication of the transcript of the evidence given before it at public hearing this day.

Subcommittee adjourned at 11.59 am