



Australian Government
Department of Finance

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Dr Alison Clegg
Secretary
Parliamentary Standing Committee on Public Works
Department of the House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Dr Clegg

Department of Finance - One Canberra Avenue Proposal

I refer to the Committee's hearing on Finance's One Canberra Avenue Proposal on 13 February 2015 and the questions from the Committee provided by the Secretariat on 16 February 2015.

The following information is provided in response to the matters raised by the Committee:

What was the discount rate used for all the different options when calculating net present values?

Finance applied a discount rate of 6.5 per cent to determine net present values across all options.

Refer to the Table in Attachment A – Cost Benefit Analysis titled – “Costs to Department of Finance and Whole of Government” - the column titled “WoG costs – Funds leaving the General Government Sector (2014-15 to 2018-19)”. Row three of the column states that the net present value (NPV) of the costs for refurbishment of JGB are \$232 million. The final column of row three states that the estimated NPV of Commonwealth owned assets as at 2014-15 is \$110 million. Can you confirm that this \$110 million is included in the \$232 million figure - even though the column heading says “Funds leaving the General Government Sector”?

The \$110 million NPV of the John Gorton Building is not included in the nominal \$232 million cost figure. This is because the \$232 million represents the initial 5 years cash flow of capital works (\$220 million) and net property operational cash flows (\$12 million) that leaves the General Government Sector (2014-15 to 2018-19).

The \$110 million NPV represents the estimated residual value, in 2037-38, of the John Gorton building (\$19.3 million land and \$90.7 million building) if the capital works are undertaken.

Further to the previous question, it is presumed that not all of the \$232 million will be depreciated by 2037-38, and that there will be some value left. Can you confirm that this residual value is included in the analysis and provide a step through of how it has been included?

It is estimated that following the capital works, and with anticipated rental revenue streams, that in 2037-38, the John Gorton Building will have a value of \$110 million (\$19.3 million land and \$90.7 million building).

Does the Commonwealth own the RBA buildings in the capital cities?

The Reserve Bank of Australia has advised that it owns buildings in Sydney, Melbourne and Canberra, and that it has leases for tenancies in other locations.

Clarification of the \$60 million that the project will cost the Department (not upfront) and the logic behind it [Ms Frost undertook to clarify this].

I wrote to the Chair of the Committee on 17 February 2015 to clarify this matter.

During the course of the hearing, Finance officers noted some further matters on which the Committee sought information:

The Committee sought a copy of the *Commonwealth Property Management Guidelines*. These were emailed directly to the Secretariat on 19 February 2015.

The Committee requested a digital copy of the Cost Benefit Analysis. This was emailed directly to the Secretariat on 18 February 2015.

The Committee sought information on what proportion of the APS in Canberra occupied A-grade office tenancies.

To put this information in context, the Property Council of Australia classifies properties into Premium, A-grade, B-grade and C-grade categories. It is important to note the classification relates to the characteristics of the building, and not to the fit-out. There are a large number of factors which determine the grade classification for a building, with the two most important being:

- a minimum NABERS 4.5 star rating requirement which allows tenants to reduce energy and other costs. For example, in moving from its existing B-grade buildings to One Canberra Avenue, Finance's annual electricity cost for the relevant tenancies would reduce from \$426,000 to an estimated \$143,000; and
- floor plates that allow tenants to maximize work-point density and provide for a flexible fit-out to reduce the cost of any future modifications.

In the Australian Capital Territory there are 81* Commonwealth office leases comparable to Finance's and larger (i.e. over 5,000 square metres), 37 of which are for A-grade tenancies. By area, these 37 tenancies account for 52 per cent of the total area across the 81 tenancies. Of note, agencies are currently paying between \$461 and \$535 per square metre in comparative A-grade tenancies in Canberra, versus the ██████ per square metre being offered in the One Canberra Avenue proposal.

(*The remaining 116 leases vary significantly in purpose, size, age and quality)

I trust this additional information is of assistance. Please contact Steve O'Loughlin directly on (02) 6215 2757 if you have any further questions.

Yours sincerely

Jenet Connell
Deputy Secretary
Chief Operating Officer

19th February 2015