

Extension of budget and timeline to the proposed fit-out of Commonwealth Parliamentary offices at 1 Bligh Street, Sydney, NSW

- 2.1 The proposed fit-out of Commonwealth Parliamentary offices (CPO) at 1 Bligh Street, Sydney, NSW was referred to the Committee in March 2012. The Department of Finance and Deregulation (DoFD) was the proponent agency.¹
- 2.2 The project proposed to design and fit out office space that provides flexible, fit for purpose accommodation.
- 2.3 This extension of budget and timeline seeks to increase the project budget and the project completion date.

Original referral (2012)

- 2.4 The project was originally referred to the Committee on 22 March 2012, with a cost estimate of \$21 million, excluding GST.
- 2.5 Construction of the project was scheduled to be completed by 30 November 2012, with occupancy to commence from 14 December 2012.²
- 2.6 The Committee reported on the project in Report 3/2012, tabled on 25 June 2012. In this report, the Committee accepted the need for the

1 The original submissions, public hearing transcript and report from 2012, and the public hearing transcript from 21 March 2013 are available on the Committee's website: <www.aph.gov.au/pwc>

2 DoFD, Submission 1 (2012), p. 23.

project, the suitability of the scope, and the adequacy of the costings provided. The Committee recommended expediency for the project.³

Extension of budget and timeline

- 2.7 In mid-2012, DoFD notified the Committee of an increase to the project cost estimate. DoFD provided a private briefing to the Committee in August 2012 on this matter.
- 2.8 In early 2013, DoFD notified the Committee of further changes to the project. The cost estimate was increased to \$25.45 million.⁴ The project timeline was also extended, with practical completion expected by 31 May 2013, and relocation to take place from 2 June 2013.⁵
- 2.9 The Committee conducted public and in-camera hearings with DoFD on 21 March 2013 in Canberra. The public hearing was advertised on the Committee's website and in a media release. The transcript of the public hearing is available on the Committee's website.⁶
- 2.10 The Committee conducted an inspection at 1 Bligh Street, Sydney, on 22 April 2013.

Project issues

- 2.11 The cost increases were due to three interrelated issues: inadequate design preparation, insufficient contingency and the timing of the referral.
- 2.12 At the time of referral, DoFD had no design for the project, and no advisors.⁷ DoFD publicly acknowledged this:
- No, there was no design done. Drawings were available of the existing building; the issue was the design of the actual fit-out itself. That is what we are talking about. There was nothing designed; we had no design.⁸
- 2.13 Although DoFD was able to make some assessments of the modifications required for the fitout, the agency based the cost estimate on historic data of other fitouts.⁹

3 Report 3/2012, p. 35.

4 Mr G. Miles, DoFD, *transcript of evidence*, 21 March 2013, p. 1.

5 Mr G. Miles, DoFD, *transcript of evidence*, 21 March 2013, p. 6.

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

7 Mr T. Marinovich, DoFD, *transcript of evidence*, 21 March 2013, p. 3.

8 Mr T. Marinovich, DoFD, *transcript of evidence*, 21 March 2013, p. 3.

9 Mr T. Marinovich, DoFD, *transcript of evidence*, 21 March 2013, p. 3.

2.14 However, given the lack of a recent comparative project to draw assumptions from, project uncertainties remained:

Obviously, we made allowances for the sorts of things that we expected – additional security, additional acoustics et cetera – but without any input from any consultants because we did not have any consultants on board at that stage. Effectively, we had to put some factors in to cover that.

Since then we have had consultants engaged and we have had detailed designs done. ... until the architect was appointed and worked out the way that all the fit-out was going to work, then we could put in the overlays of security and ICT.¹⁰

2.15 These acoustic security and data provisions, only specified when the project design progressed, were significantly more extensive and complex than initially projected.¹¹

2.16 The level of contingency in the project cost estimate proved insufficient to cover these issues. Although DoFD believed that its contingency was adequate at the time of referral, it acknowledged that as the design developed, the contingency was inadequate.¹²

2.17 The contingency in the original project was larger than would be considered normal, due to the project uncertainties:

... when we did our initial budget we based it on a corporate fit-out. We factored in additional allowances for the special type of wall construction for this job and the additional security requirements. But knowing that there would be other factors – and this was without knowing what they were – we put more contingency on than we normally do. Normally at that point we might have a 10 per cent contingency, I think our contingency was more like 15 per cent. Obviously, as it has turned out the contingency should have been higher.¹³

2.18 Despite agreeing that the project was at an early stage at the time of referral, DoFD stated that it had no choice but to refer when it did:

Unfortunately, we had no alternative. One of the drivers in all this is our big client group, which is senators and members of parliament. We got agreement that we needed to move the CPO and 1 Bligh Street was one of the places we looked at. It came on

10 Mr T. Marinovich, DoFD, *transcript of evidence*, 21 March 2013, p. 3.

11 Mr G. Miles, DoFD, *transcript of evidence*, 21 March 2013, p. 1.

12 Mr T. Marinovich, DoFD, *transcript of evidence*, 21 March 2013, p. 4.

13 Mr T. Marinovich, DoFD, *transcript of evidence*, 21 March 2013, p. 5.

the market and some fairly senior people in the government looked at it and said, 'This will work.' We had to move very quickly to snare a lease in the building. Contrary to some misreporting in the media, it certainly was not penthouse accommodation. We were very keen to grab the three lowest floors we could in the building. So we needed to enter into a leasing arrangement. Then we thought, 'How long do we have to do this?' We thought, '2013 is an election year and there is no way you can be moving people in a CPO during an election.' So we had to make sure we had people in no later than the first half of 2013. Working back from that and taking into account all the things which had to take place and all the procurements which had to be made, we really had no alternative other than to go to PWC as soon as we could.¹⁴

- 2.19 Further, DoFD stated that its desire to sign a lease for 1 Bligh Street and refer the project at that time impacted on the development of the project:
- ... it might have been nice if we had more time to prepare, but we did not, otherwise we would have lost the opportunity [to obtain the lease on the property]¹⁵

Committee comment

- 2.20 The Committee accepts that the project design was at an early stage at the time of referral. However, the Committee trusted that DoFD had incorporated this risk into the contingency and cost estimate for the project.
- 2.21 The Committee acknowledges that security and IT are fast-changing areas. Had the design been progressed further prior to referral, and expert advice been sought, these issues may have been better addressed. These factors may have enabled DoFD to have more certainty in the design, contingency and cost estimate.
- 2.22 The Committee is concerned that DoFD referred the project at an early stage because of timing considerations. The Committee notes that delays to the project mean that it is taking place in an election year, despite DoFD trying to avoid this with an earlier referral.
- 2.23 Further, the Committee understands that the unanticipated complexity of the design has led to the delays in the project delivery timeline.

14 Mr G. Miles, DoFD, *transcript of evidence*, 21 March 2013, p. 2.

15 Mr G. Miles, DoFD, *transcript of evidence*, 21 March 2013, p. 4.

Final Committee comment

- 2.24 At the time of the initial inquiry, the Committee was satisfied that the costings for the project had been adequately assessed by the proponent agency. The Committee took DoFD at its word regarding the preparation of the project and its assessment of the project risk and uncertainties.
- 2.25 The Committee is concerned that proponent agencies may not clearly enunciate project risks and uncertainties during inquiries. This impedes the Committee's ability to assess the project.
- 2.26 The Committee considers that DoFD referred this project too early. The Committee acknowledges that the parliamentary sitting calendar affects the timing of referrals, reports and expediency motions, and thus the duration of inquiries. However, it is not acceptable to bring projects to the Committee early to meet parliamentary, leasing or other timeline milestones, if this significantly compromises other aspects of the project, such as cost and risk assessments.
- 2.27 The Committee is concerned that projects may be referred too early for this reason, and that this may increase the risks associated with the project or compromise other elements of the project.
- 2.28 The Committee expects that DoFD, and all future proponent agencies, incorporate expert advice in the development of projects, particularly for projects with complex technical requirements. The Committee also expects DoFD to be better prepared for future projects and to bring projects at a stage that has a greater degree of certainty (or to clearly inform the Committee of uncertainties).
- 2.29 The Committee notes that DoFD delivers projects for other agencies (such as the post-entry quarantine facility in Chapter 3) because of its financial and project management experience and capabilities. As such, the Committee places great trust in DoFD's ability to deliver projects. The Committee is concerned that DoFD did not seek the appropriate expertise in preparing this project. In the future, DoFD must clearly demonstrate its project delivery expertise.
- 2.30 The Committee accepts the extension of budget and timeline to this project.
- 2.31 The Committee requires that a post-implementation report be provided on completion of the project. A template for the report can be found on the Committee's website.

