

Proposed fit-out of new leased premises for the Department of Social Services, ACT

- 2.1 The Department of Social Services (DSS) seeks approval from the Public Works Committee (the Committee) to commence works on an integrated office fit-out of leased accommodation in a new building to be developed in the Australian Capital Territory (ACT). The size of the proposed fit-out is 30,400m².
- 2.2 DSS' National Office is currently housed in leased buildings in six locations in the ACT. The largest of these is the Tuggeranong Office Park (TOP) facility which comprises ten buildings totalling 33,045m² net lettable area. The lease on this facility expires on 5 December 2016.
- 2.3 DSS explained to the Committee that the project seeks less total floor space than it currently occupies because:

At the time we were going out to the request for proposals, in November last year, the administrative orders to change the arrangements of departments had already been made, so we were in what you might call a state of flux in terms of what the new department was going to look like and which people were going to be where and bringing them together. ... In practice, what we have ended up with is 30,400, which is at the lower end of that range. That is because, in the course of reviewing our requirements as a new Department of Social Services ... we had a significant body of people in Woden. ... Overall we will have 14,628 square metres that we have through an MOU with Health in Woden, and the balance, which is the 30,400, in this proposal. That is why it went down—because we ended up as a different department with different options for the location of staff, one of

which included using the existing premises that the former Department of Health and Ageing had.¹

- 2.4 DSS told the Committee that the need to identify future accommodation was initiated in response to the impending expiration of the TOP lease, deficiencies associated with the current accommodation, and broader property portfolio inefficiencies.
- 2.5 DSS has established an indicative budget of \$55.86 million (excluding GST) for the proposed fit-out of the new office accommodation. This budget includes provision for contingencies, cost escalation and associated professional fees.²
- 2.6 DSS will reduce its outlays on its main office accommodation in Tuggeranong by more than \$7 million per annum under the proposed arrangement:
- Over the initial term of the new lease this equates to more than \$100 million and, taking account of the up-front costs to government of \$26.8 million, this proposal will still yield over \$70 million [over the term of the lease] in savings compared to the cost of the current lease.³
- 2.7 The project was referred to the Committee on 3 June 2014.

Conduct of the inquiry

- 2.8 Following referral, the inquiry was publicised on the Committee's website and via media release.
- 2.9 The Committee received one submission and one confidential submission from DSS. The public submission to the inquiry is available on the Committee's website.⁴
- 2.10 The Committee visited the site of the proposed construction in Greenway, ACT on 18 July 2014. During the on-site visit representatives of DSS briefed the Committee on the project.
- 2.11 Following the on-site briefing, the Committee conducted a public hearing and an *in-camera* hearing in Parliament House. The transcript of the public hearing is available on the Committee's website.⁵

1 Mr Peter Broadhead, DSS, transcript of evidence, 18 July 2014, p. 5.

2 DSS, submission 1, p. 6.

3 Mr Steve Jennaway, DSS, transcript of evidence, 18 July 2014, p. 1.

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

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

Need for the works

2.12 DSS' property portfolio consists of 71,796m² across Australia comprising a National Office located in the ACT (56,796m²) with State and Territory Offices located in other capital cities (15,000m²). The National Office comprises six leased offices across the Tuggeranong and Woden districts in the ACT.

2.13 The largest of the ACT leases is the TOP lease which expires on 5 December 2016. At the public hearing, Mr Jennaway from DSS told the Committee that:

Our department does not have an option to do nothing. The lease for the department's current major premises in the ACT in Tuggeranong expires in December 2016. We cannot simply enter into a new lease for our existing building or another without first going to market. So we need to be pursuing the most cost-effective solution, taking into consideration the whole-of-life cost and the value for money based on the proposals received.⁶

2.14 DSS' search for suitable office accommodation post the expiration of the TOP lease is driven both by the impending expiry of the lease and by deficiencies associated with the current accommodation and broader property portfolio inefficiencies. To remain in the TOP facility, DSS would need to address a number of deficiencies, including:

- TOP does not comply with current codes and standards such as disabled access and the National Construction Code;
- The security provisions necessary to ensure TOP complies with the Australian Government Protective Security Policy Framework are inefficient, costly and difficult to manage and maintain;
- The expansive building layout physically separates internal work areas and is not conducive to staff interaction and cohesion in the workplace;
- TOP currently has an occupational density of approximately 15.72m² per occupied workpoint – currently the Government's occupational density target is 14m² per occupied workpoint;
- The TOP fit-out (internal design, furniture types and layout/configuration) does not provide flexibility to adapt to the ever changing nature of DSS without incurring significant costs;

6 Mr Steve Jennaway, DSS, transcript of evidence, 18 July 2014, p. 2.

- The TOP lease is a triple net lease which is the most expensive type of lease and requires the Commonwealth to pay costs more usually the responsibility of the lessor (e.g. rates, taxes and base building maintenance costs). The high cost associated with this lease affects the operational efficiency of the Department and is not consistent with market rates or the Commonwealth Property Management Guidelines;
- The TOP buildings are 23 years old and maintenance costs are payable by the Commonwealth under the triple net leasing arrangement. Significant repairs and maintenance are required, for example the deterioration of the roofs have caused multiple leaks and the essential plant and equipment is at the end of its economic life; and
- A policy objective of the Commonwealth is that the minimum requirement for leased accommodation (base building and fit-out) is a 4.5 star National Built Environment Rating System (NABERS) rating. Only two of the ten buildings at TOP are compliant with this policy.⁷

2.15 The Committee is satisfied that the need for the works exists.

DSS' preferred option

- 2.16 DSS told the Committee that it is seeking to provide its employees with an efficient and sustainable work environment which will meet the organisation's needs for the next 15 to 25 years.⁸
- 2.17 DSS wants to achieve co-location of ACT based staff in no more than two locations in Woden and Tuggeranong without incurring substantial financial penalties which would render any proposal economically unsound.
- 2.18 It also wants to provide "high quality, versatile, secure and flexible office accommodation for the Department".⁹
- 2.19 Recognising that it was not feasible to renew the existing lease for the reasons expressed above, DSS evaluated the following six options to determine the best value for money solution for its accommodation requirements beyond December 2016:
- Lease an existing building;
 - Lease a developer built building;

7 DSS, submission 1, pp. 8-9.

8 DSS, submission 1, p. 10.

9 DSS, submission 1, p. 11.

- Build Own Operate Transfer;
 - Design Build Operate;
 - Public Private Partnership; and
 - Hybrid Financing Model (formerly referred to as Private Finance Initiative).¹⁰
- 2.20 DSS decided that the most cost effective solution to pursue would be to lease an existing building or to lease a new building which a developer builds. DSS told the Committee that the Department of Finance endorsed this decision.¹¹
- 2.21 An open market Request for Expressions of Interest to supply suitable office accommodation received thirteen submissions of which four respondents were assessed as providing potentially viable solutions. The four were invited to submit details of their long term accommodation solutions for DSS.¹²
- 2.22 A total of nine options were submitted by the four shortlisted respondents. An evaluation of these submissions assessed each option against the predetermined, approved evaluation criteria and the preferred respondent was identified.¹³
- 2.23 The preferred option is to lease a developer-built building and seek approval to carry-out an integrated fit-out of 30,400m² of that building. It is proposed that DSS will be the sole occupant of the building which is adjacent to DSS' current accommodation at the TOP facility. This option would enable DSS to let go of its existing leases on Guilfoyle House, Holwell Street, Aviation House and Corinna Street.
- 2.24 The developer has a Crown Lease on the project site.¹⁴

Scope of the works

- 2.25 DSS will occupy the entire building comprising lower ground floor, ground floor and floors 1 to 5.
- 2.26 The scope of the proposed fit-out works includes:

10 DSS, submission 1, p. 6.

11 DSS, submission 1, p. 7.

12 DSS, submission 1, p. 7.

13 DSS, submission 1, p. 7.

14 DSS, submission 1, p. 12.

- Design and construction of services to be integrated with the base building works including electrical, mechanical, communications, security, fire and hydraulic services;
- Design and fit-out to conform to the Department's operational requirements including construction of the reception areas, general office fit-out and open plan work areas to comply with the occupational density target of 14m² per occupied workpoint and to standards commensurate with contemporary, modern Commonwealth office accommodation including:
 - ⇒ Auditorium complete with video conferencing and recording facilities;
 - ⇒ IT build/test rooms;
 - ⇒ Records Management;
 - ⇒ Library;
 - ⇒ Multi-purpose rooms including first aid, multi-faith, carers/feeding rooms;
 - ⇒ Secured legal services area (Fraud Team specifically);
 - ⇒ Mail room - design to follow minimum security requirements for mail scanning;
 - ⇒ Assessment Centre (variable capacity)
 - ⇒ Store/loading dock facility;
 - ⇒ IT warehouse;
 - ⇒ Breakout spaces, quiet rooms and casual meeting space;
 - ⇒ Communications room;
 - ⇒ Conference and training facilities;
 - ⇒ Dedicated First Aid room;
 - ⇒ Amenities areas;
 - ⇒ Kitchens;
 - ⇒ Social club; and
 - ⇒ Showers and lockers.
- Design and installation of security controls including a security alarm system, an electronic control system, door hardware and electronic access control at the main entrances, other entrances, exits, vehicle access points and internal areas with higher than normal security needs;
- A lighting control system to reduce energy consumption in tenant areas including the ability to automatically turn off lights in unoccupied

rooms and to provide reduced lighting levels when appropriate, such as reduced lighting levels for access after-hours. Some additional lighting will be provided as required in partitioned rooms;

- Data cabling throughout the tenant areas including phone and computer outlets at each workpoint. The cabling infrastructure will provide saturation cabling to in-ceiling consolidation points and be designed to cater for future capabilities in order to provide future flexibility and efficiency related to departmental needs;
- The building design and fit-out will enable the Department considerable flexibility to meet its ever-changing accommodation requirements.¹⁵

- 2.27 The fit-out will comply with all relevant requirements of the National Construction Code - Building Code of Australia (BCA) 2014 including Disability Access, ACT Planning and Land Management and relevant Australian Standards. It will also comply with the Protective Security Policy Framework and agency security requirements.¹⁶
- 2.28 The provision of ICT services provided in the base building will be integrated with the fit-out works.¹⁷
- 2.29 Fixed furniture and joinery items include fixed shelving, pigeon holes, utility room cupboards and benching, meeting rooms, benching, kitchen facilities, interaction benching and kitchenettes, shelving, sink units and storage cupboards. Loose furniture to offices, open workpoints and office support spaces including meeting rooms will be modular and flexible.¹⁸
- 2.30 DSS told the Committee that it is committed to Ecologically Sustainable Development (ESD) and the reduction of greenhouse gas emissions. The building's objective is to achieve best practice in sustainable design in accordance with the Environmental Efficiency in Government Operations (EEGO) policy. The Base Building will be designed to achieve a 5 Star NABERS energy rating and 5 star Green star as-built base building rating. The fit-out will achieve a minimum 4.5 Star NABERS energy rating and self-assessed 4.0 star Green star interiors rating.¹⁹
- 2.31 The design of both the base building and fit-out include exemplary equitable access provisions for persons with a disability in accordance

15 DSS, submission 1, pp. 14-15.

16 DSS, submission 1, p. 16.

17 DSS, submission 1, p. 19.

18 DSS, submission 1, p. 20.

19 DSS, submission 1, p. 21.

with the Disability Discrimination Act (DDA), the relevant technical requirements of the National Construction Code - Building Code of Australia, Access to Premises Standard (2010) and associated Australian Standards.²⁰

2.32 The Base Building and fit-out will comply with the requirements of the Work Health and Safety Act 2011 (Commonwealth) and Work Health and Safety Act 2011 (ACT).²¹

2.33 There are no known heritage issues that are required to be addressed in relation to this proposal.²²

2.34 At the public hearing the Committee asked DSS why it has reduced the number of square metres which it requires. Its initial request indicated that the net lettable area of the accommodation DSS was seeking was 38,000 square metres but the proposal in front of the committee is for 30,400 square metres. DSS was asked if the lesser amount would be sufficient to not only meet DSS' current needs but potentially future needs over the lease period.

2.35 DSS informed the Committee that due to uncertainties about future department size:

... we went out for 38,000 square metres plus or minus 20 per cent ... what we have ended up with is 30,400, which is at the lower end of that range. That is because, in the course of reviewing our requirements as a new Department of Social Services ... [w]e now have responsibility for ageing and aged care, which were previously with the Department of Health and Ageing. We chose to leave those people in Woden through striking a memorandum of understanding with the Department of Health to occupy three floors of the Sirius building in Woden. ... meeting the balance of our requirement in the redevelopment in Tuggeranong. Overall we will have 14,628 square metres that we have through an MOU with Health in Woden, and the balance, which is the 30,400, in this proposal. That is why it went down²³

2.36 The Committee finds that the proposed scope of works is suitable for the works to meet its purpose.

20 DSS, submission 1, p. 24.

21 DSS, submission 1, p. 25.

22 DSS, submission 1, p. 25.

23 Mr Peter Broadhead, DSS, transcript of evidence, 18 July 2014, p. 5.

Cost of the works

2.37 The estimated cost of the project is \$55.86 million, excluding GST. This budget includes provision for contingencies, cost escalation and associated professional fees. Funding for this initiative will be met, in part, from a lease incentive, with the balance to come from funds appropriated from DSS.²⁴ At the public hearing, Mr Jennaway told the Committee that:

... \$26.8 million has been provided from the government towards the fit-out, project management and other costs, and the remaining funds will be met through a lease incentive.²⁵

2.38 As mentioned above, DSS will reduce its outlays on its main office accommodation in Tuggeranong by more than \$7 million per annum under the proposed arrangement.²⁶

2.39 DSS will construct the fit-out concurrently with the base building as an integrated fit-out. This work will be undertaken on a cost-plus basis, DSS will pay competitively tendered prices for goods and services received and the developer will charge a percentage fee for management of the works.²⁷

2.40 In the public hearing the Committee noted that the cost per square metre is at the high end of the scale of what has come before it for fit-outs of Commonwealth offices over recent years. DSS told the Committee that the government has recently revised the occupational density target from an average of 16 m² per occupied work point to 14 m² and this increases the cost per square metre by 12.5 per cent. Mr Jennaway said:

... It does not actually increase the cost of the fit-out per person *per se*, but if we are looking per square metre it does increase that rate. In other words, had those previous projects been required to meet the higher density target, as this one needs to, the average would have been around \$1,930 per square metre. So the rate that we have put on the table for this project would be coming in some \$90 per square metre better than that.²⁸

2.41 DSS provided further detail on the project costs in its confidential submissions and during the *in-camera* hearing.

24 DSS, submission 1, p. 26.

25 Mr Steve Jennaway, DSS, transcript of evidence, 18 July 2014, p. 1.

26 Mr Steve Jennaway, DSS, transcript of evidence, 18 July 2014, p. 1.

27 DSS, submission 1, p. 26.

28 Mr Steve Jennaway, DSS, transcript of evidence, 18 July 2014, p. 2.

- 2.42 The Committee considers that the costs estimates for the project have been adequately assessed by DSS and the Committee is satisfied that the proposed expenditure is cost effective. As the project will not be revenue generating the Committee makes no comment in relation to this matter.

Other considerations

Staff Consultation

- 2.43 The Department of Social Services supports the Australian government in relation to programs that constitute more than a third of total Australian government outlays and it seeks:

... to provide the people who undertake this work with an efficient and sustainable work environment which meets the organisation's needs for the next 15 to 25 years.²⁹

- 2.44 DSS told the Committee that in order to ensure the project will deliver the most cost effective, functional and quality outcome within budget and program constraints, it's project team will engage with:

... the Work Health and Safety committee, Equity and Diversity representatives, Information Management and Technology Group, the Workplace Consultative Forum and the Executive Management Group.³⁰

- 2.45 DSS went on to say that:

The ability for the Department to provide a reasonable level of office accommodation, similar to other recent Commonwealth office accommodation, is an important factor in maintaining staff satisfaction and attracting skilled and experienced staff.³¹

Committee comments

- 2.46 The Committee accepts that the need exists for the Department of Social Services to find solutions to its impending lease expiration.
- 2.47 The Committee is satisfied that DSS followed due process comprising:
- open market Request for Expressions of Interest to supply suitable office accommodation;

29 Mr Steve Jennaway, DSS, transcript of evidence, 18 July 2014, p. 1.

30 DSS, submission 1, p. 29.

31 DSS, submission 1, p. 29.

- subsequent shortlisting of four of the 13 submissions, and
 - eventual identification of DSS' preferred option.
- 2.48 The Committee has noted that over the term of the proposed lease the Commonwealth will achieve approximately \$70 million in savings compared to the cost of DSS' current lease.
- 2.49 The Committee notes that the cost per square metre appears high compared to the range of Commonwealth fit-outs that the Committee has recently examined. However, DSS is using the Government's new density ratio for this project which means that the cost per square metre falls within the price range that the Committee considers to be acceptable, based on other recent Commonwealth fit-outs.
- 2.50 The Committee did not identify any issues of concern with the proposal and is satisfied that the project has merit in terms of need, scope and cost.
- 2.51 Proponent agencies must notify the Committee of any changes to the project scope, time and cost. The Committee also requires that a post-implementation report be provided within three months of completion of the project. A report template can be found on the Committee's website.
- 2.52 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

- 2.53 **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: Proposed fit-out of new leased premises for the Department of Social Services, ACT.**

