

Fitout of Tuggeranong Office Park, Greenway, ACT

- 3.1 The fitout of leased premises at Tuggeranong Office Park (TOP) is proposed to provide office accommodation for the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA). The estimated cost of the project is \$29.8 million (including GST).¹
- 3.2 The project was referred to the Committee on 4 June 2009.

Conduct of the inquiry

- 3.3 The inquiry was advertised in local and national newspapers and submissions sought from those with a direct interest in the project. The Committee received two submissions and one confidential supplementary submission detailing the project costs. A list of submissions can be found at Appendix A.
- 3.4 The Committee undertook a site inspection on 4 August 2009 followed by a public hearing and an in-camera hearing on the project costs. A list of witnesses can be found at Appendix B.
- 3.5 The transcript of the public hearing as well as submissions to the inquiry are detailed on the Committee's website. Plans for the proposed works are

¹ The full cost of the projects is discussed below.

detailed in Submission 1: Department of Families, Housing, Community Services and Indigenous Affairs.²

Need for works

- 3.6 The FaHCSIA submission states that the works are needed to:
- provide accommodation to an appropriate standard for staff;
 - consolidate existing leases and co-locate staff currently located across eight sites (including TOP);
 - mitigate a range of high-risk occupational health and safety building issues;
 - demonstrate the highest level of disability access standards;
 - improve physical security in line with government standards.³
- 3.7 At the site inspection, FaHCSIA noted that it employed a high number of people with disabilities and the site currently does not meet appropriate standards. The Committee observed this at the site inspection and agrees that there is significant need for the premises to be brought up to standard.
- 3.8 Therefore, the Committee finds that there is a need for the proposed works.

Scope of works

- 3.9 The proposed scope of works is detailed in Submission 1: FaHSCIA. In short, the project will provide:
- base building works, including:
 - ⇒ lift upgrades;
 - ⇒ removal of hazardous materials; extension of handrails, upgrading stairs to comply with access standards, extend balustrade and panels to terrace and balcony openings;

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

3 Submission 1, FaHCSIA, p. 9

- ⇒ replace Building Management System; upgrade Data Centre diesel generator controls; replace and upgrade chiller controls and refrigerant monitoring system and water treatment system;
- ⇒ replacement of emergency and exit light fittings; and
- ⇒ replacement of fire and smoke detectors and signage to comply with current regulations.
- tenancy upgrades, including:
 - ⇒ upgrade of the mechanical system to provide better environmental performance through replacement of sheathed ducting, rectifying leaks, additional temperature sensors and improvement in room design to make use of natural light;
 - ⇒ electrical and hydraulic services upgrade;
 - ⇒ provisions for people with disabilities and compliance with the Draft Disability (Access to Premises – Buildings) Standards, which will include reconfiguring doorways, toilets and kitchens.
- office fitout including:
 - ⇒ internal fitout of blocks A, B and C⁴, retaining workstations, partitions and storage units where possible;
 - ⇒ sub-floor structural support;
 - ⇒ new floor finishes and paint; and
 - ⇒ upgrading mechanical, electrical, hydraulic and fire services.⁵

Additional works

3.10 In addition to the proposed works, a range of other works have been undertaken at TOP, namely:

- Block A minor fitout project to ... accommodate staff who relocated from three expiring leases in Canberra in August 2008;
- Replacement of the obsolete and failing Electronic Access Control System at TOP;
- Replacement of the obsolete Fire Indicator Panel for TOP;
- Fitout of 6,450 square metres of office space in Block E to accommodate information management and technology staff relocating from four expiring leases in Canberra by 29 June 2009; and

4 Works at Block D and E have been undertaken separately.

5 Submission 1: FaHCSIA, pp. 22-28.

- Fitout of 6,484 square metres of office space in Block D to accommodate staff relocating from a large Woden lease in 2010.⁶
- 3.11 The notification of these works is discussed below.
- 3.12 At the site inspection, the Committee noted the poor condition of some parts of the site, including the poor access arrangements for people with disabilities. The Committee is pleased to note that the planned works will significantly improve the amenity for people with disabilities.
- 3.13 The Committee finds that the proposed scope of works is suitable to meet the stated need for the project.

Cost of works

- 3.14 The total cost of the proposed works is scheduled to be \$29.8 million, including GST. The Committee received a confidential submission detailing the project costs and held an in-camera hearing with FaHCSIA on the detailed project costs.
- 3.15 The Committee commends FaHCSIA for the quality of the cost summary submitted as part of this inquiry.
- 3.16 However, additional works were completed without notification to the Committee as outlined above. In total, \$15.205 million worth of additional works have either been commenced or completed. Therefore, the total cost of works at TOP for FaCHSIA is in the order of \$45 million.

Lease period and obligations

- 3.17 These fitout works refer to a lease period of seven years. The short lease has arisen due to the sale of TOP and the continued tenancy of FaHCSIA as a condition of the sale. The leasing arrangement negotiated as part of this sale placed significant fitout responsibilities on FaHCSIA. The Committee was told:

The building was privately financed with the Commonwealth guaranteeing a rental stream for investors for seventeen years under the terms of a lease known in the industry as a 'triple net lease', after which the building would be sold with proceeds returning to the Government. The original lessee was with the

6 Submission 1, FaCHSIA, p. 5

Department of Social Security, which subsequently split to become Centrelink and FaHCSIA. Centrelink managed the facility on behalf of the Commonwealth until it relocated to the Caroline Chisholm Centre in May 2008. At this time, FaHCSIA assumed responsibility for the management of the complex.

A trust deed with a sinking fund provided for a \$30 million refurbishment in 2001, by the then owner, TOP Pty Ltd. The refurbishment was subject to there being sufficient monies in the sinking fund after liabilities to the bond holders were extinguished. TOP Pty Ltd, in July 2006, advised that the funds were not available for the refurbishment. FaHCSIA understands that the shortfall in the value of the sinking fund was a trigger for the sale of the building.

The building was sold in June 2008 with the similar sub-lease arrangements to those previously in place, but excluding the requirement for the new owners to undertake the \$30 million refurbishment of the facility.

Under the conditions of the sale of TOP to the Cromwell Group, FaHCSIA as the current tenant was required to enter into a new eight and a half year sub-lease for the premises, based on similar triple net lease terms.

The sub-lease details are summarised as follows:

- Sub-lease commencement - 30 June 2008
- Sub-lease expiry - 5 December 2016
- Rental, Outgoings, Repairs and Maintenance Costs and Responsibilities - The lease requires that the tenant effectively assumes the normal 'building owner' responsibilities for statutory and operating outgoings, maintenance, building management and major repair expenditure for the premises in addition to paying the rent. Under the lease the building owner only has responsibility to replace certain assets once they are no longer economically repairable.⁷

3.18 FaHCSIA noted that:

The cash flows that we worked with assumed a substantial incentive from the market, if we went to the market in 2016. One of the reasons to select the option for the current way forward was that we would access the market at maximum market

7 Submission 1, FaCHSIA, p. 11

participation for any future property acquisition, including the option to stay at TOP, long term.⁸

- 3.19 The Department of Finance and Deregulation (Finance) confirmed that the sinking fund was used to pay investors rather than fund building refurbishment. Finance also confirmed that this arrangement was put in place when TOP Pty Ltd was established in 1988.⁹
- 3.20 The Committee has serious concerns that the sale negotiations have left FaHCSIA in an untenable position in regards to funding necessary fitout works. Nonetheless, FaHCSIA did provide independent evidence that the cost plan had been assessed to be reasonable in the current construction environment. The Committee also notes that the fitout cost per m² is lower than average and received assurances that furniture and fittings would be reused wherever possible to reduce costs.
- 3.21 The Committee acknowledges that FaHCSIA has little control over the terms of its lease due to the building sale conditions and is thus required to undertake a range of works under the terms of its lease. In addition, the Committee acknowledges that there are savings to be made with the consolidation of existing leases.
- 3.22 The Committee is satisfied that the cost plans for the project as presented to it and discussed at the in-camera hearing are adequate.

Project issues

Works completed without approval

- 3.23 In May 2009, FaHCSIA notified the Committee that a number of 'early works' had already been completed. Some of these works were relatively minor and therefore fall under the threshold for individual notification to the Committee, namely:
- minor fitout works at Block A in August 2008 at a total cost of \$1.02 million;
 - replacement of the electronic access control system at a total cost of \$670 000.

8 Mr J. Rogers, FaHCSIA, *Proof Transcript of Evidence*, 4 August 2009, p. 5

9 Correspondence, Department of Finance and Deregulation, received 21 August 2009.

- replacement of the fire indicator panel at a total cost of \$285 000.¹⁰
- 3.24 Two packages of works were also commenced that require individual notification to the Committee as 'medium works', namely:
- fitout of 6450 square metres of office space in Block E at a total cost of \$7.22 million;
 - fitout of 6848 square metres of office space at Block D at a total cost of \$6.01 million.¹¹
- 3.25 The Committee was not notified of these works until 20 May 2009. Although the delivery of these works was appropriate to manage various leases ending, these works should not have commenced without the approval of the Committee as 'medium works'.
- 3.26 The Committee acknowledges that FaHCSIA has disclosed the failure to provide appropriate notification on the public record:
- FaHCSIA acknowledge that formal notification should have been provided to the Public Works Committee at the time of Commissions Block E in July 2008. FaHCSIA has taken steps to ensure that it has a clearer understanding of our responsibilities to notify the Public Works Committee of such projects.¹²
- 3.27 Nonetheless, the additional works completed without the appropriate parliamentary approvals are a matter of serious concern for the Committee, particularly as the works already completed form part of the fitout of TOP as referred to this Committee.
- 3.28 The Committee considers that the failure to notify it of these works represents a lack of awareness in agencies of their obligations in relation to the Public Works Committee.
- 3.29 The Committee is aware that the Department of Finance and Deregulation (Finance) is in regular contact with all government agencies regarding the requirements of the Act and that both Finance and the committee secretariat are available to provide advice to agencies whenever required.
- 3.30 The Committee has since received further notifications of medium works being undertaken by FaHCSIA and is satisfied that FaHCSIA is now aware of its obligations to the Committee.

10 Submission 1, FaHCSIA, p. 5

11 Submission 1, FaHCSIA, p. 5

12 Submission 1, FaHCSIA, p. 6

- 3.31 However, the Committee also notes that the failure to notify it of works occurs on occasion for those agencies which only undertake capital works irregularly, largely due to the loss of corporate knowledge that occurs with staff turnover.
- 3.32 Therefore, the Committee is recommending that FaHCSIA document its procedures for notifying 'medium works' to the Public Works Committee and provide these procedures to Finance for circulation as it deems appropriate in order to assist other agencies to avoid breaching the Committee's Act and procedures.
- 3.33 The Committee encourages FaHCSIA to liaise with the committee secretariat on the development of these procedures and requests to be provided with the procedures once finalised.

Recommendation 2

The Committee recommends that the Department of Families, Housing, Community Services and Indigenous Affairs document procedures for notifying 'medium works' to the Public Works Committee and provide these to the Department of Finance and Deregulation for circulation as appropriate.

Environmental standards

- 3.34 All commonwealth agencies have an obligation to undertake building fitout to a 4.5 star rating under the National Australian Built Environment Rating System (NABERS). Agencies are also required to meet the requirements of the Energy Efficiency in Government Operations (EEGO) policy.
- 3.35 FaHCSIA told the Committee that given the short lease period, it may be difficult to reach the 4.5 star rating on Block E, which contains the Centrelink Data Centre, but the rating would be met in all other areas of TOP.¹³
- 3.36 The Committee notes that FaHCSIA is working closely with the Department of Environment, Heritage, Water and the Arts and has every intention to comply with these standards.

13 Mr J. Rogers, FaHCSIA, *Proof Transcript of Evidence*, 4 August 2009, p. 8

3.37 In addition to fitout standards required under NABERS and EEGO, FaHCSIA is implementing the following:

- The establishment of a rainwater collection system for the artificial river which runs between the east and west wings of the buildings. The current system is supplemented with potable water from the main water supply which increases costs to FaHCSIA and is not an efficient use of this resource;
- The establishment of improved waste management and recycling systems including the installation of a green waste composting facility.
- Improved monitoring of the diesel storage tank systems which service the Centrelink Data Centre power generation systems to protect the Murrumbidgee Corridor and catchments;
- Other water recycling and reduction measures including the waterless urinals, low water using shower heads, dishwashers, faucets and grey water recycling for the grounds maintenance where cost effective; and
- Reuse of existing furniture and partitioning where appropriate.¹⁴

3.38 In particular, the Committee commends FaHCSIA for the significant number of rainwater tanks being installed at TOP. The site hosts an artificial river which is currently serviced by potable water. The tanks will allow this river as well as other grounds maintenance to be serviced with grey water. Including the cost of installation, savings are expected to be in the order of \$30 000 to \$40 000 per year.¹⁵

3.39 The Committee is extremely pleased to see the use of rainwater tanks as part of this fitout, particularly given the limitations related to the lease payback period placed on FaHCSIA as discussed above. In this regard, the Committee considers that FaHCSIA is setting an example that other agencies should be working towards.

Committee comment

3.40 Overall, the Committee is satisfied that this project has merit in terms of need, scope and cost. The Committee is satisfied that FaHCSIA is responding appropriately to the need to provide improved working conditions for staff balanced with the short term of the building lease.

14 Submission 1, FaHCSIA, p. 17

15 Mr J. Rogers, FaHCSIA, *Proof Transcript of Evidence*, 4 August 2009, p. 8-9

- 3.41 Having examined the purpose, need, use, revenue and public value of the work, the Committee considers that it is expedient that the proposed works proceed.

Recommendation 3

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: fitout of leased premises at Tuggeranong Office Park, Greenway, ACT.

Senator the Hon Jan McLucas
Chair
10 September 2009