

Fit-out of new leased premises for the Australian Taxation Office located in Gosford, NSW

- 2.1 The Australian Taxation Office (ATO) seeks approval from the Committee to fit-out a new, purpose-built Commonwealth office in Gosford, New South Wales (NSW).¹
- 2.2 The main objective of the project is to deliver a new purpose-built Commonwealth office in Gosford that supports agile, flexible and innovative work practices.²
- 2.3 The estimated cost of the project is \$20.8 million, excluding GST.
- 2.4 The project was referred to the Committee on 8 February 2016.

Conduct of the inquiry

- 2.5 Following referral, the inquiry was publicised on the Committee's website and via media release.
- 2.6 The Committee received one submission and one confidential submission regarding the project costs and risk register from the ATO. A list of submissions can be found at Appendix A.
- 2.7 The Committee received a briefing from the ATO and conducted public and in-camera hearings in Canberra on 15 March 2016. A transcript of the public hearing and the public submissions to the inquiry are available on the Committee's website.³

1 ATO, submission 1, p. 3.

2 ATO, submission 1, p. 3.

3 <www.aph.gov.au/pwc>.

Need for the works

- 2.8 In 2014, the Commonwealth Government announced the construction of a new, purpose-built office building on the NSW Central Coast to accommodate 600 Commonwealth employees. Up to 500 of the 600 positions to be accommodated in the new leased premises will be for ATO employees. The intention is for the other 100 positions to be occupied by employees of other Commonwealth agencies and to provide a shopfront for community services. The ATO was named the lead agency for this initiative.⁴
- 2.9 The ATO will lease the new building, consisting of a lower ground floor, ground floor, and levels one and two (approximately 7,350 square metres) from Doma, the company responsible for developing the site and constructing the building. The ATO will be responsible for the internal fit-out only.⁵
- 2.10 At the public hearing, the Committee heard that the ATO had approximately 4,300 vacant workstations in its current property portfolio.⁶ The ATO explained that a loss in casual staff during non-peak periods and implementing Commonwealth Government efficiency dividends have contributed to this.⁷ The ATO noted some level of vacancy is required in its property portfolio, however it has implemented a range of strategies to decrease vacancy rates over the past 12-18 months. Subleasing excess space is one such strategy, and the ATO anticipates a further reduction vacant work stations.⁸
- 2.11 Although under its establishing legislation the Committee's remit is restricted to considering only the fit-out of the premises, the Committee was aware of a number of widely publicised community concerns. These were related primarily to site selection for the new building, the integrity of the associated tender process and opportunities for government employees to be recruited locally. At the public hearing, in his opening statement, Mr Justin Untersteiner of the ATO took the opportunity to clarify these matters.⁹ More information is presented below.
- 2.12 The Committee is satisfied that the need for the work exists.

4 ATO, submission 1, p. 4.

5 ATO, submission 1, p. 8.

6 Mr Justin Untersteiner, ATO, transcript of evidence, 15 March 2016, p. 9.

7 Mr Justin Untersteiner, ATO, transcript of evidence, 15 March 2016, p. 11.

8 Mr Justin Untersteiner, ATO, transcript of evidence, 15 March 2016, pp. 9, 11, 12.

9 Mr Justin Untersteiner, ATO, transcript of evidence, 15 March 2016, pp. 1-3.

Site selection and heritage considerations

- 2.13 Gosford provides an opportunity to strengthen the ATO's commitment to serving and engaging with regional areas, allowing the community to interact with the ATO in person. The site provides the opportunity for the ATO to lead the redesign of shopfront services on behalf of other government agencies and will continue to foster willing participation with the Australian tax and superannuation systems.¹⁰
- 2.14 The new building will be located at 20 Mann Street, Gosford¹¹, the site of the former Gosford School of Arts (GSOA) Building and the former Gosford primary school. The heritage listing of the GSOA building, and the site as a whole, does not preclude the possibility of change. An Architecture and Heritage Report identified the most important elements of the site are exteriors, Art Deco style and overall form and the remnants (foundations) of the demolished building scattered at the rear and around the site. Doma will be required to work with Gosford City Council to ensure any development is compliant with heritage considerations.¹²
- 2.15 This proposed site is located in a precinct which will undergo future redevelopment, as identified in the Gosford City Centre Masterplan. The decision to use this site was a commercial decision made by Doma and NSW Government Properties, as owners of the land. The proposed building will occupy 27% of the site, leaving more than two-thirds (approximately 1.13 hectares) of the site available for additional redevelopment.¹³
- 2.16 At the public hearing, the Committee heard that the ATO had balanced a number of considerations, such as access to public transport and potential for commercial development, when selecting the proposed site.¹⁴
- 2.17 Further, a representative of Doma outlined its response to some community concerns which were raised at a public information session hosted by Doma earlier in 2016:

A number of people that came along wanted to understand the relationship of the building on the site and its context with the former Gosford primary school site. We were able to explain to them what portion of that state government site we had purchased

10 ATO, submission 1, p. 4.

11 ATO, submission 1, p. 7.

12 ATO, submission 1, p. 5.

13 ATO, submission 1, p. 8.

14 Mr Justin Untersteiner, ATO and Mr Domenico Di Luzio, Cushman and Wakefield, transcript of evidence, 15 March 2016, p. 4.

and where we are proposing to site the ATO building. We were able to explain to people that the development is consistent with the provisions of the Gosford town planning rules. It is an allowable use. We were obviously sympathetic to members of the community that have a desire for a performing arts centre in Gosford. We would encourage that to happen, but we were able to explain to people the basis under which we procured the land and what we were proposing to do on our land. We suggested to people that their focus on getting that performing arts centre would probably be better pointed towards the people who promised it to them in the first place.¹⁵

Options considered

2.18 The ATO appointed KPMG to oversee the tender and procurement process. Additionally, the ATO engaged Cushman & Wakefield as project managers. Mr Untersteiner stated:

The requirement set out in the ATO's expression of interest stated that the premises must be situated in Gosford, New South Wales, specifically within a zone marked on a map within the EOI documentation. This was a large area covering both the Gosford CBD and surrounding areas. The ATO informed the market it would consider premises that are to be constructed, are newly constructed or refurbished, or are in an existing condition. The ATO did not specify a site for use in the EOI.¹⁶

2.19 In 2014, Cushman and Wakefield, acting on behalf of the ATO, approached the open market requesting Expressions of Interest (EOI) for the provision of office accommodation in the Gosford area.¹⁷

2.20 An evaluation committee was established to consider the EOIs, with shortlisted applicants invited to provide a formal proposal. Evaluation criteria included:

- technical worth and compliance with ATO specifications;
- whole of life costs and value for money;
- financial viability; and
- risk assessment.¹⁸

15 Mr Gavin Edgar, Doma Group, transcript of evidence, 15 March 2016, p. 10.

16 ATO, submission 1, pp. 3-4.

17 ATO, submission 1, p. 4.

18 ATO, submission 1, p. 5.

- 2.21 Final submissions were evaluated by the committee, in line with the assessment methodology. Doma was selected, as its submission rated as the most competitive. Additionally, Doma's risk assessment was deemed as low, its proposal was ranked highest from an overall value for money perspective and it outlined a considered approach to the heritage elements potentially affecting the proposed site.¹⁹
- 2.22 At the public hearing, the ATO provided reassurance that the process had been rigorous and that the successful tender represented the best value for money.²⁰
- 2.23 Additionally, ATO told the Committee that the initial lease is for ten years, with two five-year options.²¹ The ATO went on to explain:
- ...to get good value for money in a large commercial office fit-out we are looking at longer term leases.²²
- 2.24 The Committee found that the ATO has considered multiple options to deliver the project and has selected the most suitable option.

Local impact

- 2.25 The project is expected to have a positive effect on the local economy through:
- creation of jobs during construction and fit-out works;
 - use of locally sourced materials during construction;
 - continued support for local trades and services through ongoing maintenance and supply requirements;
 - creation of 600 Gosford based Commonwealth jobs, providing a long term commitment to employment and service delivery in the region;
 - creation of an important link with tertiary campuses in the area;
 - support of local businesses and establishment of new businesses which will be frequented by ATO employees and visitors to the Gosford building; and
 - promotion of employment and training opportunities for Indigenous Australians through the ATO's commitment to Indigenous procurement targets and workforce strategies.²³

19 ATO, submission 1, p. 5.

20 Mr Justin Untersteiner, ATO, transcript of evidence, 15 March 2016, p. 2.

21 Mr Justin Untersteiner, ATO, transcript of evidence, 15 March 2016, p. 5.

22 Mr Justin Untersteiner, ATO, transcript of evidence, 15 March 2016, p. 12.

23 ATO, submission 1, pp. 5-6.

- 2.26 During the public hearing, the ATO commented on its history working with Indigenous-owned businesses:
- ...[the] ATO is probably a leader across government in this space. We [have] worked very closely with Supply Nation to the extent that we ran a secondment process and embedded some of our own employees in Supply Nation to understand how we could better work with Indigenous-owned businesses.²⁴
- 2.27 This has increased the ATO's spending with Indigenous-owned businesses over the past three years from \$7,000 in one year to \$23 million.²⁵
- 2.28 Doma has advised the ATO of its intention to make a significant contribution to local economic participation during the construction phase through effective engagement of local trade contractors. Its commitment includes:
- advertising locally about opportunities to discuss the project through pre-briefings;
 - early and regular briefings to encourage interest from local trade contractors to participate in the project;
 - connecting interested contractors with businesses who can help the contractors get ready to provide effective support in the required manner; and
 - engaging with local Chambers of Commerce and Industry Networking groups to understand the market.²⁶
- 2.29 At the public hearing, Doma's representative made further comment on the opportunities for local businesses:
- To date the design of the base building has been targeted towards endeavouring to use locally based and sourced materials. We made a deliberate strategy ... to use masonry which we felt would cater to the subcontract market in the Gosford area, which would encourage more local businesses to participate in the construction of our building.²⁷
- 2.30 The Committee queried the ATO's capacity to recruit its employees locally. In response, the ATO reassured the Committee that while details were yet to be determined, it intended to manage a fair and open

24 Mr Justin Untersteiner, ATO, transcript of evidence, 15 March 2016, p. 6.

25 Mr Justin Untersteiner, ATO, transcript of evidence, 15 March 2016, pp. 1,6.

26 ATO, submission 1, p. 6.

27 Mr Gavin Edgar, Doma Group, transcript of evidence, 15 March 2016, p. 10.

recruitment process which would create employment opportunities for people in the region.²⁸

Co-design centre

2.31 The Gosford premises will incorporate a co-design centre, providing the local community with access to other Commonwealth, state and local government agencies. This concept is already in place in Canberra, Brisbane and Melbourne.²⁹

2.32 The ATO expanded on this at the public hearing:

One key feature of the building that we have in our design is, firstly, the shopfront, which allows access for the community. We are seeing a different approach to our shopfronts, in that we are working to educate community for the use of digital products, for instance – moving away from just being a shopfront that hands out forms to being a shopfront that proactively works with the community to educate on new digital products and services.³⁰

2.33 Community members were able to provide feedback on the development of the co-design centre at the public information session organised by Doma.³¹

2.34 At the public hearing the Committee heard that the ATO is currently in negotiation with two Commonwealth agencies that have expressed an interest in having a presence in the new building. The ATO fit out will include the space to be occupied by other agencies, though the ATO intends to recover costs through memorandum of understanding arrangements.³²

Scope of the works

2.35 Fit-out specifications have been developed in consultation with the relevant experts to ensure all essential ATO and legislative requirements are met. The fit-out design includes:

- Professional, contemporary, 'Grade A' office accommodation which meets Government density and environmental targets;
 - A flexible and adaptable work environment in order to cope with ongoing changes in business operation and technology;
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28 Mr Justin Untersteiner, ATO, transcript of evidence, 15 March 2016, p. 7.

29 ATO, submission 1, p. 4.

30 Mr Justin Untersteiner, ATO, transcript of evidence, 15 March 2016, p. 7.

31 Mr Justin Untersteiner, ATO, transcript of evidence, 15 March 2016, pp. 9- 10.

32 Mr Justin Untersteiner, ATO, transcript of evidence, 15 March 2016, pp. 7-8.

- Modular work points that can be easily and quickly reconfigured without disturbing productivity;
 - Collaborative spaces that are flexible and designed for future reconfiguration;
 - A robust security system that protects Commonwealth information, people, other assets and operations;
 - Conference, training and video conference facilities which support contemporary work practices;
 - Future ready IT infrastructure which will support the needs of the site
 - An innovation and co-design centre and shopfront facilities to engage with and support Government agencies and clients; and
 - Contemporary end of trip facilities to support staff wellbeing will be provided through the provision of showers, bike racks and lockers.³³
- 2.36 At the public hearing, the Committee heard that, following a report from Price Waterhouse Coopers, the fit-out works will be integrated with base-building works. The ATO noted that this is a more efficient use of time, with no rental overlap.³⁴
- 2.37 Subject to Parliamentary approval of the project, fit-out works will begin in July 2017 with practical completion expected by November 2017.³⁵
- 2.38 The Committee finds that the proposed scope of works is suitable for the works to meet its purpose.

Cost of the works

- 2.39 The estimated cost of the project is \$20.8 million, excluding GST.
- 2.40 At the public hearing and in correspondence to the Committee, the ATO confirmed that, as a general rule, its project expenditure for building fit-out and refurbishment works had come in under budget, with costs for new building fit-outs delivered between 2012 and 2015 ranging from \$1014m² to \$1901m².³⁶
- 2.41 The ATO provided further detail on the project costs in the confidential submission and during the in-camera hearing.
- 2.42 The Committee considers that the cost estimates for the project have been adequately assessed by the ATO and the Committee is satisfied that the

33 ATO, submission 1, pp. 8-9.

34 Mr Justin Untersteiner, ATO and Mr Kieran McLaughlin, Cushman and Wakefield, transcript of evidence, 15 March 2016, pp. 7-9.

35 ATO, submission 1, p. 12.

36 Mr Justin Untersteiner, ATO, transcript of evidence, 15 March 2016, p. 7 and ATO correspondence, dated 7 April 2016.

proposed expenditure is cost effective. As the project will not be revenue generating, the Committee makes no comment in relation to this matter.

Committee comments

- 2.43 The Committee did not identify any issues of concern with the ATO's proposal and is satisfied that the project has merit in terms of need, scope and cost.
- 2.44 With regard to the site selection for the new building, the integrity of the associated tender process and impacts to the local community, the Committee is satisfied that the ATO is committed to achieving optimal outcomes. The Committee notes that the ATO has a reputation of leadership and excellence in property portfolio management, and a sound track record in delivering projects, including fit-out works in Dandenong, Box Hill, Melbourne Docklands, Albury, Wollongong, Adelaide, Brisbane, Moonee Ponds and Chermside, as outlined by Mr Untersteiner at the public hearing.³⁷
- 2.45 Having regard to its role and responsibilities contained in the *Public Works Committee Act 1969*, the Committee is of the view that this project signifies value for money for the Commonwealth and constitutes a project which is fit for purpose, having regard to the established need.

Recommendation 1

- 2.46 **The Committee recommends that the House of Representatives resolve, pursuant to Section 18(7) of the *Public Works Committee Act 1969*, that it is expedient to carry out the following proposed work: fit-out of new leased premises for the Australian Taxation Office located in Gosford, NSW.**
- 2.47 Proponent agencies must notify the Committee of any changes to the project scope, time, cost, function or design. The Committee also requires that a post-implementation report be provided within three months of project completion. A report template can be found on the Committee's website.

37 Mr Justin Untersteiner, ATO, transcript of evidence, 15 March 2016, p. 2.

