

Report 6/2012

Referrals made May to September 2012

- **Proposed new National Archives Preservation Facility and refurbishment of the existing Mitchell facility for the National Archives of Australia at Mitchell, ACT**
- **Proposed Defence Logistics Transformation Program**
- **Proposed upgrade of on-base housing for Defence at Larrakeyah Barracks, Darwin, Northern Territory**
- **Proposed upgrade of on-base housing for Defence at RAAF Base Tindal, Northern Territory**

Parliamentary Standing Committee on Public Works

November 2012
Canberra

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Membership of the Committee

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List of recommendations

2 Proposed new National Archives Preservation Facility and refurbishment of the existing Mitchell facility for the National Archives of Australia at Mitchell, ACT

Recommendation 1

The Committee recommends that the Australian Government provide the necessary up-front funding to National Archives of Australia for the integrated fit-out of the proposed National Archives Preservation Facility project, thereby providing value for money for the Commonwealth.

3 Proposed Defence Logistics Transformation Program

Recommendation 2

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: Defence Logistics Transformation Program.

4 Proposed upgrade of on-base housing for Defence at Larrakeyah Barracks, Darwin, and RAAF Base Tindal, Northern Territory

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: Proposed upgrade of on-base housing for Defence at Larrakeyah Barracks, Darwin, NT.

Recommendation 4

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: Proposed upgrade of on-base housing for Defence at RAAF Base Tindal, NT.

Appendix A – List of Submissions

Appendix B – List of Inspections, Hearings and Witnesses

Introduction

- 1.1 Under the *Public Works Committee Act 1969* (the Act), the Parliamentary Standing Committee on Public Works is required to inquire into and report on public works referred to it through either house of Parliament. Referrals are generally made by the Special Minister of State.
- 1.2 All public works that have an estimated cost exceeding \$15 million must be referred to the Committee and cannot be commenced until the Committee has made its report to Parliament and the House of Representatives receives that report and resolves that it is expedient to carry out the work.¹
- 1.3 Under the Act, a public work is a work proposed to be undertaken by the Commonwealth, or on behalf of the Commonwealth concerning:
- the construction, alteration, repair, refurbishment or fitting-out of buildings and other structures;
 - the installation, alteration or repair of plant and equipment designed to be used in, or in relation to, the provision of services for buildings and other structures;
 - the undertaking, construction, alteration or repair of landscaping and earthworks (whether or not in relation to buildings and other structures);
 - the demolition, destruction, dismantling or removal of buildings, plant and equipment, earthworks, and other structures;
 - the clearing of land and the development of land for use as urban land or otherwise; and
 - any other matter declared by the regulations to be a work.²

1 The *Public Works Committee Act 1969* (The Act), Part III, Section 18(8). Exemptions from this requirement are provided for work of an urgent nature, defence work contrary to the public interest, repetitive work, and work by prescribed authorities listed in the *Regulations*.

2 The Act, Section 5.

- 1.4 The Act requires that the Committee consider and report on:
- the purpose of the work and its suitability for that purpose;
 - the need for, or the advisability of, carrying out the work;
 - whether the money to be expended on the work is being spent in the most cost effective manner;
 - the amount of revenue the work will generate for the Commonwealth, if that is its purpose; and
 - the present and prospective public value of the work.³
- 1.5 The Committee pays attention to these and any other relevant factors when considering the proposed work.

Structure of the report

- 1.6 Works considered in this report were referred to the Committee in May, June and September 2012. The works were referred by the Special Minister of State, the Hon Gary Gray AO MP.
- 1.7 In considering the works, the Committee analysed the evidence presented by the proponent agency, public submissions and evidence received at public and in-camera hearings.
- 1.8 In consideration of the need to report expeditiously as required by Section 17(1) of the Act, the Committee has only reported on major issues of concern.
- 1.9 The Committee appreciates, and fully considers, the input of the community to its inquiries. Those interested in the proposals considered in this report are encouraged to access the full inquiry proceedings available on the Committee's website.
- 1.10 Chapter 2 addresses the proposed new National Archives Preservation Facility and refurbishment of the existing Mitchell facility for the National Archives of Australia at Mitchell, ACT. The Committee did not consider the Mitchell refurbishment as the referral was premature. The NAPF portion of the project is estimated to cost \$97.9 million.
- 1.11 Chapter 3 addresses the proposed Defence Logistics Transformation Program. The project is estimated to cost \$752.7 million, excluding GST.
- 1.12 Chapter 4 addresses two similar referrals. The first is the proposed upgrade of on-base housing for Defence at Larrakeyah Barracks, Darwin,

3 The Act, Section 17.

Northern Territory. The project is estimated to cost \$25 million, including GST. The second referral is the proposed upgrade of on-base housing for Defence at RAAF Base Tindal, Northern Territory. The project is estimated to cost \$57 million, including GST.

- 1.13 Submissions are listed at Appendix A, and inspections, hearings and witnesses are listed at Appendix B.

Proposed new National Archives Preservation Facility and refurbishment of the existing Mitchell facility for the National Archives of Australia at Mitchell, ACT

- 2.1 The new National Archives Preservation Facility (NAPF) and refurbishment of the existing Mitchell facility are two of three closely integrated projects to ensure that the National Archives of Australia (NAA) can fulfil its legislative mandate to accept transfers of paper and audiovisual archives from Australian government agencies.
- 2.2 The third project, an upgrade of the existing Chester Hill repository in Sydney, was notified to the Committee as a medium works project on 18 June 2012.
- 2.3 The new NAPF would provide accommodation for 150 staff, 104 shelf kilometres (skm) of paper archives and 10 skm of audio-visual archives. This will provide space for the consolidation of archives currently held in the Mitchell and Greenway repositories in the ACT.¹
- 2.4 The Committee is not reporting on the Mitchell refurbishment at this time as negotiations with the landlord are not due to commence until 2015. The referral of this project was premature and the Committee expects the project to be re-referred at the appropriate juncture.
- 2.5 Accordingly, this chapter only reports on the proposed new NAPF.
- 2.6 The proposals were referred to the Committee on 25 May 2012.
- 2.7 The estimated cost of the NAPF project is \$97.9 million.

1 National Archives of Australia (NAA), Submission 1, p. 4.

Conduct of the inquiry

- 2.8 The inquiry was advertised in *The Australian* on 30 May 2012.
- 2.9 The Committee received one submission and three supplementary submissions from the NAA, and one submission from a private enterprise. A list of submissions can be found at Appendix A.
- 2.10 The Committee undertook a site inspection, public hearing and an in-camera hearing on the project costs on 9 July 2012 in Canberra. The Committee conducted additional public and in-camera hearings on 2 November 2012 in Canberra.
- 2.11 The transcripts of the public hearings as well as the submissions to the inquiry are available on the Committee's website.²

Need for the works

- 2.12 The NAA has a legislative responsibility to store archives from Australian government agencies. The ability to carry out this role is dependent on suitable capacity being available to accept and store these archives in optimal temperature and humidity conditions to ensure their long term preservation.³
- 2.13 Currently, there is limited available capacity of existing facilities and the NAA expects these facilities to be full by 2015. There is also a significant backlog of 165 skm of paper archives held by agencies, which is likely to grow at 5.5 skm per year.⁴
- 2.14 The current ACT facilities at Greenway and Mitchell store 39 skm and 65 skm of archives respectively. The lease on the Greenway facility will not be renewed from March 2017 due to the landlord's development plans.⁵ The lease on the Mitchell facility expires June 2017.⁶ Discussions with the landlord regarding the refurbishment and next lease will commence in 2015.⁷
- 2.15 The Committee finds that there is a vital need for additional storage space for the National Archives of Australia.

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

3 NAA, Submission 1, p. 7.

4 NAA, Submission 1, p. 7.

5 NAA, Submission 1, p. 7.

6 NAA, Submission 1, p. 8.

7 Ms C. Watson, NAA, *transcript of evidence*, 9 July 2012, p. 3.

Scope of the works

- 2.16 The scope of the NAPF work is defined in the Functional Design Brief, to which potential developers will respond. The design will target the following key outcomes:
- innovative Ecologically Sustainable Development (ESD)
 - energy efficient building and building services design to focus on minimising energy consumption and running costs of the building
 - best possible environment for storage and preservation activities
 - plant, equipment, finishes and fixtures chosen for life cycle value and maintainability
 - flexible design to allow for future changes in technology and the NAA's methods of operation.⁸
- 2.17 To achieve this, the following will be mandatory requirements:
- in accordance with the Energy Efficiency in Government Operations Policy the office area of the building will meet or exceed 4.5 star National Australian Built Environment Rating System (NABERS) rating with the completed building to be registered and assessed
 - the storage areas will comply with Section J of the NCC relating to energy performance for a Class 8 Building
 - consideration of alternate energy sources such as solar, wind, co and tri-generation
 - use of a building energy management system and any other relevant provisions to allow energy usage to be controlled, measured, monitored and managed.⁹
- 2.18 The NAPF will include:
- 74.2 skm of standard size paper archives storage with eight level mobile shelving
 - 20.5 skm of classified paper archive storage with eight level mobile shelving

8 NAA, Submission 1, p. 14.

9 NAA, Submission 1, p. 15.

- 9.3 skm of non-standard size paper archives storage with a mix of eight level mobile and fixed shelving
- a range of temperature and humidity conditions, ranging from 17°C to 23°C with 30% to 50% relative humidity (RH) to -10°C to -20° with 30% to 50% RH and 23°C ± 1°C with 50% ± 2% RH with multiple other set parameters in between to ensure optimal storage conditions for different formats of archives
- 10 skm of audio visual archives storage in Freezer, Cold, Cold conditioning and Cool rooms
- digital archives storage including for classified digital archives
- digital preservation management areas including secure space for classified archives
- conservation laboratory and support areas including controlled environment room, analytical laboratory and 'vinegar syndrome' room
- records handling areas including loading dock, quarantine room, hazardous materials treatment room
- office areas designed to comply with the Department of Finance and Deregulation occupancy density requirements
- a multi-purpose room for meetings, presentations
- staff support areas including lunch room, showers and change room with lockers, first aid room, secure external bicycle storage.¹⁰

2.19 The Committee was disappointed to learn that the scope of the project is limited to a functional design brief. Typically, projects that are referred to the Committee for approval are at a point where a preliminary or sketch design has been prepared and costed. The Committee finds that the proposed scope of works, as outlined in the functional design brief, is suitable to meet the need for this project.

Cost of the works

2.20 The Committee does not find that this project provides value for money for the Commonwealth.

2.21 Project costs will be discussed in the Project Issues section below.

¹⁰ NAA, Submission 1, p. 15.

Project issues

Location of NAPF

- 2.22 Southern Distribution Hub made a submission proposing that the NAPF be built in Goulburn, NSW.¹¹
- 2.23 NAA had initially considered the possibility of locating the NAPF outside the ACT. However, NAA determined that for business, cost and staffing reasons, a site in the ACT was more appropriate.¹²
- 2.24 NAA called for expressions of interest for ACT sites. Some responses came from sites located just over the border in NSW. These sites were examined against NAA's criteria but ultimately not selected as the preferred site.¹³

Committee comment

- 2.25 The Committee appreciates submissions from private enterprises. The Committee acknowledges the reasons that NAA requires a site in the ACT and is pleased that NAA considered the possibility of sites outside the ACT.

Options considered / project delivery method

- 2.26 NAA stated that three methodologies were considered for the delivery of the NAPF, being design-build-own (DBO), pre-commitment lease (PCL) and public-private partnership (PPP).¹⁴
- 2.27 NAA stated further that the Australian Government approved the pre-commitment lease model for the delivery of the project.¹⁵
- 2.28 When the Committee asked for further details on the options considered for the delivery of the project, NAA stated:

We presented a number of options. We included design, build and own; a pre-commitment lease; and public-private partnerships against a number of options of types of buildings ... There was a

11 Southern Distribution Hub, Submission 2.

12 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 6.

13 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 6.

14 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 3.

15 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 3.

rigorous process there. Given the fiscal environment at the time, it was considered that a pre-commitment lease was a better outcome for the budget.¹⁶

2.29 NAA reiterated in the November hearing that:

All options – [pre-commitment lease, design-build-own] and public-private partnership – were offered to government. They considered those ... They considered that the [pre-commitment lease] option was the best outcome, given the [constraints].¹⁷

2.30 NAA admitted that there was some price difference between the design, build and own option and the pre-commitment lease option, however it was the Australian Government's decision for NAA to go with a pre-commitment lease.¹⁸

2.31 When asked if the Australian Government had been approached for up-front funding, NAA stated:

Design-build-own was one of the options. The three options that the government asked us about under the whole-of-government model were: design-build-own, pre-commitment lease and public-private partnership. They looked at all of those models.¹⁹

Committee comment

2.32 The Committee is most familiar with agencies utilising an integrated fit-out model for their projects, providing the capital up-front with no amortising of costs over a lease period. Of the numerous projects considered by this Committee to this point in the 43rd Parliament, the integrated fit-out model has been essentially the preferred choice of model for the delivery of new building projects. In the integrated fit-out model, the proponent agency works with a developer to integrate a fit-out into the construction of a new building.

2.33 In the 43rd Parliament, the Committee has inquired into and approved integrated fit-out projects for the Australian Taxation Office (four projects), Department of Innovation, Industry, Science and Research, the Attorney-General's Department, and the Department of Human Services. In each case, a new building is being constructed with the agency's fit-out being integrated during construction.

16 Ms C. Watson, NAA, *transcript of evidence*, 9 July 2012, p. 4.

17 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 5.

18 Ms C. Watson, NAA, *transcript of evidence*, 9 July 2012, p. 4.

19 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 3.

- 2.34 Importantly, in each case the agency has been able to provide the funding for the fit-out up-front, with only lease costs to be paid to the building owner upon completion and occupation.
- 2.35 The pre-commitment lease model proposed by the NAA still provides for the delivery of an integrated fit-out, however without the capital available up-front, the cost of the fit-out is amortised over a lengthy lease period. The amortising of the fit-out for the NAA's project would see the fit-out costs effectively jumping from \$21.3 million to around \$52 million.
- 2.36 This substantial cost blow out could be avoided if the capital for an integrated fit-out was available up-front.
- 2.37 The Committee understands that NAA is a small agency with little capital backing. However, this project has been in development for a number of years, providing NAA sufficient time to lobby for capital funding for such a significant national project.
- 2.38 NAA on several occasions stated that it provided three project delivery options to Government for consideration. It appears that the option of an integrated fit-out with up-front capital funding was not one of those options provided, because NAA simply does not have the capital funding or was not prepared to ask for it; the Committee is unable to determine or know which
- 2.39 Further, there seemed to have been a disconnect of some sort between what the Committee was asking and what NAA was able to answer. The Committee asked NAA about seeking Government funding for the project, and NAA stated that the design-build-own option was considered; that question was not answered or possibly avoided.
- 2.40 Further, in evidence to the Committee, NAA stated that the pre-commitment lease delivery method is used for all NAA properties.²⁰ Given how considerably more expensive that model is in this particular proposal, it calls into question the value for money for the Commonwealth of any other new building projects the NAA may consider.

Project costs

- 2.41 The Committee had difficulty determining the costs of the project.

20 Ms C. Watson, NAA, *transcript of evidence*, 9 July 2012, p. 4.

- 2.42 The Committee received a confidential supplementary submission detailing the project costs and held an in-camera hearing with NAA in July 2012 on these costs.
- 2.43 Following that in-camera hearing, the Committee wrote to NAA seeking further clarification on several matters, including costs. NAA provided clarification, which was accepted as a confidential supplementary submission.
- 2.44 Still not satisfied with the evidence presented by NAA, the Committee held additional public and in-camera hearings in November 2012.
- 2.45 Following the November in-camera hearing, the Committee again wrote to NAA seeking further clarification on a number of matters. NAA again provided clarification, which was accepted as a confidential supplementary submission.
- 2.46 Initially, there was no reportable project cost in NAA's public submission. The Committee found it highly unusual for an agency to refer a project for approval without a public cost figure.
- 2.47 At the July hearing, the Committee asked NAA to confirm the appropriation for this project, particularly given that there was some confusion about the public cost figure for the project. NAA replied:
- We are not being funded on a capital works basis, so we are not getting capital works appropriation. We are, in effect, receiving funding to assist in project management, relocation of staff and records, rent, and operating costs. The actual funding in the budget is: from 2015-16, funding of \$500,000, which is for the initial project costs; in 2016-17, funding of \$15.7 million, which is to cover rent, operating, relocation and project costs; and in 2017-18, funding of \$8.2 million – and there is an escalation factored in on top of that – for ongoing rent and operating costs.
- So, if we were taking up a 30-year lease, we would have a lease stream to fund that.²¹
- 2.48 In response to the Committee seeking further clarification on the project cost of \$92.6 million, NAA stated:
- In the total project costs, which are in our submission at 1.1, it is listed as \$92.6 million, but that includes construction and our own project costs which the [NAA] is funding from 2012-13 to 2015-16.

21 Ms C. Watson, NAA, *transcript of evidence*, 9 July 2012, p. 3.

It is a picture of the total project costs, including construction ...
That \$92 million does not include the Mitchell refurbishment.²²

2.49 At the additional hearing in November, NAA further explained the cost of the project:

This approval varies from a more traditional leasing and fit-out model. It is not a capital project, which is why it has been a bit more difficult to get to exactly what price we would use in this context. As you would know, with a capital project the construction price, which was the price that was used in the statement of evidence template, would probably be the one that you would use, but in this instance, because it is not a capital project, it has been a bit more difficult to work through which would be the most appropriate one for the committee and the public. The costs were developed on a net present cost basis, and the modelling includes whole-of-life costing comprising project development, finance, property operating, base building, fit-out life cycle and asset replacement with retained risk and escalation costs over 30 years. On this basis, it is the Archives' view that the most appropriate number for the committee's purpose would be that net present cost value for the project. If we remove the Mitchell refurbishment from that, it is estimated to be \$97.9 million over 30 years. So it is a net present cost looked at from a whole-of-life cost basis over 30 years.²³

2.50 When asked to put the project expenditure in simple terms, NAA explained:

Over the 30 years, that would be the full lease costs and all of the operating costs. That is in the order of \$400 million over 30 years.²⁴

2.51 NAA further explained what is covered in that cost:

It includes property operating, the fit-out, amortisation, retained risk – all of those elements.²⁵

It includes all the development costs and financing costs, the developer's required internal rate of return, and bid recovery costs as well as all our property operating costs over that period.²⁶

22 Ms C. Watson, NAA, *transcript of evidence*, 9 July 2012, pp. 3-4.

23 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 1.

24 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 2.

25 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 2.

2.52 When asked for a year-by-year break down, NAA stated:

2016-2017 is expected to be \$8.8 million ... that is the full cost including the fit-out, shelving, property operating costs and statutory charges. The rent component in that first year would be \$5.2 million. So that \$400 million includes all of the components of rent, fit-out, amortisation, shelving, property, and statutory charges, because it is a lease arrangement not a capital arrangement; most agencies would just give that capital construction cost and you would not see those ongoing whole-of-life costs in those, usually.²⁷

2.53 NAA explained that an annual payment is made, subject to any lease agreement:

Yes, it is an annual amount paid monthly. That is our expectation. However, we do obviously have to negotiate a rental lease with the successful bidder, and we would have to see what they bring to the table, but our intent is that that is the whole cost, yes.²⁸

2.54 NAA further discussed the lease and tender arrangements:

Obviously, because we have to go to market, it may be that the market comes back with a better offer than the assumptions we have made. But, for these purposes, we have gone through a rigorous, two-stage, business process with the whole-of-government modelling, and that modelling has given us the numbers that government could consider to 80 per cent certainty, as with all two-stage business case processes ... Obviously, the market, when we go out to tender, may present other prices, but this is a rigorous process.²⁹

2.55 NAA reiterated exactly what is incorporated into the project cost:

... that is the whole-of-life cost. It will be in the lease. We are asking that the successful tenderer come back and deliver a fully integrated model. So they will come back and then through that lease arrangement charge us for the rent, the fit-out and shelving, and we would have property-operating costs and any statutory charges which are a normal part of a lease: share of rates, share of

26 Mr M. Boyle, NAA, *transcript of evidence*, 2 November 2012, p. 2.

27 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 2.

28 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 2.

29 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 2.

land tax et cetera. That is what makes up that \$8.8 million in the first year.³⁰

2.56 The Committee asked NAA to outline the project costs, should up-front funding be available for the integrated fit-out. NAA stated that the estimated cost of the fit-out would have been approximately \$21.3 million.³¹

2.57 When asked to provide further details on the leased cost of the fit-out, where the costs are amortised over a number of years, NAA stated:

The fit-out component is \$625,000 annually for 15 years and the shelving component is \$1.4 million annually over 30 years³² ... It is about \$51.9 million.³³

2.58 NAA explained that paying for the integrated fit-out up-front was not possible:

The Archives was unable to purchase the fit-out. We would have to have sought additional funding. We do not have a capital base of that amount there.³⁴

The Archives does not have money upfront.³⁵

2.59 NAA added:

... the lease arrangement is a smaller payment per annum over the years than if we paid for it up front.³⁶

Committee comment

2.60 The Committee was very concerned with the confusing nature of the information presented to it in the submissions to the inquiry. In particular, the costs information was difficult to tease out and interpret.

2.61 The Committee was still struggling to come to terms with some of the information presented, even after two public hearings and two in-camera hearings. Additional hearings and subsequent written questions to the agency should not have been necessary.

30 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 2.

31 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 4.

32 Mr M. Boyle, NAA, *transcript of evidence*, 2 November 2012, p. 4.

33 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 4.

34 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 4.

35 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 5.

36 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 4.

- 2.62 Although it is not directly in the purview of the Committee to assess agency lease arrangements, the Committee still has an obligation to assess the overall value for money of a project. There has been little discussion or explanation from NAA on whether the lease costs, other than the amortised fit-out components, would be significantly reduced should an integrated fit-out with up-front funding be the chosen project delivery method. This information would better equip the Committee to consider the value for money.
- 2.63 The Committee therefore cannot find that this project provides value for money for the Commonwealth.
- 2.64 For the sake of \$21.3 million of up-front funding, NAA is now looking to instead spend around \$52 million on the NAPF fit-out, and an unknown quantum of additional lease costs.
- 2.65 The cost of the project could be significantly reduced if a larger up-front contribution was made by the Australian Government.
- 2.66 The Committee determines that the Australian Government should reconsider the delivery model and funding for the project to provide a superior value for money outcome.

Recommendation 1

The Committee recommends that the Australian Government provide the necessary up-front funding to National Archives of Australia for the integrated fit-out of the proposed National Archives Preservation Facility project, thereby providing value for money for the Commonwealth.

- 2.67 NAA's statement suggesting that somehow this project provides value for money simply because the annual lease payment is less than the up-front fit-out cost does not satisfy the Committee with regard to value for money.

Final Committee comment

- 2.68 The Committee acknowledges that NAA has not referred a project to the Committee for many years. Further, NAA stated that it has not delivered a project of this type before.³⁷ The Committee understands that agencies

³⁷ Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 2.

such as NAA may not be experienced in the delivery of building and infrastructure projects of this nature, however some people associated with the project, such as consultants, do have the relevant experience.

- 2.69 Given that NAA has been planning this project for many years, the Committee is disappointed that NAA presented inadequate information in its submissions; there are dozens of past referrals that could have been used as a model or template for delivery of such a project.
- 2.70 The Committee was also disappointed that the NAA did not fully consider or push for additional funding for the project.
- 2.71 The Committee finds that NAA has demonstrated a compelling need for this important project. However, the Committee cannot approve the proposed project in its current form. The Committee is of the opinion that NAA has not provided a compelling argument for the pre-commitment lease option for this project.
- 2.72 The Committee defers making a decision on the Mitchell refurbishment aspect of the referral. This component of the referral is undeveloped, premature, and may not proceed as proposed. The Committee expects the Mitchell refurbishment project to be re-referred at an appropriate time.

Proposed Defence Logistics Transformation Program

- 3.1 The Department of Defence (Defence) proposes to consolidate Joint Logistics Command staff and storage facilities across Australia to provide more efficient logistic support to Australian Defence Force personnel.
- 3.2 The purpose of the Defence Logistics Transformation Program (DLTP) is to deliver new or refurbished purpose-built infrastructure that enables the seven Joint Logistics Command units to provide enhanced support to Australian Defence Force elements and operations. This will provide consistency across all sites, with safe modern and sustainable work environments that meet current and anticipated future requirements.¹
- 3.3 The DLTP will modernise and enhance the wholesale logistics functions to provide optimum support to Defence operations through efficient, effective and safe work practices.²
- 3.4 The cost of the project is \$752.7 million, excluding GST.
- 3.5 The project was referred to the Committee on 20 June 2012.

Conduct of the inquiry

- 3.6 Following referral to the Committee, the inquiry was advertised in *The Australian* on 27 June 2012.
- 3.7 The Committee received one submission and five supplementary submissions from Defence. The list of submissions can be found at Appendix A.

1 Department of Defence (Defence), Submission 1, pp. 14-15.

2 Defence, Submission 1, p. 2.

- 3.8 The Committee received private briefings in Brisbane and Ipswich on 26 September 2012, Darwin on 27 September 2012, and Sydney on 4 October 2012.
- 3.9 The Committee conducted public hearings in Ipswich on 26 September 2012, Darwin on 28 September 2012, and Sydney on 4 October 2012.
- 3.10 The Committee conducted an in-camera hearing on the project costs in Sydney on 4 October 2012.
- 3.11 A transcript of the public hearing and the submissions to the inquiry are available on the Committee's website.³

Need for the works

- 3.12 The current Defence wholesale storage network operates from outdated infrastructure spread across 201 warehouses in 24 locations. The DLTP will consolidate the wholesale logistics network to seven primary sites, supported by nine specialty/retail sites.⁴
- 3.13 The current wholesale storage network is not enabled by industry standard technology and automation, has relatively high operating and maintenance costs and does not deliver efficient or effective outcomes when benchmarked with comparable commercial practices.⁵
- 3.14 The current maintenance system also operates from outdated infrastructure and facilities that fall short of comparable industry standards. In many cases the workshop facilities across the network are converted World War II warehouses. These outdated facilities contribute to increased cost of service and sub-optimal maintenance outcomes as the facilities are not purpose built for the function they currently serve.⁶
- 3.15 As a whole, the existing network drives a relatively high operating cost and does not deliver efficient or effective outcomes when benchmarked against comparable commercial practice.⁷
- 3.16 Approximately 23 per cent of the available network warehousing space is underutilised when compared with comparable industry benchmarks.⁸

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

4 Defence, Submission 1, pp. 1-2. For more detail, see Attachment 1.

5 Defence, Submission 1, p. 1.

6 Defence, Submission 1, p. 1.

7 Defence, Submission 1, p. 1.

8 Defence, Submission 1, p. 2.

3.17 The Committee is satisfied that there is a need for the works.

Scope of the works

3.18 The project will deliver infrastructure in eight locations:

- Moorebank, NSW
- RAAF Base Amberley, Ipswich, Qld
- Lavarack Barracks, Townsville, Qld
- Robertson Barracks, Palmerston, NT
- HMAS Stirling, Rockingham, WA
- Palmer Barracks, Guildford, WA
- RAAF Base Edinburgh, Edinburgh, SA
- Wadsworth Barracks, East Bandiana, Vic.⁹

3.19 The scope of works includes several common elements:

- headquarters
- general storage warehouses
- loan and repair warehouses
- dangerous goods stores
- land materiel maintenance workshops.¹⁰

3.20 Details of the works at each site can be found in Submission 1.¹¹

3.21 Subject to Parliamentary approval, construction is planned to commence in late 2012 at Moorebank, Wadsworth Barracks and Lavarack Barracks, with other sites commencing progressively through early to mid-2013. All construction is expected to be completed by mid-2015.¹²

3.22 The Committee finds that the proposed scope of works is suitable to meet the need.

9 Defence, Submission 1, p. 15.

10 Defence, Submission 1, pp. 15-17.

11 Defence, Submission 1, pp. 17-31. Note that the project budget now allows for the provision of the new headquarters facility at RAAF Base Edinburgh, SA (pp. 28-29).

12 Defence, Submission 1, p. 44.

Cost of the works

- 3.23 The overall project cost is \$752.7 million, excluding GST. The Committee received confidential supplementary submissions detailing the project costs and held an in-camera hearing with Defence on these costs.
- 3.24 Defence elected not to deliver the project through a public-private partnership as it would not deliver the required results or savings.¹³
- 3.25 The Committee is satisfied that the costings for the project provided to it have been adequately assessed by the proponent agency.

Project issues

Consolidation of facilities

- 3.26 The DLTP will significantly consolidate warehousing facilities across Australia. It will support Defence capability until at least 2030.¹⁴ It will also provide major savings for Defence.¹⁵ In part, this will be due to the disposal of rented land and facilities, with the works to be undertaken on Commonwealth land.¹⁶
- 3.27 Consolidating current facilities into newer, modernised warehouses and storage areas will bring efficiencies to the network. Defence outlined the deficiencies in the current warehousing network:

Basically at the moment on the warehousing side we have around 201 warehouses across the nation that vary in age from the 1920s all the way up to about the 1990s. Most of those particular types of warehouses that we have are what we call low-rise warehouses, along with warehouses that have large numbers of internal forests growing in them to stop the efficient movement of MHE [material handling equipment] as well as the ability to rack and stack. Modern warehouses traditionally have a high-rise warehousing capacity that takes modern shelving and modern warehousing up to around six pallets high. What that essentially means is that you

13 Brig. P. Daniel, Department of Defence (Defence), and Mr P Griffiths, KPMG, *transcript of evidence*, 4 October 2012, p. 11.

14 Brig. P. Daniel, Defence, *transcript of evidence*, 4 October 2012, p. 8.

15 Brig. D. Naumann, Defence, and Mr P. Griffiths, KPMG, *transcript of evidence*, 26 September 2012, pp. 1-3.

16 Brig. P. Daniel, *transcript of evidence*, 28 September 2012, pp. 3-4.

have a reduced footprint the size of your warehouse, but you maximise the amount of space that is in your warehouse. In our current low-rise warehouses we lose, in many instances, anything up to 60 per cent of the available warehouse space, simply because of the beams. The lowness of those means you cannot stack all the way up to the roof. You cannot therefore access those particular items. So, underutilised space in our existing warehouse is based purely on the way the warehouses are constructed. Removing those from our network means that we can consolidate our footprint, making it much smaller in scope, but, more importantly, give greater efficiency for moving the stock to the individual, as opposed to the individual to the stock.¹⁷

3.28 However, consolidation does provide a major challenge:

... we have to make sure that our distribution pipelines are now much more effective, so our ability to move around the network has to be much more critically aligned with various capacities and capabilities that the Australian Defence Force has around Australia with regard to its raise, train and sustain activities. So we are likely to hold less stock in certain locations than we would have held there traditionally. To make sure that we can still provide support to the Australian Defence Force, we need to have a greater understanding of our distribution nodes and our distribution requirements, but modern technology allows us to do that. Such things as RFID readers so that we can track stock as it moves around the country will certainly reduce that risk, and it saves Defence buying and holding stock for that just-in-case policy. We will be able to actually manage that much more closely.¹⁸

Committee comment

3.29 The Committee viewed various warehouses that were not built for the purpose they presently serve. Most facilities were built during World War II and many have hardwood support poles every five metres. The Committee observed that this impinges on Defence's ability to efficiently store and maintain items.

3.30 The Committee noted that the warehouses and other facilities it inspected were difficult to heat, cool and ventilate effectively (particularly in areas

17 Brig. P. Daniel, Defence, *transcript of evidence*, 4 October 2012, p. 8.

18 Brig. P. Daniel, Defence, *transcript of evidence*, 4 October 2012, p. 9.

with significant weather variation such as Darwin) and required 'workarounds' to meet workplace health and safety requirements. These factors reduce productivity and limit Defence capability.

- 3.31 The Committee is satisfied that consolidating facilities will prove beneficial to the provision of logistic support.

Improving efficiency

- 3.32 This project aims to improve the efficiency of logistic support. This requires improved infrastructure and technology, such as carousels. Such improvements can increase the stock pick rate.

- 3.33 A pick rate is a productivity measure and represents the number of items picked per person, per day.

- 3.34 Defence's stock pick rates vary, due to Defence's varied stock, from small items such as bullets to large items such as bridges. The average is 13 or 14.¹⁹

- 3.35 However, infrastructure and technology could improve this pick rate to 26 or higher,²⁰ which would allow Defence to almost halve the contracted workforce:

So if we have a pick rate of 13 picks per day per person, that equates to the workforce [at Moorebank] of around 126 personnel to meet that requirement. If we can increase that pick rate to, say, 26, which is coming towards the average within the industry we could reduce the number of contracted workforce that we would have to do that pick rate, from around 126 to around 63. That is almost half of the total workforce required to do the same amount of work. The intent behind increasing the pick rate, by improving the facilities, is to actually bring us to an industry standard. The philosophy is very simple: we want to take the best practices that are available commercially and to actually bring those into the defence arena.²¹

- 3.36 One way to increase stock pick rates for small items is the use of carousels. These are rotating vertical storage spaces which eliminate the need to store small items in warehouses. The Committee viewed a carousel in Darwin,

19 Brig. P. Daniel, Defence, *transcript of evidence*, 4 October 2012, pp. 3-4.

20 Mr P. Griffiths, KPMG, *transcript of evidence*, 26 September 2012, p. 4.

21 Brig. P. Daniel, Defence, *transcript of evidence*, 28 September 2012, p. 2.

which would hold the same volume of small items as the 100-metre-long warehouse that the Committee viewed in Sydney.²²

- 3.37 Carousels bring the stock to the individual, enabling employees to locate items quickly and easily, without having to walk through a warehouse. This provides health and safety benefits while also reducing the time required to locate items.

Committee comment

- 3.38 The Committee is satisfied that Defence is combining appropriate infrastructure and technology to improve stock pick rates and therefore improve efficiency.
- 3.39 The Committee was impressed with the carousel it viewed in Darwin and understands the benefits that such technology provides for the organisation and distribution of small items.

Community consultation

- 3.40 Defence conducted extensive community consultation for the DLTP.²³ During the consultation process, noise was raised as an issue by residents close to the Moorebank site. Defence explained that it had already mitigated the impact of noise on local residents through its design of the proposed works:

... all of the low-traffic activities, such as dangerous goods, aerial delivery equipment and all those low-movement activities, are placed closest to the residential areas, limiting the amount of noise that they would experience. We will also provide a bit of a buffer through that green buffer zone, which will also reduce some of the noise impacts to the residential areas.²⁴

- 3.41 Traffic was raised as an issue in Darwin. Defence outlined its process for consultation in Darwin and stated that it was relatively positive:

On 14 June we had a formal consultation with the community, mainly attended by residents of Knuckey Lagoons. Sixteen people turned up. Most of them expressed their pleasure with what we had done to address this solution. Most of them were in agreement that, yes, that would address what we call the rat-running and the

22 Brig. P. Daniel, Defence, *transcript of evidence*, 4 October 2012, p. 4.

23 Defence, Submission 1.2.

24 Lt. Col. D. Drain, Defence, *transcript of evidence*, 4 October 2012, p. 6.

traffic going through the quiet residential area, which currently happens.²⁵

- 3.42 Defence also provided a letter from the Chair of the Knuckey Lagoon Recreational Reserve Board, confirming that the group was satisfied with the consultation process:

In regards to the level of public consultation on the DLTP [proposed works] at Robertson Barracks. I advise that we had media advertising, multiple letter drops and a very well attended public information session. It is our hope that this consultation model is used for all future development proposals for the Barracks.²⁶

- 3.43 While in Darwin, the Committee also facilitated broader discussion of Defence's relationship with the community.²⁷

Committee comment

- 3.44 The Committee is satisfied with Defence's community consultation in relation to the DLTP and expects Defence to continue to consult with the community for all future projects.
- 3.45 The Committee is particularly pleased with Defence's communication with the Knuckey Lagoon Recreational Reserve Board.

Road and traffic concerns

- 3.46 Three road and traffic issues were raised, at RAAF Base Amberley, Robertson Barracks and Moorebank.
- 3.47 Around RAAF Base Amberley, traffic studies were undertaken at all intersections leading into the base. These studies determined that increases in traffic to the base during and after the proposed works will not exceed the capacity of the existing traffic network.²⁸
- 3.48 On the day the Committee visited RAAF Base Amberley, the Cunningham Highway turnoff to the base had been blocked by a traffic crash. Defence stated that this intersection is poor and will be upgraded by the Queensland Government to include a bypass. This will provide an exit

25 Lt. Col. D. Drain, Defence, *transcript of evidence*, 28 September 2012, p. 8.

26 Defence, Submission 1.4, p. 4.

27 *Transcript of evidence*, 28 September 2012, pp. 10-15.

28 Mr M. Mooney, Leighton Contractors, *transcript of evidence*, 26 September 2012, p. 10.

and overpass, to remove the need for vehicles to cross the path of oncoming traffic.²⁹

3.49 Concerns were raised over the proposed new western access road at Robertson Barracks, NT. Defence outlined the process for determining the location of the new western access road, including its consultation with the local council, the landowner, the community and the NT government, as well as environmental, flooding and traffic implications. The proposal has received the required approvals.³⁰

3.50 Defence considered various options for the proposed new western access road's intersection with McMillans Road. Defence advised that a roundabout was not deemed suitable:

The issues around putting a roundabout in that location were more to do with the flow of traffic on McMillans Road. In putting in a roundabout we would actually give preferential treatment to Defence traffic coming onto the new road as opposed to the high volume of traffic on an 80 kilometre an hour road travelling through Darwin. It would mean we would have to slow traffic down on that road to 60 kilometres an hour for about 200 metres in either direction and you would get quite a significant traffic build up on McMillans Road to the detriment of the wider community by doing that.³¹

3.51 Defence also provided a letter from the Chair of the Knuckey Lagoon Recreational Reserve Board, which stated that:

... the vast majority of residents are happy with the proposed Western Access Road to Robertson Barracks. It goes a long way towards resolving our long standing issues with Defence use of local roads.³²

3.52 In relation to the proposed works at Moorebank, Defence stated that access to the site will be off Moorebank Avenue, not Anzac Avenue:

Again that reflects the fact that Moorebank Avenue is the heavy transport route and will become potentially more so with future use of that land. So it made sense from a planning perspective and also from New South Wales's perspective in our negotiations with

29 Mr M. Mooney, Leighton Contractors, *transcript of evidence*, 26 September 2012, p. 10.

30 Mrs D. Lund, Trapp Architects, *transcript of evidence*, 28 September 2012, p. 7.

31 Mrs D. Lund, Trapp Architects, *transcript of evidence*, 4 October 2012, p. 13.

32 Defence, Submission 1.4, p. 4.

them that we make our access off that side to keep heavy vehicles off Anzac Avenue as best we could.³³

Committee comment

- 3.53 The Committee accepts that Defence has addressed road and traffic issues at and around the project sites.

Environmental issues

- 3.54 Three key environmental issues are the removal of trees near Robertson Barracks, the transient population of koalas at RAAF Base Amberley and the proximity of the Cumberland Plains Woodland to Moorebank.

- 3.55 The proposed works at Robertson Barracks, including the new access road, will involve tree clearance. Defence stated that the Armstrong's cycads (*Cycas armstrongii*), declared vulnerable under NT legislation, would be relocated:

... we are planning to relocate the 450 cycads. As part of that internal process for Defence, I will issue a directive in terms of an environmental assessment report directing the project director to liaise directly with the Northern Territory Department of Natural Resources, Environment, the Arts and Sport to ensure that they are translocated in a proper manner.³⁴

- 3.56 Defence confirmed that all required approvals had been sought and granted for the project.³⁵

- 3.57 Koalas are known to be present at RAAF Base Amberley. Defence advised that it had followed the required Department of Sustainability, Environment, Water, Population and Communities protocols for vulnerable species and surveyed the area surrounding the proposed works. As a result of these assessments, a koala-friendly fence will be installed so that koalas can access vegetation.³⁶

- 3.58 The proposed works at Moorebank are in close proximity to a Cumberland Plain Woodlands area. Defence stated that it has ensured a buffer zone between the works and the woodlands:

33 Brig. D. Naumann, Defence, *transcript of evidence*, 4 October 2012, p. 13.

34 Mr L. Woodford, Defence, *transcript of evidence*, 28 September 2012, p. 9.

35 Defence, Submission 1.4, pp. 1-2.

36 Mr L. Woodford, Defence, *transcript of evidence*, 26 September 2012, p. 6.

We were certainly very conscious of the need to not impact on the Cumberland Plain Woodlands area. As you are aware, that is a critically endangered ecological community so there are certain obligations on us under the various governing legislation. We endeavour to keep to the north of that growth area and we have been able to do that. ... We have designed a buffer ... to ensure that we do stay well clear of the Cumberland Plain Woodlands environment.³⁷

Committee comment

- 3.59 The Committee is satisfied with Defence's approach to environmental issues.

Final Committee comment

- 3.60 The Committee's site inspections included an armoury, a kitting store and a parachute maintenance facility that were operating in buildings that were not adequate for Defence's needs. At these locations, the Committee also viewed aged, inefficient and inadequate warehousing facilities that were not built for purpose and were insufficient to support Defence capabilities. The Committee noted that these operations require better configured facilities, with unobstructed ceiling and floor space.
- 3.61 The Committee met various Defence personnel during this inquiry and thanks them for their contributions to the extensive briefings and inspections.
- 3.62 The Committee was satisfied with the evidence provided by Defence regarding the proposed Defence Logistics Transformation Program.
- 3.63 The Committee is satisfied that the project has merit in terms of need, scope and cost.
- 3.64 Having regard to its role and responsibilities contained in the *Public Works Committee Act 1969*, the Committee is of the view that this project signifies value for money for the Commonwealth and constitutes a project which is fit for purpose, having regard to the established need.

37 Brig. D. Naumann, Defence, *transcript of evidence*, 4 October 2012, pp. 12-13.

Recommendation 2

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: Defence Logistics Transformation Program.

Proposed upgrade of on-base housing for Defence at Larrakeyah Barracks, Darwin, and RAAF Base Tindal, Northern Territory

- 4.1 This chapter deals with two referrals:
- Proposed upgrade of on-base housing for Defence at Larrakeyah Barracks, Darwin, Northern Territory
 - Proposed upgrade of on-base housing for Defence at RAAF Base Tindal, Northern Territory.
- 4.2 The introductory sections for each referral will be provided separately. The project issues section will cover both referrals.
- 4.3 As on-base housing is owned by the Department of Defence (Defence) and managed by Defence Housing Australia (DHA), both agencies were involved in the inquiries.

Proposed upgrade of on-base housing for Defence at Larrakeyah Barracks, Darwin, Northern Territory

- 4.4 DHA seeks approval to upgrade on-base housing for Australian Defence Force personnel at Larrakeyah Barracks, Darwin, NT.
- 4.5 The purpose of the project is to upgrade 48 dwellings in the Larrakeyah Barracks residential precinct, in four stages.
- 4.6 The cost of the project is \$25 million, including GST.
- 4.7 The project was referred to the Committee on 19 September 2012.

Conduct of the inquiry

- 4.8 Following referral to the Committee, the inquiry was advertised on the Committee's website.
- 4.9 The Committee received one submission and one supplementary submission from DHA. The list of submissions can be found at Appendix A.
- 4.10 The Committee conducted a site inspection on 28 September 2012 in Darwin.
- 4.11 The Committee conducted a public hearing and an in-camera hearing on the project costs on 2 November 2012 in Canberra.
- 4.12 A transcript of the public hearing and the submissions to the inquiry are available on the Committee's website.¹

Need for the works

- 4.13 There are currently 1,700 Defence members with dependants who reside in the Darwin area. To meet the needs of these families, DHA manages approximately 1,650 dwellings in and around Darwin. Only 1,200 of these comply with the Defence minimum standard.
- 4.14 Much of the stock on RAAF Base Darwin, Defence Establishment Berrimah and Larrakeyah Barracks is old. Some dwellings, built in the years immediately following Cyclone Tracy, are now uninhabitable.
- 4.15 At 1 July 2012, 307 families were in private rental accommodation and receiving their housing subsidy in the form of Rent Allowance (RA). The proportion of families on RA, at 16.8 percent, is higher than the DHA target of 15 percent for the Darwin region.
- 4.16 The private rental market in Darwin is under stress, making it difficult for Defence families who cannot be accommodated by DHA to find suitable accommodation. The presence of significant numbers of Defence families in private rentals adds to the stress in this market. This upgrade project will reduce the number of Defence families in the private rental market.²
- 4.17 DHA has programmed the addition to its Darwin portfolio of 872 dwellings through construction, purchase and leasing options out to 2015. These will replace houses where leases are due to expire or that do not meet the new minimum standard. The Defence minimum standard was

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

2 DHA, Submission 1 (Larrakeyah), p. 1.

updated with an expectation that Defence-owned and DHA housing would be brought up to these standards by 2017.

4.18 While there will be a small overall increase in the size of the Darwin portfolio, this proposed upgrade project does not increase dwelling numbers on Larrakeyah Barracks. It seeks to refurbish run-down dwellings in order to provide Defence families with modern, up to date housing with amenity levels that meet the Defence minimum standard. The occupation by Defence families of what is expected to be highly sought after accommodation (because of its ideal location) will reduce numbers in the private rental market.³

4.19 The Committee is satisfied that there is a need for the works.

Options considered to meet the need

4.20 DHA's preferred delivery method is the acquisition of 'broad acre' land followed by development and construction, due to the economies of scale associated with bulk procurement of house constructions, surety of supply and higher margins associated with wholesale land development.

4.21 Other options include the construction of on-base housing, the purchase of developed land followed by construction, the purchase of established houses, the upgrade of current houses and the direct leasing of suitable housing. DHA is exercising all of these options in its Darwin program.

4.22 Defence and DHA evaluated and jointly agreed that the upgrade of 48 dwellings on Larrakeyah Barracks is economically viable and represents good value for Defence in the context of the overall program for Defence housing in Darwin. The houses are suitable for upgrade and, together with the new housing project on Larrakeyah Barracks, will provide a well located housing precinct that will serve Defence families for the next 20-30 years.⁴

Scope of the works

4.23 The scope of the works has been agreed between Defence and DHA. The works include a full mid-life upgrade of all the houses, including:

- modernising all fixtures and fittings

3 DHA, Submission 1 (Larrakeyah), pp. 1-2.

4 DHA, Submission 1 (Larrakeyah), p. 2.

- modernising kitchens, bathrooms and laundries
 - upgrading air conditioning, electrical and plumbing services
 - providing an ensuite extension to the main bedroom
 - providing a double or single lock-up garage to each residence
 - landscaping around the completed houses.⁵
- 4.24 Subject to Parliamentary approval, upgrades are scheduled to start from February 2013 and be completed by April 2015.⁶
- 4.25 The Committee finds that the proposed scope of works is suitable to meet the need.

Cost of the works

- 4.26 The overall project cost is \$25 million, including GST.⁷ The Committee received a confidential supplementary submission detailing the project costs and held an in-camera hearing with DHA on these costs.
- 4.27 The Committee is satisfied that the costings for the project provided to it have been adequately assessed by the proponent agency.

Proposed upgrade of on-base housing for Defence at RAAF Base Tindal, Northern Territory

- 4.28 DHA seeks approval to upgrade on-base housing for Australian Defence Force personnel at RAAF Base Tindal, near Katherine, NT.
- 4.29 The purpose of the project is to upgrade 131 dwellings on RAAF Base Tindal, in two stages.
- 4.30 The cost of the project is \$57 million, including GST.
- 4.31 The project was referred to the Committee on 19 September 2012.

Conduct of the inquiry

- 4.32 Following referral to the Committee, the inquiry was advertised on the Committee's website.

5 DHA, Submission 1 (Larrakeyah), p. 6.

6 DHA, Submission 1 (Larrakeyah), p. 11.

7 DHA, Submission 1 (Larrakeyah), p. 11.

- 4.33 The Committee received one submission and one supplementary submission from DHA. The list of submissions can be found at Appendix A.
- 4.34 The Committee conducted a site inspection on 28 September 2012 at RAAF Base Tindal.
- 4.35 The Committee conducted a public hearing and an in-camera hearing on the project costs on 2 November 2012 in Canberra.
- 4.36 A transcript of the public hearing and the submissions to the inquiry are available on the Committee's website.⁸

Need for the works

- 4.37 There are currently about 330 Defence members with dependants who reside in the Tindal/Katherine area in the Northern Territory. The township of Katherine is 320 kilometres southeast of Darwin and RAAF Base Tindal is a further 17 kilometres southeast of Katherine.
- 4.38 To meet the housing needs of these families, DHA manages about 320 dwellings in the Tindal/Katherine area (193 Defence owned dwellings on RAAF Base Tindal and the remainder in Katherine). At 1 July 2012, an additional 13 families or four per cent of the total were in private rental accommodation and receiving their housing subsidy in the form of RA.⁹
- 4.39 The proportion of families receiving RA is low because of the constrained nature of the private rental market in this remote locality and because rental accommodation in the region is of a generally low standard.
- 4.40 RAAF Base Tindal on-base housing was largely constructed in the mid-1980s when it was some of the best in the Defence portfolio. Small numbers of houses have been constructed more recently. Only minor upgrades have occurred since construction.
- 4.41 Community standards have improved since the mid-80s. Reflecting this, the Defence minimum standard was updated with an expectation that on and off-base Defence-owned and DHA housing would be brought up to these standards by 2017.¹⁰
- 4.42 The Committee is satisfied that there is a need for the works.

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

9 DHA, Submission 1 (Tindal), p. 1.

10 DHA, Submission 1 (Tindal), p. 1.

Options considered to meet the need

- 4.43 DHA's preferred delivery method is the acquisition of 'broad acre' land followed by development and construction, due to the economies of scale associated with bulk procurement of house constructions, surety of supply and higher margins associated with wholesale land development.
- 4.44 Other options include the construction of on-base housing, the purchase of developed land followed by construction, the purchase of established houses, the upgrade of current houses and the direct leasing of suitable housing.
- 4.45 In relation to this proposal, a 'broad acre' development in Katherine is not economically viable because of the generally underdeveloped nature of the local housing market which could not sustain the volume of sale and leaseback that would be required. The cost of construction of new residences and/or the upgrade of existing off-base properties in this remote area is also very high.
- 4.46 Accordingly, Defence and DHA determined that the upgrade of existing on-base dwellings is the most cost-effective means of supplying housing that meets the new minimum standard for families posted to RAAF Base Tindal.¹¹

Scope of the works

- 4.47 The project envisages the upgrade of the remaining 131 (out of a total of 193) on-base houses to bring them up to the Defence minimum standard.
- 4.48 The range of work on each house varies but may include:
- new kitchens, bathrooms and bedrooms
 - living room extensions
 - double garages
 - replacement of driveways where necessary
 - all soft and hard landscaping.¹²
- 4.49 Subject to Parliamentary approval, upgrades are scheduled to start from March 2013 and be completed by February 2015.¹³

11 DHA, Submission 1 (Tindal), p. 2.

12 DHA, Submission 1 (Tindal), p. 5.

13 DHA, Submission 1 (Tindal), p. 8.

4.50 The Committee finds that the proposed scope of works is suitable to meet the need.

Cost of the works

4.51 The overall project cost is \$57 million, including GST.¹⁴ The Committee received a confidential supplementary submission detailing the project costs and held an in-camera hearing with DHA on these costs.

4.52 The Committee is satisfied that the costings for the project provided to it have been adequately assessed by the proponent agency.

Project issues

4.53 The following issues apply to the proposed upgrades at both Larrakeyah Barracks and RAAF Base Tindal, unless otherwise stated.

Defence minimum standard

4.54 The Defence minimum standard was established by a new housing classification policy in 2007. The previous scheme was based on a 1980s-style house. The minimum standard was increased due to the dissatisfaction of Defence personnel and their preference to enter the private rental market and take up RA, rather than live in Defence housing.¹⁵

4.55 This situation is more costly for Defence and creates pressure on the private rental market. It also creates a disincentive for Defence personnel to stay at postings with lower quality housing.¹⁶

4.56 Because of this, Defence reviewed its national minimum standard to meet community and Defence personnel expectations:

... a contemporary lifestyle was really important to [Defence personnel] not necessarily where they actually were but for their general lifestyle specifically. We noticed a fair increase in concern about housing both with respect to safety and a reasonable quality of housing for members and their families, especially when the

14 DHA, Submission 1 (Tindal), p. 8.

15 Mr M. Jenkin, Defence, *transcript of evidence*, 2 November 2012, p. 4.

16 Mr M. Jenkin, Defence, *transcript of evidence*, 2 November 2012, p. 4.

members were being deployed in a high-operation time. It just added that little bit more security for them.¹⁷

- 4.57 Defence stated that the quality of housing used to be a disincentive for Defence personnel. However, since the implementation of the minimum standard, housing has become an incentive. Defence stated that it is now retaining personnel because of the quality of housing.¹⁸
- 4.58 Defence noted that housing is a particular issue in the Northern Territory as personnel and families must be relocated there so the quality of housing becomes a more significant factor than in other areas.¹⁹

Committee comment

- 4.59 The Committee notes that increasing community and Defence expectations for housing are part of the reason for these upgrades.
- 4.60 The Committee accepts that these upgrades will ensure that the dwellings will meet the Defence minimum standard.

Individual nature of upgrades

- 4.61 Each house to be upgraded is different and must be treated individually. There is also the risk for issues to be discovered as the upgrades progress. DHA has included adequate contingency into the project costs.²⁰
- 4.62 Ensuites and garages are key items to be added in the upgrades. As each house is different, there may not be a simple location for an ensuite:

It sometimes is a whole build-on. You can rejig the interior of a house – we do that – but sometimes it will not be just a minimum of going out under the roofline. If we need to, we have to go beyond that as well, so the cost is affected.²¹

- 4.63 Garages will also be added and will incorporate storage space:

We have provided a double garage, and the storage is deemed to be how they choose to use the second garage.

[Garages] are always outside the roofline anyway. But when we built the new double garage it was also slightly larger than the

17 Mr B. Jackson, Defence, *transcript of evidence*, 2 November 2012, p. 4.

18 Mr B. Jackson, Defence, *transcript of evidence*, 2 November 2012, p. 4.

19 Mr B. Jackson, Defence, *transcript of evidence*, 2 November 2012, p. 4.

20 Mr J. Dietz, DHA, *transcript of evidence*, 2 November 2012, p. 3.

21 Ms R. Grey, DHA, *transcript of evidence*, 2 November 2012, p. 5.

minimum standard so that people have a bit of storage around if they do decide to park two cars there.²²

- 4.64 When comparing the public cost figures for the projects, the upgrades at Larrakeyah Barracks appear to be more expensive than the upgrades at RAAF Base Tindal. DHA explained that this is because the houses at Larrakeyah Barracks are high-set, two-storey dwellings while those at RAAF Base Tindal are single-storey. This increases the volume and therefore the cost of materials for the works at Larrakeyah Barracks.²³

Committee comment

- 4.65 The Committee notes that the houses at Larrakeyah Barracks have not been upgraded since construction, and that some houses at RAAF Base Tindal have had minor upgrades.²⁴ The Committee understands that these differences mean that the types of upgrades required vary between houses.
- 4.66 The Committee is satisfied that DHA is taking all appropriate measures to deal with and mitigate the possible effects of the individual nature of the proposed upgrades.
- 4.67 In the in-camera hearing, DHA and Defence assured the Committee that at both Larrakeyah Barracks and RAAF Base Tindal, the proposed upgrades provide better value for money than demolition and construction of new houses.
- 4.68 The Committee is satisfied that the costs for the project are in line with what would be expected in the NT.

Employment

- 4.69 There is a shortage of construction workers in the Northern Territory. DHA noted that this can create difficulties when the proposed works are upgrades rather than full dwelling construction:

We see that we do not have as many responding for work when we do a tender as we might have in some of the southern states. However, in the tenders we have had, we have had enough people

22 Ms R. Grey, DHA, *transcript of evidence*, 2 November 2012, p. 5.

23 Mr J. Dietz and Ms R. Grey, DHA, *transcript of evidence*, 2 November 2012, p 5.

24 Ms R. Grey, DHA, *transcript of evidence*, 2 November 2012, p. 6; Mr J. Dietz, DHA, *transcript of evidence*, 2 November 2012, p. 8.

responding for us to get the work that we have had. [Construction projects such as the Muirhead development are large] enough to entice someone to come into the region specifically for our job and perhaps set up their own work. We do not find that as often in upgrades. It is more a smaller type local builder who would do the work in upgrades.²⁵

- 4.70 However, the upgrades will create jobs in the construction industry and other related industries. DHA provided an explanation for both locations:

In Tindal it is generally coming from Darwin. The builder will come down from Darwin but may use some of the local trades. In Larrakeyah generally, again, the contractors we have had responding to the upgrades are from Darwin.²⁶

- 4.71 DHA referred to a study showing that 4.6 direct jobs and 7.8 indirect jobs would be created in the NT for every \$1 million spent. For the two projects, an estimated 373 direct jobs and 632 indirect jobs are estimated to be created.²⁷

- 4.72 DHA indicated that getting contractors to work at RAAF Base Tindal can prove difficult, so the project has been scheduled over three years instead of over two decades. This makes the project too large for local contractors to undertake, however it is significant enough that contractors will relocate from Darwin to undertake the works.²⁸

Committee comment

- 4.73 The Committee is impressed with the data demonstrating the employment that will be created by the project.
- 4.74 The Committee acknowledges the difficulties of RAAF Base Tindal's remote location, and notes that DHA is encouraging contractors to the area by proposing large blocks of upgrade works.

Landscaping

- 4.75 Air flow at Larrakeyah Barracks is stifled by the existence of townhouse developments and lush green vegetation. The townhouses are close

25 Mr J. Dietz, DHA, *transcript of evidence*, 2 November 2012, pp. 6-7.

26 Mr J. Dietz, DHA, *transcript of evidence*, 2 November 2012, p. 6.

27 DHA, Supplementary submission 1.2, p. 1.

28 Ms R. Grey, DHA, *transcript of evidence*, 2 November 2012, p. 7, p. 8.

together and, combined with existing carports, can prevent breezes from flowing through the dwellings.²⁹

- 4.76 DHA stated that landscaping work within the Larrakeyah Barracks upgrades project will modify the vegetation to ensure privacy while capturing the prevailing winds.³⁰

Committee comment

- 4.77 The Committee experienced the significant difference in air flow in old and new residences at Larrakeyah Barracks, and particularly noticed the lack of air flow in the townhouse that was inspected.
- 4.78 The Committee recalls the design of DHA's Muirhead development, which enables air to flow throughout the dwellings, and is pleased that DHA will implement measures to improve air flow at Larrakeyah Barracks.

Final Committee comment—Larrakeyah Barracks

- 4.79 The Committee was satisfied with the evidence provided by DHA regarding the proposed upgrade of on-base housing at Larrakeyah Barracks, Darwin, NT.
- 4.80 The Committee is satisfied that the project has merit in terms of need, scope and cost.
- 4.81 Having regard to its role and responsibilities contained in the *Public Works Committee Act 1969*, the Committee is of the view that this project signifies value for money for the Commonwealth and constitutes a project which is fit for purpose, having regard to the established need.

29 Mr A. McClelland, Defence, *transcript of evidence*, 2 November 2012, p. 7.

30 Mr J. Dietz and Ms R. Grey, DHA, *transcript of evidence*, 2 November 2012, p. 7.

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: Proposed upgrade of on-base housing for Defence at Larrakeyah Barracks, Darwin, NT.

Final Committee comment—RAAF Base Tindal

- 4.82 The Committee was satisfied with the evidence provided by DHA regarding the proposed upgrade of on-base housing at RAAF Base Tindal, NT.
- 4.83 The Committee is satisfied that the project has merit in terms of need, scope and cost.
- 4.84 Having regard to its role and responsibilities contained in the *Public Works Committee Act 1969*, the Committee is of the view that this project signifies value for money for the Commonwealth and constitutes a project which is fit for purpose, having regard to the established need.

Recommendation 4

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: Proposed upgrade of on-base housing for Defence at RAAF Base Tindal, NT.

Ms Janelle Saffin MP

Chair

26 November 2012



Appendix A – List of Submissions

Proposed new National Archives Preservation Facility and refurbishment of the existing Mitchell facility for the National Archives of Australia at Mitchell, ACT

1. National Archives of Australia
 - 1.1 Confidential
 - 1.2 National Archives of Australia
 - 1.3 Confidential
2. Southern Distribution Hub

Proposed Defence Logistics Transformation Program

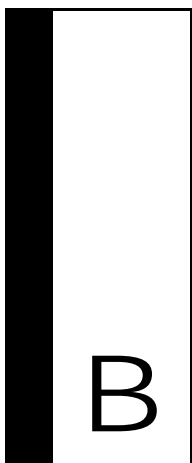
1. Department of Defence
 - 1.1 Confidential
 - 1.2 Department of Defence
 - 1.3 Confidential
 - 1.4 Department of Defence
 - 1.5 Confidential

Proposed upgrade of on-base housing for Defence at Larrakeyah Barracks, Darwin, Northern Territory

1. Defence Housing Australia
 - 1.1 Confidential

Proposed upgrade of housing for Defence at RAAF Base Tindal, Northern Territory

1. Defence Housing Australia
 - 1.1 Confidential



Appendix B – List of Inspections, Hearings and Witnesses

Proposed new National Archives Preservation Facility and refurbishment of the existing Mitchell facility for the National Archives of Australia at Mitchell, ACT

Monday, 9 July 2012 – Canberra

Public Hearing

Bill Ross and Associates (trading as RPL Pty Ltd)

Mr Bill Ross, Director

GHD Pty Ltd

Ms Jennifer Perrin, Service Group Manager, Project Management

National Archives of Australia

Mr Michael Boyle, Project Manager

Dr Stephen Ellis, Assistant Director-General, Operations and Preservation

Ms Cheryl Watson, Assistant Director-General, Corporate Services

Rider Levett Bucknall, ACT Pty Ltd

Mr Matt Richard, Director

In-Camera Hearing

Six witnesses

Friday, 2 November 2012 – Canberra

Public Hearing

National Archives of Australia

Mr Michael Boyle, Project Manager

Dr Stephen Ellis, Assistant Director-General, Operations and Preservation

Mr Len Marsden, Assistant Director-General, National Coordination

Ms Cheryl Watson, Assistant Director-General, Corporate Services

In-Camera Hearing

Four witnesses

Proposed Defence Logistics Transformation Program

Wednesday, 26 September 2012 – Ipswich, Qld

Public Hearing

Department of Defence

Brig. Peter Daniel, Director General Supply Chain, Joint Logistics Command

Lt. Col. Damian Drain, Project Director, Capital Facilities and Infrastructure

Mr Mark Johnstone, Regional Planning Manager, Defence Support Operations, South Queensland

Brig. Darren Naumann, Director General, Capital Facilities and Infrastructure

Mr Lloyd Woodford, Director, Environmental Protection and Assessment

KPMG

Mr Peter Griffiths, Logistics Advisor

Leighton Contractors Pty Ltd

Mr Matthew Mooney, Design Manager

Sinclair Knight Merz

Mr Warren Lear, Defence Project Director and Contract Administrator

Friday, 28 September 2012 – Darwin**Public Hearing****BaseWatch**

Mr Justin Tutty

Department of Defence

Brig. Peter Daniel, Director General Supply Chain, Joint Logistics Command

Lt. Col. Damian Drain, Project Director, Capital Facilities and Infrastructure

Brig. Darren Naumann, Director General, Capital Facilities and Infrastructure

Ms Rachel Rees-Scott, Manager, Estate and Facilities Services, Defence Services, Northern Territory

Mr Lloyd Woodford, Director, Environmental Protection and Assessment

KPMG

Mr Peter Griffiths, Logistics Advisor

Sinclair Knight Merz

Mr Warren Lear, Defence Project Director and Contract Administrator

Trapp Architects

Mrs Di Lund, Design Manager

Thursday, 4 October 2012 – Sydney**Public Hearing****Department of Defence**

Brig. Peter Daniel, Director General Supply Chain, Joint Logistics Command

Lt. Col. Damian Drain, Project Director, Capital Facilities and Infrastructure

Brig. Darren Naumann, Director General, Capital Facilities and Infrastructure

Mr Keith Robertson, Regional Estate Development Manager, Defence Support Northern NSW

GHD Pty Ltd

Mr John Marfleet, Group Manager, Project Manager

John Holland Joss

Mr Paul Cassel, Contractors Representative

KPMG

Mr Peter Griffiths, Logistics Advisor

Trapp Architects

Mrs Di Lund, Design Manager

In-Camera Hearing

Seven witnesses

Proposed upgrade of on-base housing for Defence at Larrakeyah Barracks, Darwin, Northern Territory

Friday, 2 November 2012 – Canberra

Public Hearing

Defence Housing Australia

Mr John Dietz, General Manager, Property Provisioning Group

Mr Vern Gallagher, General Manager, External Relations

Ms Ruth Grey, Upgrades and Heritage Manager

Department of Defence

Mr Mark Jenkin, Head, Defence Support Operations

Mr Alan McClelland, Director, Relocations and Housing

Mr Bruce Jackson, Assistant Director, Service Conditions and Housing Policy

In-Camera Hearing

Six witnesses

Proposed upgrade of housing for Defence at RAAF Base Tindal, Northern Territory

Friday, 2 November 2012 – Canberra

Public Hearing

Defence Housing Australia

Mr John Dietz, General Manager, Property Provisioning Group

Mr Vern Gallagher, General Manager, External Relations

Ms Ruth Grey, Upgrades and Heritage Manager

Department of Defence

Mr Mark Jenkin, Head, Defence Support Operations

Mr Alan McClelland, Director, Relocations and Housing

Mr Bruce Jackson, Assistant Director, Service Conditions and Housing Policy

In-Camera Hearing

Six witnesses