

Fit-out of existing leased premises for the Australian Taxation Office at 121-125 Henry Street, Penrith, NSW

- 2.1 The Australian Taxation Office (the ATO) seeks approval from the Committee to refurbish their currently leased premises at 121-125 Henry Street, Penrith, NSW.
- 2.2 The primary objectives of the project are to modernise the standard of accommodation and to meet current legislative and efficiency standards.¹
- 2.3 The estimated cost of the project is \$19.6 million, excluding GST.
- 2.4 The project was referred to the Committee on 17 June 2015.

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 two supplementary submissions 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 Sydney on 24 August 2015. A transcript of the public hearing and the public submissions to the inquiry are available on the Committee's website.²

1 ATO, submission 1, p. 5.

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

Need for the works

- 2.8 The building at 121-125 Henry Street, Penrith was purpose-built for the ATO in 1994 and has a net lettable area of approximately 14,476m².³
- 2.9 Due to a change in business function and operations, the ATO proposes to relinquish approximately 4,476m² of excess accommodation and undertake a new fit-out on a reduced footprint in accordance with the ATO fit-out brief and guidelines.⁴
- 2.10 This approach will upgrade the fit-out, which has been in place since 1994 and has reached its end of life. It will also increase occupancy densities to meet current occupancy standards.⁵
- 2.11 Whilst the building currently meets the Energy Efficiency in Government Operation (EEGO) policy of 4.5 star National Australian Built Environment Rating Scheme (NABERS) energy rating, the standard of accommodation and facilities is poor compared to modern accommodation. Once refurbished, the premises and fit-out are expected to exceed the minimum energy rating.⁶
- 2.12 At a private briefing the ATO showed the Committee a video of the existing fit-out. The video demonstrated the aged and somewhat dilapidated condition of the existing fit-out.
- 2.13 The Committee is satisfied that the need for the work exists.

Options considered

- 2.14 The ATO approached the market in early 2014 to find suitable lease proposals for new and existing lease development opportunities that were available in the Penrith central business district (CBD).⁷
- 2.15 After a lengthy assessment and evaluation process that was undertaken in line with Commonwealth Procurement Rules (CPRs), the procurement exercise was finalised in June 2014.⁸
- 2.16 An evaluation committee was established to consider final submissions, some of which were excluded due to:
- comparative cost of the proposals;
 - technical response levels of the proposals;
 - compliance to legal documentation; and

3 ATO, submission 1, p. 3.

4 ATO, submission 1, p. 3.

5 ATO, submission 1, pp. 3, 5.

6 ATO, submission 1, p. 5.

7 ATO, submission 1, p. 7.

8 ATO, submission 1, p. 7.

- compliance with ATO base building requirements.⁹

2.17 At the public hearing, the ATO explained why some proposals were not considered further:

As part of our approach to the market we issued a comprehensive set of documentation around building brief requirements and also a lease document and an agreement-for-lease document. When some proposals came back for evaluation either they had not comprehensively addressed the requirements of the lease or the agreement for the lease, or their position was not sufficiently compliant to be considered further.¹⁰

2.18 The remaining submitters were asked for formal proposals. These were assessed against essential criteria such as location, floor plate size, overall area, building quality, suitability for client operations, and indicative rental.¹¹

2.19 The evaluation methodology considered:

- a non-financial assessment of individual proposals that incorporated technical and non-technical matters (e.g. compliance to building specifications, building performance, efficiency of floor plate, commercial terms etc.). This was evaluated on a scale of one to ten and weighted across the various categories, with ten being the best and one being the lowest;
- a best value for money assessment taking into consideration both financial and non-financial aspects of both points above; and
- a comparative assessment of the financial terms of each proposal on a Net Present Value (NPV) basis. The underlying assumptions for the NPV analysis were:
 - it was considered appropriate to review the options based on a 15 year lease as this seemed most appropriate operationally;
 - car parking and storage were included in these requirements;
 - NPV analysis only includes lease payments, incentives and professional fees on fit-out and make good where required;
 - for NPV purposes, incentives were treated as cash inflows in the first year; and

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

10 Mr Domenico Di Luzio, DTZ, transcript of evidence, 24 August 2015, p. 7.

11 ATO, submission 1, pp. 7-8.

- NPV calculations based on the net lettable area supplied in the proposals.¹²
- 2.20 The ATO's preferred option was to remain at their current location at 121-125 Henry Street, Penrith.¹³
- 2.21 This proposal was considered the best value for money option and held significant advantage on a financial and non-financial basis with a higher score, including:
- current landlord with a good working relationship and understanding of the ATO's operational and business needs;
 - best whole of life cost and low risk option;
 - the facility was purpose built for the ATO and retains the advantages of large floorplates that provide flexibility and functionality for future ATO business needs;
 - opportunity to relinquish excess space through a managed refurbished and building upgrade consolidation program to deliver a modern ATO fit-out that meets current accommodation standards;
 - joint agreement to upgraded facilities, improve building performance and infrastructure that will generate savings in running and energy, security and cleaning costs in the long term; and
 - the provision of a long-term solution for the ATO's property requirements for the next 10-20 years.¹⁴
- 2.22 Noting that the ATO was approaching the end of its lease, the Committee suggested during the public hearing that an alternative option might be for the ATO to extend the existing lease while constructing another building. The ATO responded:
- That could potentially be an outcome, but what we can say is that through the tender process that [option] did not represent the best value for money for the Commonwealth.¹⁵
- 2.23 The Committee found that the ATO has considered multiple options to deliver the project and has selected the most suitable option.

12 ATO, submission 1, pp. 7-8.

13 ATO, submission 1, p. 8.

14 ATO, submission 1, p. 8.

15 Mr Justin Untersteiner, ATO, transcript of evidence, 24 August 2015, p. 8.

Scope of the works

- 2.24 The works to be undertaken by the ATO are both architectural and service related, including:
- compliance with disability discrimination legislation, notwithstanding that the building is an existing structure constructed more than 20 years ago;
 - acoustic provisions will be made for workstations, offices and meeting room and breakout areas;
 - existing workstations will be replaced with 120 degree workstations under ATO's contract with their incumbent supplier;
 - the existing computer room will be relocated to level 6; and
 - modifications to the mechanical services (fire, mechanical) will be required due to the reconfiguration of the floors including re cabling, rewiring, new power and data.¹⁶
- 2.25 The fit-out design is predominantly open plan with modular workstations supported by enhanced meeting area capacity, breakout areas and support facilities. The offices and meeting areas are modular and fully interchangeable as business requirements dictate.
- tenant fit-out above base building will be undertaken to conform to the ATO's operational requirements including security. These include 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;
 - supplementation of the base building fire services where required as a result of the fit-out works to ensure compliance with relevant codes. These services include additional exit lights, fire detection and sprinkler supplementation as necessary. Highly sensitive fire detection equipment will be installed in the computer rooms;
 - architectural designed office accommodation including construction of reception areas, a security alarm system, an electronic control system, general office fit-out and open plan work areas;
 - standardised office sizes of:
 - 30 m²; and
 - 15 m².
 - generic workstations;

¹⁶ ATO, submission 1, p. 12.

- wherever possible, offices and meeting rooms to be constructed in the central cores so as not to limit natural light from external windows;
 - breakout spaces, quiet rooms and casual meeting space;
 - computer rooms built to specification;
 - storage facilities;
 - conference and training facilities;
 - first aid rooms; and
 - amenities areas;
 - kitchens;
 - showers and lockers; and
 - secure areas (to conform to ASIO T4).¹⁷
- 2.26 Independently of the fit-out described above, the building owner will undertake a substantial upgrade to the base building services and facilities to modernise the building.¹⁸ All refurbishment works undertaken by the building owner will be carried out after hours ensuring no disruption to ATO staff.¹⁹
- 2.27 At the public hearing, the ATO noted that managing both works in tandem will minimise costs and delay.²⁰
- 2.28 Noting that Penrith experiences extreme heat during summer months, the Committee queried which strategies the ATO had in place to reduce the amount of direct sunlight onto the building. The ATO responded:
- In terms of the internal fit-out, we do have multiple levels of blinds. We have complete block out blinds and then we have blinds that are more transparent that do take out the edge of the sun.²¹
- 2.29 With respect to the building's external façade, the ATO commented:
- ...Some changes to the glazing, which will create a certain level of protection. As a part of the refurbishment [undertaken by the building owner], they have also been installing fins onto the outside of facade of the building.²²

17 ATO, submission 1, pp. 12-13.

18 ATO, submission 1, p. 5.

19 ATO, submission 1, p. 12.

20 Mr Justin Untersteiner, ATO, transcript of evidence, 24 August 2015, p. 10.

21 Mr Justin Untersteiner, ATO, transcript of evidence, 24 August 2015, p. 6.

22 Mr Justin Untersteiner, ATO, transcript of evidence, 24 August 2015, p. 7.

Indigenous contracts

2.30 The Committee queried the ATO's performance in awarding contracts to Indigenous-owned businesses, in relation to Commonwealth targets. The ATO told the Committee that it is committed to increasing the number of contracts awarded to Indigenous-owned businesses:²³

The ATO is performing very well on that target. I would like to highlight that we did work with the Department of the Prime Minister and Cabinet in the development of those targets. The ATO had a strategy to support Indigenous businesses well before the target was in play. We have now signed a number of significant contracts in the property and construction space. Also, we have a broader strategy across the ATO looking at a whole range of services. We have had a lot of success last year, and we are continuing that success this year. We are confident that we will be able to meet those targets and exceed those targets.²⁴

Similar works

2.31 At the public hearing, the Committee sought information on the outcome of similar projects conducted in Box Hill, Victoria and Chermside, Queensland. The ATO responded:

We have a comprehensive blueprint – as you could call it – for our fit-outs, which between every project we refine and refine. That allows us to reduce costs and increase quality. We also understand what works with staff and what does not work. On the two recent projects that you mentioned, Chermside is probably the most relevant as it was a refurbishment of an older building which is similar to this fit-out. The result was very good. The fit-out is now complete and has been delivered to a really high quality, again also delivering some of those other factors that we mentioned before like environmental performance and [occupational] density. So we are confident based on our experience in those projects that we will be able to do the same here in Penrith, especially considering the refurbishment of Chermside. Prior to that, going back a few years, we also refurbished the Moonee Ponds fit-out – again a very aged fit-out and, again, we have a lot of success in that fit-out.²⁵

23 Mr Justin Untersteiner, ATO, transcript of evidence, 24 August 2015, p. 1.

24 Mr Justin Untersteiner, ATO, transcript of evidence, 24 August 2015, p. 4.

25 Mr Justin Untersteiner, ATO, transcript of evidence, 24 August 2015, p. 10.

- 2.32 Subject to Parliamentary approval of the project, work is expected to commence as soon as possible to be completed in March 2016.²⁶
- 2.33 The Committee finds that the proposed scope of works is suitable for the works to meet its purpose.

Cost of the works

- 2.34 The estimated cost of the project is \$19.6 million, excluding GST. This equates to a square metre rate of \$1,436 (excluding GST and non-construction-related costs).
- 2.35 At the public hearing, the ATO confirmed that reducing the amount of excess space would result in cost-savings.²⁷ Additionally, upgrades to the building management systems will deliver both energy and cost efficiencies.²⁸
- 2.36 The ATO provided further detail on the project costs in the confidential submission and during the in-camera hearing.
- 2.37 The Committee considers that the cost estimates for the project have been adequately assessed by the ATO and is satisfied that the proposed expenditure is cost effective.
- 2.38 As the project will not be revenue generating the Committee makes no comment in relation to this matter.

Committee comments

- 2.39 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.
- 2.40 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 completion of the project. A report template can be found on the Committee's website.
- 2.41 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.

26 ATO, submission 1, p. 21.

27 Mr Justin Untersteiner, ATO, transcript of evidence, 24 August 2015, p. 7.

28 Mr Justin Untersteiner, ATO, transcript of evidence, 24 August 2015, p. 10.

Recommendation 1

- 2.42 **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 existing leased premises for the Australian Taxation Office at 121-125 Henry Street, Penrith, NSW.**

