

Issues and Conclusions

Amendment to the Statement of Evidence

3.1 The following amendment to the department's Statement of Evidence was tendered during the Public Hearing held on 11 May 2007:

Delete:

21. *The raw PSC for the proposal is \$1.2 billion (1 July 2007, NPV) including professional fees, design, buildings, infrastructure, design, servicing of the facilities, maintenance and construction contingency but excluding Goods and Services Tax.*

Insert:

21. *The estimated total cost for the proposal, including the raw PSC, is \$1.2 billion (1 July 2007) including professional fees, design, buildings, infrastructure, design, servicing of the facilities, maintenance and construction contingency but excluding Goods and Services Tax.¹*

- 3.2 The following amendment to the department's Statement of Evidence was received subsequent to the Public Hearing on 11 May 2007:

Delete:

7. *A subsequent submission to Government sought funding to address the issue and as part of the 2004-2005 Budget the Government announced Project Single Living Environment and Accommodation Precinct (LEAP) to remediate up to 6,400 permanent rooms nationwide.*

Insert:

7. *A subsequent submission to Government sought funding to address the issue and as part of the 2004-2005 Budget the Government announced Project Single Living Environment and Accommodation Precinct (LEAP) to remediate up to 6,400 permanent rooms nationwide. This 6,400 permanent rooms does not include any of the 381 training rooms which will now be remediated under a separate program.²*

The Project Objectives

- 3.3 In proposing the works associated with Project Single LEAP Phase 2, Defence discussed the importance of a quality living environment as a contributor to defence capabilities, particularly since it impacted on the readiness, mobility, morale and *esprit de corps* of personnel that in turn had a direct effect on recruitment and retention rates.³
- 3.4 The current proposal that delivers a total of 3,535 single accommodation units builds on works associated with Project Single LEAP Phase 1 that delivered some 1,395 permanent units at the highest priority Defence establishments at Holsworthy, NSW, Gallipoli Barracks and RAAF Base Amberley in Queensland.⁴

2 Letter to Committee Chair from Brigadier W.T.B Sowry, Director General Strategic Infrastructure Projects, dated 15 May 2007

3 Appendix D, Official Transcript of Evidence, 11 May 2007, p. 3-4

4 Project Single LEAP Phase 1, *ibid.*, Recommendation 5

Need

- 3.5 The need for this project has arisen in considerable part from a lack of maintenance of the Defence estate, the general age of the buildings, and the unlikelihood of there being sufficient funding from the Major Capital Facilities Program to restore buildings to an appropriate standard.⁵
- 3.6 Prior to being brought together under the Program Single LEAP concept, Defence undertook a review of the condition of the Defence estate. The report published as a result of that of the review, *"A Review of Accommodation Arrangements for ADF Members without Dependents"* found that over 25,400 rooms did not meet building standards, and many were in locations inappropriate for residential purposes.⁶
- 3.7 The Committee heard that the review was undertaken "in-house" by Defence raising a concern as to how objective or transparent a review of this kind, which potentially could result in considerable tax-payer investment, would be.⁷
- 3.8 When pressed, Defence responded that the reason for the review being undertaken by the department was that the people responsible for managing the estate – the regional managers – were in the best position to advise the department on its overall condition, and what needed to be done to provide an acceptable standard of accommodation.⁸
- 3.9 However, the Committee was of the view that in the interests of transparency and objectivity, Defence considers the outsourcing of reviews to external building surveyors to conduct any future reviews of the Defence estate.

Recommendation 1

The Committee recommends that in the interests of transparency and objectivity Defence consider engaging external building surveyors in any future reviews that need to be undertaken of the Defence estate.

5 Appendix C, Submission No. 1, paragraph 24. See also paragraph 2.9 and 2.10 above.

6 *ibid.*, paragraph 4

7 Appendix D, Official Transcript of Evidence, page 5

8 *loc. cit.*

- 3.10 That the Defence estate has been allowed run down is an ongoing concern, having been previously considered by the Committee in other Inquiries.⁹ In the context of the present proposal, Defence stated:

As you would appreciate, the upkeep of the defence estate has suffered over recent years due to major capability requirements competing for and winning the lion's share of defence capability funding. Defence believes that, subject to value for money considerations, the PPP approach to delivering accommodation services of this nature is appropriate and will ensure that the integrity of these facilities will be maintained over the 30-year life of the contract.¹⁰

- 3.11 Notwithstanding that Defence acknowledges that the defence estate has experienced a lack of maintenance expenditure, the outcome is to involve the Commonwealth in a significant financial commitment to redress the situation. In terms of the current proposal this will include the demolition of buildings that have deteriorated to an extent that they are no longer redeemable and the major refurbishment of others.
- 3.12 Should Defence determine on the basis of market testing that the delivery of Project Single LEAP Phase 2 will proceed as a PPP, maintenance works for whole-of-life will be delivered under those arrangements; however this ought not to diminish the need for Defence to initiate an appropriate level of planning for monitoring maintenance works for the proposed project.

Recommendation 2

The Committee recommends that Defence consider initiating a plan for monitoring maintenance works on a whole-of-life basis for Project Single LEAP Phase 2.

Occupancy

- 3.13 The Committee questioned whether the number of rooms assessed by "*A Review of Accommodation Arrangements for ADF Members without Dependents*" as being subject to refurbishment or replacement could be sustained, particularly if viewed in the context of the total numbers of

9 See for example: Parliamentary Standing Committee on Public Works Report – Lavarack Redevelopment Stage 4, Townsville, Queensland, Recommendation 1

10 Appendix D, Official Transcript of Evidence, page 3

ADF members. Referring to the department's Statement of Evidence, the Committee observed that the total number of rooms identified for refurbishment or replacement would cater for around 50 percent of the total numbers of the ADF establishment.¹¹

- 3.14 Defence responded that the review was an audit of the entire Defence estate, and that it would not be possible to refurbish/redevelop all of Defence accommodation much of which had now become surplus. Currently the Army establishment is around 27,000 members and not all accommodation is required.¹²
- 3.15 As to whether Defence could assure the Committee that in terms of the current requirement of 3,535 rooms this represented an accurate portrayal of the actual needs of Defence, the department responded that as recently as the 3rd of May there were approximately 8,000 members in "on-base" accommodation that translated to an occupancy rate of around 80 to 90 percent.¹³
- 3.16 The Committee was interested in the cost to the Commonwealth of vacant rooms and whether projections of what accommodation is needed have been undertaken by Defence.¹⁴
- 3.17 At the Hearing, Defence was unable to provide information regarding the cost to the Commonwealth of maintaining vacant rooms.¹⁵ Subsequently it informed the Committee that these costs were born by Defence but did not attach a figure to those costs. Similarly no details were provided by the department in a written request for supplementary information on accommodation projections.

Recommendation 3

The Committee recommends that Defence place a dollar value on the liability to the Commonwealth of vacant accommodation, other than those rooms declared surplus, and that it undertake a review of projected accommodation requirements and provide these details to the Committee.

11 *ibid.*, page 14

12 *op.cit.*

13 *ibid.*, page 14

14 *loc. cit.*

15 *ibid.*, page 15

Project Scope

- 3.18 As previously mentioned the scope of Project Single LEAP Phase 2 will deliver over 3,500 units at seventeen bases in each Australian mainland State and Territory at LIA 5 standard, that will involve the demolition and replacement of existing buildings and potentially the refurbishment and redevelopment of others.
- 3.19 The Committee referred to the Randwick site inspection, noting that several buildings identified for demolition were in sound condition, and enquired whether these could be reused as part of the current project.¹⁶
- 3.20 Defence responded to the effect that those buildings were constructed to a different standard, specifically Level 3 accommodation, which is apparently significantly different to Level 5 accommodation proposed to be provided under Single LEAP Phase 2. Notwithstanding the structural soundness of these building, Defence informed the Committee that the variation in area between the respective standards was unsustainable, which was the reason they had been earmarked for demolition.¹⁷
- 3.21 However, the Committee heard that the final decision regarding either demolition or the refurbishment of existing buildings would be one left to the successful tenderer. It was explained that:

In going through the site selection process we have identified accommodation units that may well be redundant at the moment because of operations requirements...We have then gone through and reviewed the condition of those buildings and done a pre-feasibility assessment. We have determined that it may well be suitable and cost effective for the market to renovate those buildings rather than build new ones...So what we are proposing, through the request for proposal documentation and in making the sites available, is to say that these buildings are available at the bidders initiative to see if they wish to renovate those and provide a 30-year whole-of-life solution or, alternatively, if they wish to work out from their own cost-effective investigations whether they would prefer to demolish and rebuild. So we will effectively be making it, at their discretion, an option to work out what is the most cost-effective way of delivering that whole-of-life accommodation solution.¹⁸

16 loc. cit.

17 loc. cit.

18 *ibid.*, page 10

- 3.22 Having explained this, the Committee had continuing reservations as to the merit of demolishing structurally sound buildings of relatively recent vintage that did not meet, or were at variance with, current LIA standards.
- 3.23 Subsequently, Defence provided the Committee with a feasibility study undertaken by Sinclair Knight Mertz relating to the provision of other ranks LIA at Robertson Barracks, in the Northern Territory. The report compared the cost of refurbishing existing Level 3 accommodation up to Level 5 standard, and the replacement of existing for new Level 5 accommodation. According to the study replacement of buildings would leave the Commonwealth \$4 million worse off.

Recommendation 4

The Committee recommends that Defence consider undertaking similar studies to that undertaken at Robertson Barracks for all other sites.

Recommendation 5

As the decision relating to the refurbishment or demolition of buildings will reside with the successful tenderer, the Committee recommends that in due course Defence provide details of the number of buildings to be refurbished and the number to be demolished at all sites.

The Tender Scope, Penalties and Disputes

- 3.24 Having regard to the flexibility of the scope of the project, the Committee was interested in whether bidders for the project had a similar degree of flexibility to provide for inclusions that were not mandated in the tender document.
- 3.25 Defence responded that flexibility exists for tenderers to be innovative within their bids and that this might include cost savings in construction or amenities that had not been anticipated. According to the department bidders were expected to comply with the tender documentation; if they were able to offer options beyond the tender that added value to the bid these would be considered as part of the tender evaluation process.
- 3.26 On the matter of penalties for non-compliance with the terms of the tender, the department informed the Committee that an abatement regime is applied where the successful contractor fails to meet the output

specifications of the tender. This can result in a heavy fine for non-performance, delays in delivery, and other failures by the contractor to meet his obligations.

- 3.27 According to Defence if there was a dispute, the abatement regime came into play and if it was found that there were legitimate reasons, or the abatement was unfair, the contractor would be recompensed for the amount abated.

Public Interest Test

- 3.28 Notwithstanding that the delivery of the project as a PPP is yet to be tested, a public interest test is an important consideration in determining the validity of the business case for a PPP, value for money considerations, and for providing a measure of the impact of the project on the public interest. As the literature notes:

The agency's duty of care to the public and the impact of any delivery option on the public must be considered, especially on those stakeholders identified as being directly affected by the project.¹⁹

- 3.29 In making a public interest assessment, the proponent agency in assessing value for money should have regard to:

- social and economic impact of the project – social benefits, design functionality, environment;
- political impacts – regulatory issues, government policy, public debate;
- organisational impacts – structure, change management, human resources, cultural changes; and
- operational impacts – service delivery, synergy, sustainability and technology.²⁰

- 3.30 Some of these criteria may have an impact on the PSC, particularly where community concerns might need to be addressed at some point in the future of the project development. However, the Committee was not privy to whether Defence had undertaken a public interest assessment of the project, and is unaware of how these issues may have figured in reaching a determination as the validity of the business case for the project to proceed as a PPP.

19 *ibid.*, paragraph 6.2.10

20 *ibid.*, paragraph 6.2.12

- 3.31 According to the Defence submission, because all works proposed will be undertaken on base, no adverse impact on local communities is anticipated.²¹
- 3.32 However, it is apparent from submissions received by the Committee from local Shires and Councils there are a number of concerns that Defence will need to resolve in order to meet the social and economic impact criteria of the project, particularly as these relate to the impact of the project on the local community. These are set out in the following paragraphs.
- 3.33 The Committee spoke at some length about the concerns raised by Randwick City Council on the impact of the proposed development at Randwick Barracks, noting particularly a number of issues that included:
- the population density of the proposed development that when occupied by Defence, would be proportionately higher than the estimated density of Randwick currently 3,227 persons per square kilometre, and higher than the Sydney metropolitan area that is currently estimated at 329 persons per square kilometre;²²
 - the impact of increased traffic volumes on surrounding roads;²³
 - a number of outstanding issues regarding soil contamination;²⁴ and
 - the need for Defence to resolve drainage issues as part of the planned drainage system for the adjoining Bundock Street site, having regard to ESD principles in the design works.²⁵
- 3.34 While the Committee noted the preparedness for Defence to enter into dialogue with the Council, further discussion needs to take place on the issue of population density. Notwithstanding that Defence believes that the eventual population of the site is not an issue, from the Council perspective it is a matter of ongoing concern.
- 3.35 Council, in expressing appreciation for the promptness with which Defence initiated a meeting with council officers, also sought assurances from Defence that it would continue to be consulted, particularly having

21 Appendix C, Submission No. 1, paragraph 75

22 *Volume of Submissions*, Submission No. 4

23 *ibid.* See also Parliamentary Standing Committee on Public Works, First Report of 2004, Site Remediation and Construction of Infrastructure for the Defence Site at Randwick Barracks Sydney, NSW – Interim Report, paragraphs 3.78 – 3.84

24 *ibid.*, paragraph 3.13 – 3.17

25 Randwick Shire Council, Supplementary Correspondence, dated 10 May, 2007

regard for the need to synchronise any future site works with infrastructure works being undertaken by Council.²⁶

Recommendation 6

The Committee recommends that Defence continue its dialogue with Randwick City Council to resolve outstanding issues, including Council concern over the population density following occupancy of the site by ADF members; the removal of soil contamination; drainage issues, and the impact of the development on traffic.

- 3.36 The Committee noted that Mr Gerry Wood, MLA also raised concerns associated with increased road traffic related to Robertson Barracks in the Northern Territory. While this issue is longstanding, Defence has, according to Mr Wood, been unresponsive to requests from the Litchfield Shire Council and the NT Government to build a road that would reduce traffic volumes through residential areas, notwithstanding the offer of equal funding from the government and the Shire.²⁷
- 3.37 Defence have subsequently responded to the matters raised by Mr Wood. Defence informed the Committee that the issues associated with traffic arrangements in proximity to Robertson Barracks was currently the subject of correspondence between the Minister for Defence, and the Senator for the Northern Territory, Senator Nigel Scullion.²⁸
- 3.38 The Committee noted Annex II of the department's Statement of Evidence indicating the various Councils and Shires scheduled for consultation, and would be interested in Defence providing details of the scope of those consultations and the issues of concern to these agencies. The Committee also believes that these consultations should take place as soon as practicable.

26 *ibid.*

27 *Volume of Submissions*, Submission No. 2

28 *ibid.*, Submission No. 5

Recommendation 7

The Committee recommends that Defence initiate consultations with local government agencies as soon as practicable to resolve any outstanding issues that may effect the viability of Project Single LEAP Phase 2 and inform the Committee of the outcome of those consultations.

- 3.39 The Committee only passing evidence that Defence had given attention to government policy and the operational impacts of the project, which includes sustainability, particularly in the context of water conservation issues. The Committee noted that many of the bases identified as being the subject of new accommodation are in parts of Australia that have concerns regarding sustainable water resources.²⁹
- 3.40 Defence did not convince the Committee that it had applied a degree of rigour in addressing the issue of water resources that was both a political imperative, as well as having a potential bearing on the sustainability of the project in the long-term.
- 3.41 In responding to a query from the Committee on this issue during the Confidential Hearing, Defence indicated that a new version of the Building Code of Australia will shortly be released that will be incorporated into the project.
- 3.42 To the extent that many of the sites to be developed under this project will add to the existing on base population, the Committee is concerned that with an increased demand on the water infrastructure, the Building Code of Australia used in isolation, will not fully address water sustainability issues.
- 3.43 It may be that Defence needs to give consideration to providing water conservation measures that might need to include the construction of dedicated reservoirs so to reduce the demand on the water infrastructure of local communities.
- 3.44 The Committee's concerns were echoed in The City of Salisbury submission that drew its attention to the need for the proposed accommodation at RAAF Base Edinburgh to apply water sustainable management practices. The Submission stated:

The City of Salisbury is regarded as a world leader in the application of sustainable water practices and as such believes that

the project scope [LEAP Phase 2] should be enhanced by making specific reference to the need to incorporate water sustainability principles.³⁰

- 3.45 In responding to the concerns of The City of Salisbury little comfort can be taken from the comments of Defence which notes only that the department's environment management systems incorporates a sustainable water management strategy to guide water usage practices.³¹
- 3.46 The Committee was of the view that consultation on water related issues needs to be more committed and broader, not be limited to local government authorities, and should be undertaken against the background of the Committee of Australian Government (COAG) Agreement on the National Water Initiative.

Recommendation 8

Against a background of nation-wide concern in relation to water conservation, the Committee recommends that Defence consult with appropriate Federal and State Government water authorities to obtain guidance as to the best means of providing sustainable water supplies at bases located in rural and regional Australia to take into account State and Federal water policies.

Service-wide Consultations

- 3.47 The Committee, continuing the theme of consultation, noted that it was only a few years ago that it was having discussions with Defence and Defence Housing about preferences in accommodation and how many ADF personnel like to live off-base, not on base.³²
- 3.48 In the context of the current project, the Committee was interested in the extent of consultation that had taken place, the spread of that consultation particularly whether it involved both rank-and-file members, or was limited to officers, and if those consulted had been able to express an opinion for living on or off base.³³

30 *Volume of Submissions*, Submission No. 3

31 *ibid.*, Submission No. 6

32 Appendix D, Official Transcript of Evidence, page 5

33 *loc. cit*

- 3.49 Defence in responding, indicated that members accommodation was a policy consideration. Project Single LEAP was an on base accommodation project directed towards ADF members required to live on base whether for operational reasons or training reasons, or in the case of Defence having a *loco parentis* responsibility for those recruits under the age of 18. Defence stated that notwithstanding the criteria for on base living, there had been a comprehensive process over time to give on base members feedback on the design of the rooms and how they wish to live in them.³⁴
- 3.50 The Committee also heard that Defence:
- ...has conducted a focus group with the Federation Guard...to reconfirm that what [we] are providing is going to meet what we anticipate to be an enduring need over the 30-year life of the project. So part of this is trying to future-proof the design so that what [we] have now is largely what would be acceptable in 15 years time, not only to the soldiers themselves but to the community, with its expectations of how our people should be housed.³⁵
- 3.51 The Committee also raised the issue of the lack of storage facilities attached to accommodation, referring specifically to Campbell Barracks in Western Australia. Defence responded that this has been addressed in the project design as a result of both consultation with ADF members, and drawing on overseas reviews of the design of single accommodation.³⁶

Value for Money Considerations

- 3.52 Value for money is a fundamental outcome for an Australian Government project. It is the measure that is paramount in securing government approval to take the project to tender and contract close.³⁷
- 3.53 In addition to value for money considerations based on a public interest assessment, the proponent agency should also have regard to a number of variables that include:
- capital cost;
 - inflation;

34 *ibid.*, page 6

35 *loc. cit.*

36 *ibid.*, page 7

37 Department of Finance, Public Private Partnerships, Business Case Development, May 2005, paragraph 6.2.12

- discount rates;
- operating maintenance and other cost categories; and
- third party revenue.³⁸

- 3.54 The Committee was not convinced that the construction of 650 accommodation units and the proposed demolition of 148 structurally sound buildings at Randwick Barracks represented value for money.³⁹
- 3.55 The Committee had difficulty in accepting the Defence argument that it was prepared to demolish units, sell off some of Randwick Barracks as part of a previous proposal, and then build 650 accommodation units on a smaller area.⁴⁰
- 3.56 In the Committee's view not only did this proposed course of action go to the heart of the concerns expressed by Randwick City Council relating to population density in the Randwick area and its effect on infrastructure services, but it did not represent the best use of Randwick Barracks.⁴¹
- 3.57 Potentially there is an opportunity for savings to the Commonwealth if the Randwick Barracks site was used more efficiently. The Committee highlighted that the demolition of structurally sound building was a cost to the Commonwealth, and that if buildings of relatively recent age and structurally sound were demolished because they did not comply with a particular standard, Defence needed to satisfy the Committee that works of this nature were in fact reflective of value for money.⁴²

Recommendation 9

The Committee recommends that Defence review the proposed works at Randwick Barracks to achieve greater value for money through more efficient use of existing buildings over demolition, and consider withdrawing land from possible sale, and that the Committee be informed of the outcome of this review.

38 loc.cit.

39 Appendix D, Official Transcript of Evidence, page 20

40 *ibid.*, page 16

41 loc. cit

42 *ibid.*, page 17

Heritage Issues

3.58 The Committee sought comments from Defence as to whether the department had taken into account heritage issues that may arise in the course of delivering the project.⁴³

3.59 Defence stated in reply that:

On the sites we are occupying there are some buildings that have some heritage value, but generally speaking the assessment by our environmental heritage and risk branch is that, given the sites and the relatively low nature of their heritage status...those buildings could largely be demolished.⁴⁴

3.60 During site inspections Committee members noted, and Defence confirmed, that there were heritage buildings at Edinburgh and Larrakeyah Barracks in the Northern Territory which are the subject of assessment. According to Defence:

If need be, representative examples will be retained according to the assessment that is finally made by the environmental and risk branch.⁴⁵

Recommendation 10

With respect to heritage preservation assessments undertaken by Defence, the Committee recommends that these be verified by the Department of Environment and Water Resources.

Probity

3.61 The Committee sought clarification on the issue of probity, particularly whether Defence is able to obtain assurances that there was no opportunity for collusive tendering amongst bidders for the project, or that no bidder had a relationship with any business associated with the preparation of the public sector comparator, or more importantly with the risk adjusted PSC.

43 *ibid.*, page 10

44 *loc. cit.*

45 *ibid.*, page 11

- 3.62 In responding Defence explained the process followed by the department. According to Defence:

The Australian Government Solicitor provides probity advice and support to the project. All of the bidders tendering for Phase 2 Single LEAP will be required to submit confidential agreements and to disclose any interests they may have. If they fail to do so, the RFP will be quite clear that they would be excluded from continuing the tendering process. Similarly Defence's consultants to the project are bound by confidential agreements with Defence to protect our interests and their interests.⁴⁶

- 3.63 Further, the Committee sought clarification that risk modelling associated with the risk adjusted PSC was a joint exercise between the Defence's financial advisors (KPMG) and the department. Defence acknowledged this was so, noting that such a comprehensive risk-modelling process required experts that were unavailable from within the department.

- 3.64 Defence informed the Committee that as in the circumstances relating to potential project bidders, confidentiality agreements are in place between Defence and its advisers. In the case of a business like KPMG that had a wide client base some of whom might be bidders for the project, KPMG was bound by a confidential agreement not to disclose what Defence was doing.⁴⁷

Project Delivery

- 3.65 The method of delivery is not as yet determined. Although the department leans toward the delivery of the works as a public private partnership, Defence states in its Statement of Evidence that:

In accordance with Government direction Project Single LEAP Phase 2, due to its size, should be tested for its suitability for delivery under a PPP. However, the selected delivery method will be determined by comparison of the estimated cost of the traditional procurement option, represented by the Reference Project and the PSC, with the PPP options offered by the private sector, to determine the best value for money solution for the Commonwealth.⁴⁸

46 *ibid.*, page 8

47 *ibid.*, page 13

48 Appendix C, Submission No. 1, paragraphs 19, 20 and 28

Recommendation 11

The Committee recommends it be informed when the preferred funding method for the delivery of this project has been finalised.

The Public Sector Comparator

3.66 The Committee sought further details on the methodology relating to a non-financial scoring mechanism for comparing bidders against the public sector comparator.⁴⁹

3.67 Defence informed the Committee that as part of the early stages for assessing bids for the project, the process focussed on the technical quality aspects of the bid, rather than on price. It was explained that the reason for this was that it was an opportunity to make an assessment of the bid in terms of design and construction, whole-of-life maintenance, and financial, legal and commercial issues. A “score” is attached to each of those features of the bid, so that a value for money outcome can be achieved for the Commonwealth. According to Defence:

The individual tender evaluation working groups that are evaluating the bidders are not swayed by seeing prices. The technical merit is the focus. That is what delivers scores. The process means that we get a very clean view of the technical merit of the bids and then we see the value for money outcome and the Commonwealth then makes a cost-benefit analysis of technical merit versus price.⁵⁰

3.68 When asked by the Committee as to whether Defence was satisfied that the way it had arrived at the PSC was the best possible, and that the figure arrived at as the “raw” PSC was accurate, the department responded that the PSC, is based on best industry standard. Referring to Project Single LEAP Phase 1, Defence stated that the spread of bids which were both above and below the PSC provided a solid indicator of the accuracy of the final figure for that project.⁵¹

49 Appendix D, Official Transcript of Evidence, page 8

50 loc. cit

51 *ibid.*, page 9

Project Costs

3.69 The Committee is concerned that it was not made privy to the whole-of-cost of this proposal at the time of the Inquiry. The raw PSC does not include an allocation of risk, (the risk adjusted PSC) making it difficult to determine value for money implications that is a key element in evaluating the project, or to make any sort of comparison between traditional procurement options and project delivery by way of a PPP. As the literature notes:

It is important that the PSC is a fair and equitable reflection of direct public sector procurement and that it addresses the project scope, and all associated risks, at the required performance Levels. It must also be structured to enable comparison to the private sector bids and robust enough to defend value for money decisions made on the basis of this comparison in the Request for Tender Stage.⁵²

3.70 While Defence have offered the Committee a confidential briefing on the final risk adjusted PSC during the final business case preparation that will be completed by approximately mid-2008, such a brief will be after the event.

Recommendation 12

The Committee recommends that Defence provide a briefing to the Committee on the final costs of this project, including the risk adjusted PSC as soon as practicable.

3.71 The Committee has been asked to recommend the proposal proceed at an estimated raw PSC of \$1.2 billion, that does not take into account an estimate of allocated risk, or additional potential costs associated with an assessment of measures arising from the public interest test.

52 Public Private Partnerships, Business Case Development, Department of Finance and Administration, May 2005, paragraph 6.2.5

Recommendation 13

The Committee recommends that subject to the relevant Minister being satisfied as to the overall cost of the project, and that the project represents value for money, the works proceed.

The Hon Judi Moylan, MP

Chair

20 June 2007