



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

JOINT COMMITTEE ON PUBLIC WORKS

**Reference: Development of 90 apartments - 101 Carey Street, Darwin**

THURSDAY, 1 JUNE 2000

CANBERRA

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**JOINT COMMITTEE ON PUBLIC WORKS**

**Thursday, 1 June 2000**

**Members:** Mrs Moylan(*Chair*), Senators Calvert, Ferguson and Murphy and Mrs Crosio, Mr Forrest, Mr Hollis, Mr Lindsay and Mr Ripoll

**Senators and members in attendance:** Senator Murphy and Mrs Crosio, Mr Forrest, Mr Lindsay, Mrs Moylan and Mr Ripoll

**Terms of reference for the inquiry:**

Development of 90 apartments—101 Carey Street, Darwin

**WITNESSES**

<b>BEAR, Mr Richard, General Manager, Development Sales, Defence Housing Authority.....</b>	<b>221</b>
<b>BELL, Mr Brian Gregory, Director Housing, Defence Personnel Executive, Department of Defence .....</b>	<b>221</b>
<b>LYON, Mr Keith, Managing Director, Defence Housing Authority .....</b>	<b>221</b>
<b>NARAYANASAMY, Mr Raya, Project Officer, Defence Housing Authority.....</b>	<b>221</b>
<b>WILLIS, Major General Simon, Group Head, Department of Defence .....</b>	<b>221</b>
<b>WILSON, Mr John, Acting Manager - Darwin, Defence Housing Authority .....</b>	<b>221</b>



**Committee met at 8.43 a.m.**

**BEAR, Mr Richard, General Manager, Development Sales, Defence Housing Authority**

**LYON, Mr Keith, Managing Director, Defence Housing Authority**

**NARAYANASAMY, Mr Raya, Project Officer, Defence Housing Authority**

**WILSON, Mr John, Acting Manager - Darwin, Defence Housing Authority**

**BELL, Mr Brian Gregory, Director Housing, Defence Personnel Executive, Department of Defence**

**WILLIS, Major General Simon, Group Head, Department of Defence**

**CHAIR**—On behalf of the committee I would like again to welcome representatives of Defence Housing Authority. I notice that we have some new faces and I would like to welcome particularly Major General Simon Willis and also Mr Brian Bell who are appearing before the committee for the first time in respect to this reference.

**Mr Lyon**—I will just briefly explain the organisational changes for the committee's benefit. Mr Bear has been newly appointed to the authority. He has got responsibility for all capital projects. We have moved to strengthen this function quite considerably. Mr Wilson is normally the manager of our office in Melbourne but we had some management issues that the committee was aware of in Darwin and John has been up there for the last six months running the Darwin office with a new manager who started on Monday—Mr Keith Mabey from the private sector. The other matter in that respect is that the board has moved to strengthen its control over major projects within the authority.

**CHAIR**—You may want to outline this perhaps in this next part. Thank you for introducing yourselves. The committee has received from DHA a revised submission dated April 2000 in relation to the Carey Street reference. The committee has authorised the publication of the submission, minus the commercial-in-confidence information. Do you want to propose any amendments to the submission?

**Mr Lyon**—No.

**CHAIR**—Before proceeding to questions, I would like to invite Mr Lyon to address the committee on the Carey Street proposal. The committee is particularly interested in confirming three points. Firstly, does the proposal make commercial sense; secondly, will this proposal meet an established Defence need for accommodation in Darwin; and, thirdly, will this proposal offer taxpayers value for money?

**Mr Lyon**—I will address those three points to start the proceedings. The board of the authority which is responsible for the authority's operations, including its commercial performance, believes that Carey Street does make commercial sense. The site is a valuable one in the Northern Territory. Having said that, as indicated in the in-camera evidence, the Darwin

market at the present time is somewhat limited. Before the board approves this project to finally go ahead, it needs to obtain the results of tenders so it has got a firm idea of what the costs will be to construct the project. Secondly, it will take further soundings in respect of potential capital growth, which is the other part of the project. The board is being sufficiently confident to actually purchase the land for \$2.2 million from the Northern Territory government. But before it actually decides to go ahead, it wants the additional work done.

With regard to the defence need, we have confirmed that with the Department of Defence. We have Major General Simon Willis with us who will be able to talk to that, or Mr Bell. It is the Major General's first day in his new position, so we need to just recognise that. Essentially, we are talking about two-thirds of the eventual tower being occupied by the Department of Defence. We are providing one, two and three bedrooms, which will cover a range of interests. The total Defence requirement in Darwin is of the order of 1,800 units, plus the authority is also picking up responsibility for assisting Defence in providing off-base singles accommodation. At the present time, there are a significant number of single people in accommodation like this.

The third question is whether the taxpayer is getting value for money. We would not be doing this if we did not believe that would be the case. The Defence Department and the ADF are going to be in Darwin for a very significant period. It is quite a difficult posting in many respects for the families. A lot of them are away from their support. The climate in Darwin is tropical in nature, which makes this type of living—for some; not for all, but for some—particularly important. Also, of course, its location being so close to the city is added value—not only from a convenience point of view but also in terms of offering spouses employment, which is a significant issue in Defence retention.

**CHAIR**—Thank you very much. I am going to lead off with a question if I may, and there are actually several that emanate from the first point I want to cover. In terms of this project meeting housing needs in Darwin, I notice that there will be 62 units available for Defence from this particular project in Carey Street, but I also recalled seeing in the body of the notes you gave us that you were 16 units down in your estimate of current needs. Can you give us some indication of what the forward predictions are to suggest that those 62 units would be taken up by Defence, for Defence accommodation?

**Mr Lyon**—I will start and I will ask Mr Wilson, who has been responsible for running our operations, to elaborate. Within Darwin we have some really new stock and we have a mixture of older stock which we are seeking to replace over time. So in terms of today's circumstances, we are able to basically meet the Defence housing requirements from within our existing stock, but we are seeking to replace some of the older stock, which is in the northern suburbs and approaching 25 years of age as I understand it, as part of this project.

**CHAIR**—So how many old stock need to be replaced?

**Mr Wilson**—The studies that have been done so far, Madam Chair, show there are about 800 to be replaced over the next eight or nine years.

**CHAIR**—Eight hundred to be replaced?

**Mr Wilson**—Over that period. But a restriction on that is the number of houses we can place into the market to dispose of in a measured rate without affecting the capital value of other houses in the area.

**CHAIR**—Yes of course.

**Mr Wilson**—And because of the market circumstances in Darwin, it is estimated that at the current rate we could not do more than probably 50 a year. That disposal rate will influence the number of new houses that we bring on and the way that the thing is managed.

If I may just address the point where you say there is a shortage of houses. The authority works on a figure that is provided to us in a document called the Defence Housing Requirement, and the forecast for the DHR for year ending June this year was 1,856 houses. We currently have 1,807 houses and we have 34 under construction that will be delivered by 30 June, which shows a shortfall against the DHR of 15. However, right now we have 33 houses vacant out of the 1,807 and this has been brought about by the posting turbulence that has occurred with people coming back from Timor, with people taking discharge after having served in Timor and some marriage breakdowns.

In our initial projections when I first went there in November, when we did the forecasting we thought that as at 1 July, with the extra 34 houses coming on, we would have seven excess. But those figures have been up and down with a lot of things that we manage daily. Now that we are in the allocations function we have the total control over that and we are managing that true. So we have decided to go, at the end of this financial year, with the concurrence of Defence, at minus 15 on the DHR.

The next year the Defence Housing Requirement, as at July 2001, was forecast to be a requirement of 1,956, which was an increase of 100 houses, occasioned by an additional four patrol boats forecast to go to the Darwin area, and an additional 39 people to come forward from down south from 8/12 Medium Regiment.

Patrol boats have a crew of approximately 25 and having talked with the Navy about what percentage of them may be married, we find that we are talking probably about 30 people out of the 130-135. So at best forecast, we have said that we would go for the year June 2001 at 34 short of the requested figure from Defence of 1,956. Any shortfall that occurs in that point in time, we can cover by using rental assistance for married people in the Darwin market. The reason we have stopped at 1,922 is that for the ongoing years from then predicted by Defence through to June 2005, the DHR then is level three at 1,922. The build up of the forces to that stage has steadied out at that point, at 1,922. There will be some minor fluctuations, but we can address that through the RA market.

**CHAIR**—I understand—and I am sure the rest of the committee does—that there has to be a certain amount of leeway, but it has been quite an issue and we have never had a very comprehensive answer to it, so we appreciate those details. I would like to follow on from there and refer to Mr Lyon's letter. On page two of the letter at the last dot point you say:

The construction on the project would materially assist the local industry which is currently weathering a slump.

That gives rise to a number of questions, the first being, given these are the conditions, has DHA reconsidered this project in terms of its cost effectiveness, ie are there many units on the market and are prices down? So have you taken into account the current market conditions in Darwin in putting forward this particular project?

**Mr Lyon**—Madam Chair, we have and again, I will ask Mr Wilson to address that because we continue to watch what is available in the community from the point of view of providing Defence needs.

**Mr Wilson**—There are excess and vacant units in the Darwin area at the present moment and some of those are vacant because the developers who have put them into the marketplace are asking exorbitant weekly rentals for them.

**CHAIR**—Is that going to change though, given that there is a slump there? Sooner or later they cannot hold out if the market is not there for those very high rentals?

**Mr Wilson**—One would think that, but also in Darwin at the present moment there are still developers who are building very up-market apartments at Myilley Point which are retailing from between \$350,000 up to a million dollars. The information I got the other day was that of 38 of those, there are still only four that are not sold and they are thinking of building more. To be quite honest, I cannot see that it can be sustained, but at the present moment, it appears that they are.

**Senator MURPHY**—Have rents changed in the last six months in Darwin?

**Mr Wilson**—Rents have fallen in detached housing.

**Senator MURPHY**—What about apartment housing?

**CHAIR**—I just wanted to follow on if I can with a couple of things in relation to this.

**Mr Lyon**—Could I just add to Mr Wilson's answer there, is that the Darwin market is a very small market. It is a market that has experienced continuing growth over a period of time. It is possible with developments like the railway and the potential gas that the supply side could be picked up. Mr Wilson also has looked at which of the apartments would be suitable in the existing market and can talk to that as well. But as I understand it, a significant number of the units that are on the market are ones that are not considered suitable.

**CHAIR**—Can I just come back to that, because that was the next question in the series that I wanted to ask, related to this one matter. When you talk about appropriate choices for Defence personnel, in what way do their needs differ and how will the Carey Street project particularly meet those needs as against what else might be available?

**Mr Wilson**—As Mr Lyon says, some of the apartments and units that are vacant at the present moment are at the lower end of the quality stock. They are also located in areas which are not in close proximity to shops, the facilities that people need and do not give the



opportunities for spouse employment as easily as some of the other buildings that are developed into the areas closer into the CBD.

**CHAIR**—But the committee has visited Darwin and the main area of Darwin is not a huge area and most of the high rise apartments are going up within a fairly concentrated area.

**Mr Wilson**—Some of these are located in areas where there is a lot of nightclub life and that type of entertainment. I do not believe personally that that is the sort of environment that you would want to live in continuously as a family—in a high rise apartment in that sort of location.

**CHAIR**—A final question before I ask other members of the committee to ask questions: how has the slump affected land prices and the availability of land, and ditto for apartments? You raised this issue in 1.3 of the introduction. What I am driving at here is have you assessed whether there are sites other than Carey Street that may be more cost effective?

**Mr Wilson**—In relation to high-rise development?

**CHAIR**—Yes. Or in relation to attached dwellings. I am not necessarily convinced that people have to be housed in high-rise to get the kind of amenity that you are talking about for Defence staff. But if you can perhaps convince me otherwise, I am willing to listen.

**Mr Lyon**—High-rise is only a part and, indeed, a small part of the overall supply solution.

**Mr Wilson**—We have looked at the land availability in the Darwin area in the study that was conducted. It is very scarce. There are problems which impinge on it, such as Aboriginal land rights or restrictions in that way.

**CHAIR**—We have actually heard all of those things. I was just wondering that, with the slump that Mr Lyon refers to in his letter, how has that actually affected the availability of land and, indeed, the availability of existing apartments?

**Mr Wilson**—Cut land to develop on at the present moment is in short supply, other than land that is in areas that are very expensive. I had discussions last week with the Delfin group in relation to more land coming on in the Palmerston area. Those building blocks are now coming in at between \$55,000 and \$70,000 a block but because of the low purchasing that is going on in a small town at the present moment, I think Delfin are showing a reluctance to go ahead and release more land and develop it because they are not sure of the impact that things like rising interest rates, the GST and the rest will have on the home markets and the purchase of land in Darwin in the short term.

**Mrs CROSIO**—If they are not sure, how are you sure?

**Mr Wilson**—I have been doing a study on behalf of the authority to meet the changeover of old stock and new stock over a protracted period of time. We have looked at the options of excising land, which is on base now at Coonawarra, at the RAAF base, at building some properties maybe on Larrakeyah and also looking at the possibility of developing some Commonwealth-owned land at Lee Point Road. They are options that the group has at the

moment to look at to provide more detached housing on a greater scale. At present the inner city land available in Darwin is very expensive. For example, for 500-metre blocks it costs between \$130,000 and over \$220,000 a block.

**CHAIR**—How will the sales and income be affected, again, by the slump? Will you be able to meet your projected income stream from this development as a result of that slump? How long do you think it is going to last? How have you determined your profit and risk factor to cover that risk?

**Mr Lyon**—Mr Bear can talk in detail about the numbers. Essentially, the main issue for us with the slump is that we expect to be able to construct these towers at a very competitive rate. That is the first point. The second point is, as I mentioned before, the board, when it is assessing the commerciality of this project, will take a long-term view. This is a site that is quite significant but it is in a part of the city that still requires further development. So the board may decide not to put the units on sale on the lease back program immediately, but to finance the project through another form of debt, if you like, through either corporate debt or through one of the more innovative financing arrangements. All of those things, we will be looking at when we get a response to the tenders that we are about to put out, subject to the committee endorsing the project.

**CHAIR**—Are you telling me that you would go ahead with this development even if you knew you could not sell the apartments, that you would leave it sit vac? Regardless of how you finance it, there is still a cost to the taxpayer of having a monolithic type building there that is either not occupied or not able to be sold or leased.

**Mr Lyon**—No, I am not saying that. I think I stressed right at the very beginning that the board will make its decision once it has got the costs of the project much better understood and there is only one way you can do that and that is to get a tender. The second thing is that the board will reassess the market situation at the time it decides to go ahead. If the market is not sufficient to produce the returns, it will decide whether or not to go ahead—indeed, it has got options in going ahead with only part of the project. All those things will be looked at at that point in time.

**CHAIR**—Thank you very much.

**Mrs CROSIO**—Mr Lyon if I could take you back again to your submission and a comment that you made in your letter:

In these circumstances I am recommending that the committee approve the Carey Street project, noting the authority's board were responsible for deciding if and when construction should proceed.

Do we, as a committee, take it from that that it could be six months, 12 months, two years?

**Mr Lyon**—The timing when you expect the—

**Mrs CROSIO**—In this submission you are now virtually asking the committee to give approval that will allow you to do it if and when you feel the time is right.

**Mr Lyon**—Yes, we are Mrs Crosio. These are really very unusual circumstances.

**Mrs CROSIO**—Extraordinary circumstances.

**Mr Lyon**—The issue here is that we are not like a normal government department. As a government business enterprise, it is the board that has responsibility to decide commercial decisions subject to whatever guidance its shareholder ministers propose.

**Mrs CROSIO**—But you have also admitted it is the first time the board has ever gone into a high-rise development in this commercial sense.

**Mr Lyon**—Yes.

**Mrs CROSIO**—So on what experience are you basing this? What type of past experience do you have to even say that you know exactly when the market is going to be right?

**Mr Lyon**—Well the authority has been in existence since 1988. While this is the first venture into high rise, it has done extensive commercial developments in residential real estate including basic land developments, either alone or in joint venture with another organisation.

**Mrs CROSIO**—But Mr Wilson also said in answer to Madam Chair's question that private developers are now finding that evaluating the market is very difficult because they have to take into account future interest rates, GST and the commercial viability of their particular developments. How does that exclude the board from not taking those into account, bearing in mind you are asking us to give you approval so that you can then do it—if and when you feel the time is right. How do you then assess the effect of the GST, interest rates, and what the commercial viability is going to be that far into the future? That is why I asked whether it would be three months, four months or one month. If you walked out of here with approval today, when do you think you would be able to actually build it? I will put it in a nutshell like that.

**Mr Bear**—We can immediately proceed to tender the project.

**Mrs CROSIO**—I have another problem with the tender and I will come back to that later. Again in your submission you said that if you go to tender it may change your actual designs. In other words, you have given us a new submission now, far better than what it was in September, stating that instead of the four-bedroom apartments you will now do one-, two- and three-bedroom apartments because you have done a survey of your people and their needs. But you have also said that you are going to go to tender and the people who put in the design may change the building design—change the number of units, reduce them from 95, or change the size of them.

**Mr Bear**—The development approval is for 95. So in that design and construct approach, it is areas at the margin. We would bring the expertise of the builders or the potential constructors into how we might make better use of the structure that we have proposed. So we would go to the builder and say, 'We need 60 units of this type, of this specification, for our Defence needs. The development approval is for another 35, up to 95. Here is how we think it would best work, but you are the experts in building these things, so why don't you go away and come up with

your thoughts on how that might be done better to improve the return, to make it a better project'. Then we would sit down and look at it from that point of view. It is not a wholesale change. There will still be three towers and there will still be 95 apartments. But they might want to put a larger apartment on top because they think it will give it better value. They might want to put—

**Mrs CROSIO**—Do you actually go to them and say, 'This is all we can spend?'

**Mr Bear**—No. It is a competitive tender situation.

**Mr Lyon**—Actually, we expect the cost to come in less, as we have indicated in the document. From a viability point of view, I just make two points. The first is that we will be committed to 65 of the units. For a commercial organisation, that is a very large commitment in terms of building a complex like this. The second issue here from a commercial point of view really is one of timing related to the capital growth in the project. This is really an issue of timing because it is a really good site in Darwin. So they are the two key issues.

The board is simply saying, like any other commercial board, that if they have got it wrong, if the costs do not come in in the way they expect, then they would not want to go ahead. If the response were that the market for 30 units, which are an integral part of the overall project, is simply not there, then they would also seek not to go ahead. But in making this decision, the board has looked pretty closely at what the authority is paying for the land, what the land would be worth if they had to sell in the event that they decided not to go ahead and being comfortable in saying that it makes sense to them to go to the next step. For example, in camera we could talk a little bit about land values. We really do not want that on the record, if we could avoid that.

**Mrs CROSIO**—I have got a couple more questions but I will let somebody else have a turn.

**Mr FORREST**—Just on that question of the board's approval, we discovered with Parap Grove that the board had not given its approval. Is the land paid for, because I notice in reading through the submission that there are still discussions about annexing a corner of the land to widen a road and there is discussion about the value? Whose name is on the title of the land today?

**Mr Lyon**—Today, it is the Northern Territory government but the board actually approved paying the balance—it had paid a 10 per cent deposit some time ago—by the 30 June, which is not very far away.

**Mr Bear**—We have a contractual commitment with the Northern Territory government, which calls for settlement by 30 June.

**Mr FORREST**—What is the position with the development permit? You have said that there is now a permit for 25 units. I am looking at a permit here dated—

**Mr Bear**—It is 95 units.

**Mr FORREST**—Sorry, 95. The permit dated 6 April refers to drawings that are not the same drawing numbers that you have given us here in the documents. Can you explain that? Which permit am I looking at here at attachment A.

**Mr Narayansamy**—That is the third tower, the 35 units.

**Mr FORREST**—It says here ‘development permit ... in accordance with drawings numbered 9595-A20/B.’ The drawings in your submission are nowhere near that. They are 9563-SK102. Do the drawings in your submission to us have a planning permit or not?

**Mr Bear**—We have a planning permit.

**Mr FORREST**—Could I just ask you: does the planning permit apply to drawing No. 9563-SK100 because that is the design that you have put before us? Does that have a planning permit or not?

**Mr Lyon**—Could we just take a second?

**CHAIR**—Perhaps while you are looking for that we can move on to the next question.

**Mr FORREST**—It is a pretty simple question. It ought to be able to be answered quickly. It relates to a whole stack of other things, which the committee raised at the previous hearings about head works, charges and so forth. A lot of time has transpired. You ought to be able to say fairly quickly whether the plan you have given us has planning approval or not.

**Mr Narayansamy**—It has got planning approval. You are checking on the numbers. The numbers may be slightly different there.

**Mr FORREST**—I suspect that we have got a planning approval for the previous plan, which was for two towers. Drawing No. 9595 was the two-tower project.

**Mr Bear**—There are two planning permits—one for the two towers that were originally approved and then, since we met previously, there is now planning approval for the third tower.

**Mr FORREST**—Could you provide the committee with some evidence of that planning permit?

**Mr Lyon**—We certainly can.

**Mr FORREST**—The other matter is to do with the head works charges. There were matters to do with road deviations and sewerage and so forth. Is that resolved now? You have not provided it yet but can you provide to the committee evidence that that is all resolved and we now know how much we are up for?

**Mr Lyon**—I can let you have it.

**Mr FORREST**—The other issue that is more substantial is the whole idea of procurement. I have got some real reservation about the way the Darwin market operates. We have got presumably an architect doing schematic designs now. The plans show that to be Liveris Holdings. Could you explain who they are?

**Mr Bear**—Liveris Holdings are a firm of Darwin architects who were engaged to do the feasibility planning. Their engagement is now completed and when we go through the tender and the design and construct tender process then the builder would engage a new firm of architects.

**Mr FORREST**—Are they only architects or are they also developers?

**Mr Bear**—They are only architects. We have also engaged a firm called Incoll from Sydney, who are a major project management firm with considerable experience in major high rise developments in Sydney. They have also worked in other markets including Darwin. We have engaged them to advise us in a professional capacity in the next stage.

**Mr FORREST**—What about the selection of a developer?

**Mr Bear**—They will help us prepare the documentation and guide us through the selection process and ensure that the appropriate professionals are engaged.

**Mr FORREST**—How will that procedure operate? How will you invite developers to make submissions?

**Mr Bear**—We have set up a project control group chaired by an independent Darwin businessperson, Mr Michael Mooney. That committee has on it the local HMC manager, Mr Wilson, our legal adviser from Ward Keller, John Tsoulais, and myself. That group has advising it the Incoll company as project managers and advisers. That group will have responsibility for putting together the design and construct tender specification documentation and for ensuring that it is conducted in an appropriate manner with appropriate probity in place. They will do the evaluation process and make recommendations to the DHA board.

**Mr FORREST**—Then what happens? A specification is prepared. How will it be announced to potential participants?

**Mr Bear**—Earlier on there were expressions of interest called for from the construction industry for the building of these towers and a process was gone through where four of those organisations were short-listed through that expressions of interest process. There was a publicly announced expressions of interest tender process conducted.

**Mr FORREST**—How wide?

**Mr Bear**—Open, totally open.

**Mr FORREST**—Yes, but nationwide?

**Mr Bear**—Nationwide, yes.

**Mr Wilson**—I think there were 17 replies and in the evaluation that was done four were short-listed, but they have not been announced or informed at this stage.

**Mr FORREST**—Can you supply to the committee a list of all of those who submitted an interest?

**Mr Bear**—I certainly can.

**Mr FORREST**—And the process of how you narrowed it down to four?

**Mr Bear**—That process was conducted some months ago.

**Mr Wilson**—With a probity audit—

**Mr Bear**—Freehill, Hollingdale and Page sat in on that process as probity auditors.

**Mr Lyon**—The four companies, which we would provide in camera, are all very reputable companies.

**Mr FORREST**—I am not worried about those, I am just worried about the whole probity and propriety of the process—that when the design had not yet been completed and all of those things happening, changes are still occurring. I want to be absolutely satisfied, and I want to see a submission describing the whole process and where it has got to today.

**Mr Lyon**—Yes.

**Mr FORREST**—Can you just tell me at least where those four short-listed companies come from, where they are located?

**Mr Bear**—They are all from outside Darwin, major companies.

**Mr FORREST**—All outside Darwin?

**Mr Bear**—They are major companies involved in the construction of these types of buildings.

**Mr FORREST**—That is all from me for the moment.

**CHAIR**—Okay, thank you. Mr Ripoll.

**Mr RIPOLL**—Thanks, Madam Chair. I just wanted to go over the revised figure that you have. The old figure, I think, is \$31 million, in terms of the costs, and the revised figure is \$27.5 million, and that is actually for an extra five apartments. Can you just explain what factors affected that reduction in estimated cost?

**Mr Bear**—Firstly, there was the type of units. The first time around it was primarily three-bedroom units, so you had a larger footprint. The current structure has a much smaller footprint and less height. That is the primary reason. There are also a few small things, like no tennis court, no squash court, less car parking.

**Mr Lyon**—In approaching the cost, there were two things I asked the group to do: firstly, to take a much stronger commercial approach in terms of the configuration of the units. I was not convinced that all three-bedroom units was a sensible strategy to follow. Secondly, I asked them to look at reducing the cost because I was concerned, as indeed I know the members of the committee were concerned, about the longer term real costs for the Defence department. So we have set about restructuring the cost of these so that they fit within the normal Department of Defence regular limits.

**Mr RIPOLL**—Just following on from what Mr Forrest was pursuing with the permits, I am just having a look at the permits and it has, I think, 8 by 1, 2 by 8 and 19 by 3. Unless I have miscalculated, that adds up to 81 units. Is that right or not right? Can you just confirm for me how many units your permit actually has on it?

**Mr Bear**—Thirty-five.

**Mr RIPOLL**—I am looking at attachment A for part lot 6665, 9 Carey Street. It says:

Consent is hereby granted, in pursuance of section 52(1)(a) of the Planning Act for the purpose of 19x3, 8x2 and 8x1 bedroom flats in 10 storeys...'

**Mr Bear**—That is the 35 to be contained in tower 3.

**Mr RIPOLL**—But if you add those up, that is 81 units—is that right or not right?

**Mr Bear**—No, 19 by three bedroom—

**Mr RIPOLL**—That is right.

**Mr Bear**—Eight by two and eight by one, so

**Mr RIPOLL**—That is 27.

**Mr Bear**—It is 35. Nineteen plus eight plus eight.

**Mr RIPOLL**—Sorry, that is okay. I was thinking over the three towers.

**Mrs CROSIO**—Can I follow up that question? You have increased the number of units from 90 to 95, but you have reduced the car parking. How does that meet the code—

**Mr Bear**—No, it is still within the codes and there are 238 car parks overall.

**Mrs CROSIO**—So it does meet the requirement even with the increase of five units?



**Mr Bear**—It exceeds the minimum requirement.

**Mrs CROSIO**—And you have eliminated the tennis courts and squash courts, fair enough in Darwin! Have you still got a gym and, if so, where is that?

**Mr Narayansamy**—Yes.

**Mrs CROSIO**—Where are you putting the gym, internally somewhere is it or has it just been moved around?

**Mr Narayansamy**—No, it is internally—it is in the basement.

**Mr LINDSAY**—Mr Lyon, in your letter to the chair of the committee, dated 1 May, you said that you wanted to emphasise that the project would need both to examine alternate development approaches and to receive cost confirmation. In relation to alternate development approaches, can you say what they might be?

**Mr Bear**—As I was endeavouring to mention before, it could be how the constructor might go about it. He might want to put a bigger property on the top floor because that adds value. So it is in the structure in the content of the towers.

**Mr LINDSAY**—I read that as an alternative way of satisfying this requirement for accommodation, meaning something off the site altogether, so I—

**Mr Bear**—That is a poor choice of words.

**Mr LINDSAY**—Okay.

**Mr Lyon**—Just one additional point to what Mr Bear was getting at is alternative financing arrangements. We will structure the tender process in such a way that the proponents can come back and actually bid to buy the ones that we are seeking to put on the market. Indeed, I would not be surprised if that actually occurs, because our long-term interest here is very much confined to the provision of housing for the ADF. The only reason why we are adding surplus units in one sense is that, from a social point of view, we have agreed with Defence that it is not desirable to have as many as 95 in one concentrated burst of ADF families.

**Mr LINDSAY**—Okay. Mr Lyon, one of the reasons that you are recommending that this project proceed is the bottom dot point in your letter which says

Construction on the project would materially assist the local industry which is currently weathering a slump

Why is DHA interested in materially assisting the local industry? Where is that in your charter? Why is that of good value to the Commonwealth of Australia?

**Mr Lyon**—For quite a number of years the authority has been very conscious of the need for it to work in partnership with the industry. As a result of this, we try and structure our construction programs so that they are consistent over a period of time where we can do that to

provide consistency of the employment. By adopting this approach we believe it is sensible also from a commercial point of view because it means that our contracting partners usually turn out to be very reliable—whether it is in the area of maintenance or in the area of construction. So we are really here adopting a long-term approach and that is the way in which we do business.

**Mr LINDSAY**—In relation to this issue of your first venture into the planning, construction and delivery of high rise apartment accommodation, is it also your first venture into, as part of the development, commercially selling some of the apartments?

**Mr Lyon**—I believe it is the first of this type. We have had a number of joint venture arrangements whereby the authority has been involved in the opening up of new estates where it has produced land well in excess of its requirements because it has, again, a longstanding policy agreed with Defence not to saturate particular suburbs with members of the ADF. For example, at Palmerston I think about one-third of the joint venture which we initiated with Delfin fits into that category.

**Mr LINDSAY**—This is not a joint venture?

**Mr Lyon**—No, this is not a joint venture.

**Mr LINDSAY**—I hold a strong view that in general circumstances the government should not be in competition with private enterprise. Why then could this not be considered as, again, some kind of joint venture so that whoever the venture partner is shares or assumes the risk of what it is that you are trying to do innovatively here? Why aren't you giving the development community the opportunity to be involved in this rather than yourself?

**Mr Lyon**—This is a very important question and I agree with you that it is not the role of the authority to be in the business of building houses or units for the market as a whole. The reason we have started this way—and it is predominantly an ADF arrangement with the two-thirds of the units being with the ADF—was simply to provide a social balance. It may well be that the response we get for the construction will enable us to actually move into some sort of joint venture type arrangement with responsibility for the private units, if you like, being immediately taken over.

**Mr LINDSAY**—I understand the need for social mixes. There is quite a lot of evidence about that and I support that. If the committee were to recommend to you that this be done as some kind of a joint venture development, how would that sit with you as an authority? Would you be able to accept that?

**Mr Lyon**—The board has asked for the next step to open up as an opportunity.

**Mr LINDSAY**—In giving our approval, one of our conditions was that we saw that this should be some kind of joint venture. Does that create any downsides for the authority that we should be mindful of?

**Mr Bear**—No. The intention of the design and construct tender that we are endeavouring to put together would be just that in the sense that we would be looking for innovations in terms of

the constructor and/or a financial partner or whatever of the constructor taking the responsibility and ownership of that one-third of the project. That is certainly an avenue that we intend would be looked at in that evaluation process.

**Mr LINDSAY**—Mr Lyon, you say this is a very important point, and indeed it is, but the material before us is not suggesting that or making that clear.

**Mr Lyon**—I believe the authority could live with a recommendation along the lines you are suggesting, but it is something I would obviously need to take to the board.

**Mr LINDSAY**—If, when you go through the tender process, the tenders come in below what you are expecting, do you intend then to develop the project at that cost?

**Mr Lyon**—Yes.

**Mr LINDSAY**—What I am really saying to you is that some elements of people that we deal with tend to get an approval for and spend that amount of money. What is your intention in that regard?

**Mr Lyon**—If the tenders come in at less than we expected—indeed we are hoping they will—we will build at the lowest possible cost that we can get. As I said, we are a commercial organisation and we are bottom line driven.

**Mr Bear**—And managing to that figure is one of the several reasons for engaging an expert in that business. One of the expertises that the Incoll organisation possesses is an ability to manage within a tendered figure.

**Mr LINDSAY**—One of the ways of managing within a tendered figure of course is that if the figure is here then you will look at it and say, ‘We’ll remove this or that from it’. Then what the committee approved is not in fact what is built. Is that the situation?

**Mr Lyon**—It will not be the situation here. If we are able to build it at lower cost then that is what we will do.

**Mr LINDSAY**—I have a couple of housekeeping matters. Mr Wilson you indicated some options as to where extra land might be available and you mentioned Coonawarra. It was my memory—and I could be wrong—that previous evidence to the committee indicated that no further development on the Coonawarra site was possible. I do not know whether committee members remember that. Why are you now saying that there is an opportunity to develop at Coonawarra?

**Mr Wilson**—You are right in what you say. In the study that we have done there have been some problems associated with noise from the racetrack which adjoins the Coonawarra base—at Hidden Valley racetrack. That imposes major limitations and the costs associated with the attenuation of that noise would need to be looked at. All I am saying is that there are on-base parcels of land at present; they do have some impediments to construction, but we are looking

further to see whether those could be overcome and what the cost would be associated with that development.

**Mr Lyon**—Mr Wilson is talking about a study that I asked him to do as a background to the development of a business plan for the next five years for Darwin. Our conclusion is that Coonawarra really is not a goer because of Northern Territory plans, but John was just looking at that in the event that land simply is not available. Our preferred strategy coming out of the work that Mr Wilson did is to pursue the land at Lee Point Road, which we are doing with the Department of Defence and the Northern Territory government and we are doing that as actively as we can. Thirdly, we are conscious that getting access to land in Darwin is difficult so we have looked at some fallback options.

**Mr LINDSAY**—Earlier this year in giving evidence before the committee, Major General Dunn spoke about developing a service agreement between Defence and DHA. Has there been any progress on that? Where are you with that?

**Mr Lyon**—There has been very substantial progress on the service agreement. In fact, I am hoping to actually be able to sign off with the Defence department later today on the service agreement. It provides a pricing basis and a risk sharing arrangement between the Defence department and the Defence Housing Authority for the first time and it reflects nearly seven months of fairly intense negotiations. As part of these arrangements the committee might be interested that the federal government in its last budget supplemented the Defence department to the tune of \$70 million a year in order to be able to fully put our relationship onto a proper commercial basis.

**CHAIR**—Can we get a copy of that agreement?

**Mr Lyon**—Yes, I am sure you can. I am not sure whether at this stage it is a confidential agreement. It still might need to go to the shareholder ministers—that is Mr Scott and Mr Fahey—for endorsement and that is something that I am hoping also to sort out today with my chairman.

**Mr LINDSAY**—There may be a hiccup in that because I understand that the new head of the Defence Personnel Executive is a pretty tough cookie and might be wanting another 10 per cent discount on that!

**Mr Lyon**—That is why we are moving fast today.

**Major Gen. Willis**—I actually know the answer to that one—in fact, it is head of corporate support who signs it and not I!

**Mr LINDSAY**—Can I just make a final comment in relation to an earlier question I was asking you about DHA's role in the marketplace, joint venture partners and so on. I just want to restate my view that DHA should remain in full government ownership and should operate under the conditions that it currently operates under. I just state that for the record.

**Mr Lyon**—Indeed, that is government policy.

**Mrs CROSIO**—Of your apartments, two-thirds are going to Defence and the other 33 going out in private sale. You made a comment—and I am sure you are absolutely correct—that one of the tenderers will probably say, ‘We want to buy the remaining one-third off you and then we can go and retail that.’ You have listed in your prices to us—and I will not mention the prices because they are commercial-in-confidence—that the one-third are going to be equal to X number of dollars. If you were to sell off the plan, what happens if you do not meet your target of X number of dollars?

**Mr Lyon**—In which case, we would make a loss if that were the situation. But we do not expect that to occur.

**Mrs CROSIO**—In other words, what you have given us, or what you expect that one-third could make on the open market, is a guesstimate which is healthy to your side and not healthy to the market side?

**Mr Bear**—It is a conservative estimate.

**Mrs CROSIO**—But how conservative? I have heard some conservative estimates that seemed to be 10 per cent going the other way. So it is a comfortable conservative estimate?

**Mr Bear**—I believe so and the truth of it will be when we go through the tender process.

**Mrs CROSIO**—Can I also say that I personally believe in mixed development. If you are going to have a development like this, a mixed development brings some sanity into the lifestyles of all individuals and the other side also know what happens out there. I am always in favour of that. The only problem I have with this development, as it has been submitted to us, relates to who is going to define which is going to be Defence and which is going to be private? You are not going to just say block three is going to be all private, or all block one, or block two?

**Mr Bear**—No.

**Mrs CROSIO**—You are going to have mixed in each area?

**Mr Bear**—Absolutely.

**Mrs CROSIO**—How are you going to estimate those one-third of apartments without completely knowing whether you need one, two or three bedrooms? You are only taking a guesstimate of that of a survey that was done X number of months ago. Surveys change and you are going to have a tender design that could possibly change your overall footprint of the design of the apartments. You are then going to say, ‘We’ve got one-third that is going out estimated as so many dollars’, and you have given us a submission here and how they are going to be three, two and one bedroom. How do you then come back and say, ‘Wait a minute, oops, of those two-thirds we need, we now need five more three-bedroom apartments. So you are only going to get five more one-bedroom apartments to sell on the open market.’?

**Mr Lyon**—Basically the Authority will have responsibility for deciding which apartments it decides to hang onto in this development.

**Mrs CROSIO**—How are you going to do that if you are going to sell off the plan? I do not want to ask trick questions.

**Mr Lyon**—It is a good question because it brings out the complexities of the operation that the Authority is now involved in. The Authority has now got responsibility for allocations which is a new function. That is, it used to have responsibility only for the provisioning; now it has responsibility for matching people to the houses we have. We will decide which apartments we will hang onto because we have to decide what will remain under the Authority's management, if you like, and what will go. If somebody comes in—and we are dealing with this all the time—with a different sort of requirement which cannot be met out of this tower, we will use the rest of the private market to meet the demand. This is only going to provide 62 units. Our total demand in Darwin is 1,800. We, as an organisation, are quite good, I think, at getting that match right.

One of the reasons why the Department of Defence has trusted us with this additional function is that the existing arrangement where we had two organisations involved was not getting the best outcome. As Mr Wilson said when he went up to Darwin to run the office there, we had a lot of vacant units. One of the riding instructions to John was to fundamentally reduce the number of vacancies because it was dead money between the two organisations. What we were able to do is have responsibility for both. We would use the totality of our own stock plus the local market to meet the Defence demand.

**Mrs CROSIO**—But it still does not answer my question relating to selling off the plan after you are keep 62. If the 33 do not meet the estimated cost that you think they will, how are you going to meet the shortfall then? Will they take you on trust?

**Mr Lyon**—If there is a serious financial shortfall, the board will decide to walk away from the project. It will not go ahead with the project if it exposes the authority to financial loss. It is not allowed to.

**Mrs CROSIO**—Not being a builder I cannot follow that. I can only relate to some experiences we have had in the electorates at large and in our own personal lives. How do you even know until you start building it? At times you meet so many mishaps in the actual construction stage—that is where you start looking at some of the problems. It is all very well to say when you are half way through, 'We should not have gone ahead with it.' The fact of the matter is that you reach a stage where you have got to continue.

**Mr Lyon**—The approach taken here is that we have a commercial board chaired by Mr Peter Jolly, who has had extensive commercial experience. On the board we also have—

**Mrs CROSIO**—Is this the same board that gave us a submission in September last year?

**Mr Lyon**—There have been some changes. There have been three new board members since June. The government is looking at the board. The board itself is interested in the process of

undertaking an independent review of how it is operating. It is strengthening its control over major projects and that is an intrinsic part of driving that reform through.

**Mrs CROSIO**—That is all very well, Mr Lyon. It is taking all of this review and process. We have a recommendation in your letter to us virtually saying that you want us to give you permission to construct this at a time when you and the board think it is fit to do so. That is still leaving a lot of unanswered questions. You are not going to go ahead if it is not viable. There are conservative estimates of the units that have got to be sold. A lot is being asked of us on trust, isn't it?

**Mr Lyon**—I can understand the situation that the committee is in. We are the only GBE that is operating in a commercial environment and has to come through a committee like this. That imposes strains on both us as well as on the committee. We probably have discussed these issues through. Madam Chair, there was an answer that we did not provide in relation to a question asked by Mr Forrest.

**CHAIR**—Mr Forrest has not come back. Can we take a note of the response to that and make sure Mr Forrest gets it?

**Mr Narayansamy**—The drawings are different simply because the drawings in this submission are for presentation purposes. The drawings that were approved by the National Planning Authority are with us. They were not in a presentable form to enable them to be put into the submission. This submission was put in before we did the redraft. When we looked at the third tower, we also increased the sizes of some of the apartments.

**Mr Lyon**—We will provide that additional material.

**CHAIR**—Thank you very much. Are there any other questions? We understand that Senator Murphy, who unfortunately is in estimates, has some further questions. We will get him to direct those in writing if necessary. As there are no further questions the committee stands adjourned.

Resolved (on motion by **Mr Lindsay**):

That, pursuant to the power conferred by section 2(2) of the Parliamentary Papers Act 1908, this committee authorises publication of the evidence given before it at public hearing this day.

**Committee adjourned at 9.50 a.m.**