

Fitout and External Works, Anzac Park West, Parkes, ACT

- 2.1 The fitout of Anzac Park West (APW), Parkes ACT, proposes to upgrade and refurbish office accommodation to house the Department of Defence (Defence). The project is being delivered by the Department of Finance and Deregulation (Finance). The total cost of this proposal is \$45.5 million.¹
- 2.2 The proposal was referred to the Committee on 14 May 2009.

Conduct of the inquiry

- 2.3 The inquiry was advertised in local and national newspapers and submissions sought from those with a direct interest in the project. The Committee received three submissions and two confidential supplementary submissions. A list of submissions can be found at Appendix A.
- 2.4 The Committee undertook a site inspection, public hearing and an in-camera hearing on the project costs on 4 August 2009 in Canberra.
- 2.5 The transcript of the public hearing as well as the submissions to the inquiry are available on the Committee's website.² Plans for the proposed works are detailed in Submission 1: Department of Finance and Deregulation (Finance).

1 Monies already expended on the project are discussed later in the chapter.

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

Background

- 2.6 The Committee has been charged with considering the works before it, being the fitout of Anzac Park West for the Department of Defence. However, significant expenditure has already been undertaken on base building works, so the Committee has also considered the work in this context.
- 2.7 Anzac Park West (APW) is considered a significant building in the parliamentary triangle. It and Anzac Park East (APE):
- Were constructed in the mid 1960s and were occupied by a number of Commonwealth departments and agencies until 1999 when both buildings ... were mothballed.³
- 2.8 The buildings were first referred to the Public Works Committee on 26 May 2004 with a proposal to fitout APW for the Australian Federal Police (AFP) and refurbish APE with view to identifying a Commonwealth tenant.
- 2.9 The referral was rescinded by the House of Representatives on the grounds of urgency on 24 June 2004. Base building work was subsequently completed at APW at a cost of \$48.3 million in December 2006.⁴
- 2.10 As a result of organisational growth in the AFP, it was determined that both APW and APE would be unsuitable to meet new requirements of the AFP. However, the AFP commenced paying rent on APW in July 2007 although with no intention to occupy the building.
- 2.11 In June 2008 the AFP sought and received approval from this Committee to commence fitting out the Edmund Barton Building in Barton, ACT. However, the AFP was still liable for the rent over APW and at the time of that inquiry and the Committee was told that the AFP was in active negotiations with Finance to be released from its lease.⁵ This occurred in December 2008 with Defence agreeing to lease APW.
- 2.12 In the course of this inquiry, the Committee raised the question as to why a private tenant could not be sourced. Finance told the Committee that not only are APW and APE heritage listed, but they are also 'embedded in the

3 Submission 1, Department of Finance and Deregulation (Finance), p. 3

4 Submission 1, Finance, p. 3

5 See the Public Works Committee *Report 9/2008: Referrals tabled June to September 2008*

National Capital Plan [and are] designated as 'Commonwealth purposes', so only Commonwealth tenants can occupy these buildings.'⁶

- 2.13 While this does pose some difficulties for Finance in engaging appropriate tenants, the Committee remains concerned about the length of time these buildings have been vacant, particularly given the heavy concentration of Commonwealth departments in Canberra.
- 2.14 The prolonged vacancy of APE and APW is an unacceptable state of affairs. The Committee acknowledges that a devolved property management environment means that the Property and Construction Division of Finance may not always be aware of agency movements. However, it remains incumbent on Finance to be more proactive in pursuing tenants for Commonwealth buildings.
- 2.15 Nonetheless, the Committee is pleased that APW will soon be occupied.

Need for works

- 2.16 The Finance submission states that the need for the work is to:
- address an existing Defence accommodation shortfall; and
 - consolidate existing small, separate Defence leases.
- 2.17 In evidence, Defence confirmed that the site would provide:
- efficiencies for us from people working together and being able to reduce the need for cars and shuttles and other transport. It is more efficient for us because we are not trying to work together spread out over 12 little sites.⁷
- 2.18 In consideration of the stated need for Defence to meet existing accommodation shortfall and the need for APW to be occupied, the Committee finds that there is need for the proposed works.

Scope of works

- 2.19 The proposed scope of the works is detailed in Submission 1: Finance. In short the project proposes the following:

6 Mr R. Scott-Murphy, Finance, *Proof Transcript of Evidence*, 4 August 2009, p. 12

7 Mr M. Healy, Department of Defence, *Proof Transcript of Evidence*, 4 August 2009, p. 4

- fit-out works comprising:
 - ⇒ office accommodation for approximately 900 people;
 - ⇒ meeting spaces, conference and training rooms;
 - ⇒ ancillary spaces, including reception and customer service areas; security, mail, print, and computer server facilities; prayer, carer and parent rooms; first aid room; ablutions; break-out and tea areas; gym/wellness centre; bike store and storage.
- external works comprising:
 - ⇒ civil works, including car park, driveway and associated security and traffic control measures;
 - ⇒ landscaping, including gardens, outdoor break-out space, paths, ramps and handrails;
 - ⇒ limited base building refurbishment of the pavilion building, which is located on the grounds but not included in the Defence lease.⁸

2.20 The bulk of base building works were completed in December 2006 under the fitout agreement for the AFP. The building currently consists of:

- approximately 15 000m² of A-grade commercial office accommodation;
- an environmentally sustainable base building designed with a 4.5 star National Australian Built Environmental Rating System (NABERS) energy rating;
- 150 secure car parks; and
- 150 tenant car parks.⁹

2.21 The Committee inspected the building on 4 August 2009 and noted that a number of cosmetic base building works were to be completed and was told that these would be completed subject to tenant design requirements.

2.22 In addition to the main building, the site contains a pavilion that has previously been used as a restaurant and a staff canteen. The pavilion is not included in the Defence lease and Finance is seeking separate tenant lease the building, suggesting its possible use as a childcare centre.¹⁰

2.23 The Committee did not have the to opportunity to inspect the pavilion, but was told that it is in a state of disrepair. This proposal includes some

8 Submission 1, Finance, pp. 11-13

9 Submission 1, Finance, pp. 4

10 Submission 1, Finance, p. 13

limited base building works with the aim of finding a tenant who will be responsible for fitout costs.¹¹

2.24 At the hearing in August 2009, Finance stated:

Under our proposal to this committee we are seeking authority to refurbish the Pavilion building even though it is not part of the lease or memorandum of agreement between Defence and Finance. Our purpose is to again achieve an appropriate return on that asset for the Australian taxpayer. We are involved in negotiations at the moment with prospective tenants or licensees so that we could get occupation of a refurbished Pavilion building to the benefit of the local staff and community.¹²

2.25 Further to the public hearing, the Committee was made aware that Finance has identified a prospective tenant, but at the time of this report, was not able to place any details on the public record. The Committee requests to be kept informed about the future development regarding this building.

2.26 The Committee finds that the proposed scope of works is suitable to meet the stated need for the project.

Cost of works

2.27 The total estimated out-turn cost of the project before the Committee is \$45.5 million (including GST). The tenancy fitout will be funded by Defence at an estimated cost of \$38 million and Finance will fund the remaining \$7.5 million for base building, car park and the pavilion works.¹³

2.28 However, the following additional costs have been, or will also be, incurred:

- base building works completed in December 2006 at a cost of \$48.3 million as budgeted in 2006, discussed above; and
- active information and communications technology (ICT) infrastructure at a cost of \$7.4 million, funded by Defence.

11 Submission 1, Finance, pp. 13

12 Mr R. Scott-Murphy, Finance, *Proof Transcript of Evidence*, 4 August 2009, p. 14

13 Submission 1, Finance, p. 18

- 2.29 Therefore the total cost of works to fitout APW is in the order of \$101.2 million.
- 2.30 Whilst active ICT is not strictly a 'work' under section 5 of the Act, the Committee is disappointed that these works were not included in the overall budget with which it was presented. The Committee concedes, however, that there are a number of items associated with office fitout proposals that do not fall under the definition of a 'work' under the Act, such as active ICT and furniture.
- 2.31 However, the Committee urges all agencies to err on the side of transparency when in doubt. Once works are clearly over the threshold for referral under the Act, agencies should include the costs of all items associated with the proposed works.

Cost of vacancy

- 2.32 In addition to the cost of fitting out APW for Defence as part of this proposal, there have been ongoing costs to Finance as a result of the building being vacant. Excluding loss of rent, these costs total approximately \$420 000 per annum in maintenance costs.
- 2.33 Finance noted that the refurbishment of the building has significantly extended the economic life of the building:
- The normal life expectancy of a commercial office building is in the order of 25 to 30 years. These buildings, both East and West, were constructed in about 1965, so theoretically they had reached the end of their economic life when they became vacated. When we brought evidence to this committee previously on Anzac Park West and East, it was to invest an amount of money to refurbish and extend the building to extend the economic life, to get the best value to the taxpayer, of those assets. In Anzac Park West I believe we have done that: we have extended the building, we now have a reliable tenant and we will enjoy revenue to repay that investment over the next 15 years.¹⁴
- 2.34 Although there has been a significant loss of rent, Finance noted that under the lease with the AFP, four years rent was received.¹⁵ Market rental is estimated at \$5.6 million per annum for the 15 year lease with Defence.¹⁶

14 Mr R. Scott-Murphy, Finance, *Proof Transcript of Evidence*, 4 August 2009, p. 12

15 Mr R. Scott-Murphy, Finance, *Proof Transcript of Evidence*, 4 August 2009, p. 12

16 Mr R. Scott-Murphy, Finance, *Proof Transcript of Evidence*, 4 August 2009, p. 2

- 2.35 The cost of building maintenance and loss of rent represents a significant cost to the Commonwealth. The Committee notes that a similar cost is being incurred with APE and would like to see this building tenanted as a matter of priority.

Cost plans presented to this inquiry

- 2.36 The Committee received cost plans for the project and held an in-camera hearing with Finance and Defence on the detailed cost plans.
- 2.37 The Committee was not satisfied with the quality of the provided cost plans. The plans contained limited detail and more information had to be provided at the in-camera hearing and on notice.
- 2.38 Nonetheless, the Committee is satisfied that the cost plans for the project as presented to it, discussed at the in-camera hearing and provided on notice are adequate.

Project issues

Timing of referral

- 2.39 At the time that this inquiry was referred, it had not been determined which Defence business unit would occupy APW, but that a generic fitout brief for 900 persons had been defined. Given the history of this building, the Committee was concerned to ensure that binding agreements were in place and that the proposed expenditure would not again result in works that would be vacant.
- 2.40 The referral was made prior to the agreement of a memorandum of understanding (MOU) between Finance and Defence and the finalisation of lease negotiations. The Committee questioned the departments in detail at the public hearing about the intention of Defence to sign a binding lease.
- 2.41 A 'heads of agreement' was signed between Defence and Finance in October 2008 which 'was basically an intention to move forward, develop and come to an agreement on scope of work and price for the Anzac Park West building.'¹⁷ It was on this basis that the work was referred for PWC consideration.

17 Mr M. Healy, Defence, *Proof Transcript of Evidence*, 4 August 2009, p. 10

- 2.42 The MOU and lease defining the scope of works was not signed until 30 July 2009, eleven weeks after the referral was made to this Committee and less than a week prior to the Committee's hearing into the matter.¹⁸
- 2.43 While the timing of the referral of office fitout referrals can be difficult to balance, the need to present a reasonably well defined scope of works is essential so that the Committee is able to make its decision on matters of substance. Particularly in circumstances where the history of the building is such that it is with APW, it is incumbent on the proponent agency to ensure that the Committee has no reason to doubt any aspects of the proposal.
- 2.44 Defence did assure the Committee that it intends to honour the arrangement.¹⁹

Building access for people with disabilities

- 2.45 While undertaking the site inspection, the Committee noted some building features that did not appear to comply with standards for building access for people with disabilities.
- 2.46 Finance officers attending the site inspection expressed the opinion that the building was in compliance, and the submission notes that the building would comply with access standards under the Building Code of Australia and Defence's internal policy for the provision of access to facilities.²⁰
- 2.47 The Committee is of the opinion that Commonwealth offices must be national leaders in implementing measures to ensure access to access to premises by people with disabilities.
- 2.48 On a wider note, the Committee is aware that the Draft Disability (Access to Premises - Buildings) Standards have recently been released.
- 2.49 These standards will provide some consistency to disability standards for access to premises. If adopted, the Committee will look forward to the standards being rigorously applied to projects put before it.

Environmental standards

- 2.50 The base building works completed at APW in 2006 meet requirements for the National Australian Built Environment Rating System (NABERS) and
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18 Mr R. Scott-Murphy, Finance, *Proof Transcript of Evidence*, 4 August 2009, p. 7

19 Mr M. Healy, Defence, *Proof Transcript of Evidence*, 4 August 2009, p. 10

20 Submission 1, Finance, p. 14

the fitout will achieve a 4.5 star rating under NABERS. In addition, the selection of materials and finishes will be selected to meet Defence Green Building Requirements.²¹

- 2.51 However, the most significant environmental savings in APW come from the adaptive reuse of an existing building. Finance noted:

The big saving in extending the economic life of a building in this way is that the energy that it would cost to demolish the building, the energy that it would take to construct a building plus the energy that is embodied in all the materials to construct a building and, of course, the disposal to landfill of the wasted material are all avoided by extending the life of a building in this way.²²

- 2.52 Given that the life expectancy of a commercial building is 25 to 30 years and APW had 34 years of use prior to being 'mothballed', this fitout has effectively doubled the life expectancy of the building. This is to be commended.

Committee comment

- 2.53 While the Committee has had concerns about the management of Anzac Park West and the management of this referral to it, overall, the Committee is satisfied that this project has merit in terms of need, scope and cost.

21 Submission 1, Finance, p. 7, 14

22 Mr R. Scott-Murphy, Finance, *Proof Transcript of Evidence*, 4 August 2009, p. 14

- 2.54 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 1

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 and external works, Anzac Park West, Parkes, ACT.