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JOINT COMMITTEE ON PUBLIC WORKS

Reference: Lavarack Barracks Redevelopment Stage 3, Townsville

FRIDAY, 13 JULY 2001

TOWNSVILLE

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JOINT COMMITTEE ON PUBLIC WORKS

Friday, 13 July 2001

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

Senators and members in attendance: Mr Hollis, Mr Lindsay and Mrs Moylan, and Senators Calvert and Ferguson

Terms of reference for the inquiry:

Lavarack Barracks Redevelopment Stage 3, Townsville, Queensland

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Committee met at 11.12 a.m.

DITTMAR, Colonel James Craig, Director of Force Structure, Army

FRAME, Mr Murray Gordon, Project Manager, Thiess Pty Ltd

KELLY, Brigadier Garry Ross, Director-General, Capital Infrastructure Branch, Department of Defence

MOLLISON, Mr Peter Noel, Project Director, Capital Infrastructure Branch, Department of Defence

NOBES, Lieutenant Colonel Anthony John, Chief of Staff, Headquarters 3rd Brigade, Lavarack Barracks

CHAIR—I would declare open this public hearing into the proposed redevelopment of Lavarack Barracks, stage 3, in Townsville. This project was referred to the Public Works Committee on 24 May 2001 for consideration and report to the parliament. In accordance with subsection (17)(3) of the Public Works Committee Act 1969, which concerns the examination and reporting on a public work:

The Committee will have regard to the following:

- (a) the stated purpose of the work and its suitability for that purpose;
- (b) the necessity for, or the advisability of carrying out the work;
- (c) the most effective use that can be made, in the carrying out of the work, of the moneys to be expended;
- (d) where the work purports to be of a revenue-producing character, the amount of revenue that it may reasonably be expected to produce; and
- (e) the present and prospective public value of the work.

Earlier today the committee inspected the proposed site and received a briefing in relation to that, and the committee is now going to hear evidence from the Department of Defence.

I take this opportunity to welcome the witnesses on behalf of the committee and to also thank you for the private briefing and the tour of the base that we have had this morning. Please convey our thanks to all of those who have been involved in the inspection. Do you have any comments to make on the capacity in which you appear?

Col. Dittmar—I represent the Director-General of policy and plans at Army headquarters and have a portfolio interest in facilities and training areas, Army's organisational structure and work force disposition.

Lt Col. Nobes—I represent the Commander of 3rd Brigade, Brigadier Mark Kelly.

Mr Frame—I am a consultant from Thiess Pty Ltd assisting Defence in the initial planning and costing of the proposed works.

CHAIR—The committee has received a submission from the department, and this submission is available from the secretariat and also on the committee's web site. Does the department wish to propose any amendment to the submission it has made to the committee?

Brig. G. Kelly—I do not propose any amendments, but I would advise that two organisations have had name changes since that evidence was prepared. It has no impact on the evidence, but if you wish I could provide an updated copy with the new names to the secretary next week.

CHAIR—I now invite you to make a brief opening statement in support of your submission.

Brig. G. Kelly—The Department of Defence advocates the third stage of the redevelopment of facilities at Lavarack Barracks in Townsville, Queensland. The 3rd Brigade is the major land component of the Australian Defence Force ready deployment force. The brigade holds units in a high degree of readiness for a wide range of operational tasks. The brigade is a light, air-mobile formation supported locally by elements of RAAF's Airlift Group, a debt of 38 Squadron, and the Army's 5th Aviation Regiment. Some 3,500 military and 330 civilian staff are based at Lavarack Barracks. The brigade is to retain its prescribed role for the present and is to remain at Lavarack Barracks.

The existing Lavarack Barracks facilities—the subject of this proposal—are about 35 years old and do not adequately reflect the current structure or the functionality required for the 3rd Brigade to promote its operational effectiveness and efficiency. This project is the third stage of a program to fully develop the barracks. The stage 3 redevelopment proposal is focused on providing facilities for 3rd Brigade as well as some training command elements. Stage 3 will also fund residual roadworks, high-voltage reticulation and some demolition that was deferred from the Lavarack Barracks stage 2 project.

The new facilities will comprise office accommodation, training facilities, storage facilities, communications facilities, a dental centre, workshops, vehicle shelters and transport compounds, transit accommodation, site-wide civil engineering and services infrastructure works and site works. The capped budget for this project is \$170.6 million. This includes construction costs, professional design and management fees, furniture, fittings and equipment, together with an appropriate allowance for contingency and escalation, but excludes any goods and services tax liability.

Although the current estimate for scheduled work for the proposed stage 3 is \$230 million, opportunities for some rationalisation and sharing are to be exploited with a view to maximising scope to be delivered within the cost cap. A further stage will be required to complete the redevelopment of the barracks. Subject to parliamentary approval, the works are planned to be committed in late 2001, with construction commencing in 2002. Project completion is planned for 2005. Over the envisaged construction period of about three years, approximately 300 personnel will be directly employed on construction activities. In addition, it is anticipated that construction will generate further job opportunities off-site in the prefabrication, manufacture and distribution of materials.

The proposed new facilities would enhance the overall operational effectiveness of Lavarack Barracks by raising the morale of personnel, improving efficiency of day-to-day activities, overcoming shortcomings in occupational health and safety, and providing appropriate infrastructure for further development. There are no significant environmental or heritage issues. An internal Defence environmental certificate of compliance for the proposed works has been issued in accordance with Defence environmental management policy. Commonwealth, state and local government representatives and instrumentalities have been advised or consulted.

Mr LINDSAY—In your evidence you have said that the planning process for this stage has been built on informed experience from Robertson Barracks in Darwin. Can you explain the linkage between Darwin and here and why you have used the experience from Darwin?

Brig. G. Kelly—Robertson Barracks was built over the last decade to accommodate the 1st Brigade moving to the Darwin area from Sydney and Puckapunyal. Therefore, we have a recent example of what a brigade should look like on the ground, given the opportunity to start from a greenfields site. There are some differences between the brigades: the 1st Brigade is a heavy brigade and the 3rd Brigade is a light brigade. Nevertheless, the experience we have had in developing the barracks at Robertson, which improved all the time during the 10 years of construction, should inform the development of these barracks.

Mr LINDSAY—In relation to stage 2, your evidence is that you have rationalised 16 messes to three messes, co-located with the living-in accommodation precincts. Has that been successful?

Brig. G. Kelly—We believe it has been tremendously successful. In an age in which we are expected to demonstrate to the taxpayer that we are doing things efficiently and in an economical manner, we were unable to continue to maintain 16 messes at the Lavarack Barracks. We have reduced that to three kitchens each supporting three messes in a precinct, which has led to significant efficiencies in staffing and in overheads. I cannot give you figures for the savings but they would be considerable.

Mr LINDSAY—The history of Lavarack is that originally a task force of three battalions was proposed. Does the stage 3 development in any way prejudice that original plan? Is there allowance in the Lavarack Barracks complex if a third battalion needs to be located here?

Brig. G. Kelly—The current master plan changes the layout of the brigade, which placed all three battalions to the eastern end of the barracks. However, this plan, which reduces that to two, does not prejudice the opportunity to bring a further large unit into this area in the future. From the point of view of space planning or from the point of view of providing services to the area, this plan does not prejudice that.

Mr LINDSAY—The budget announced a new Army combat training centre. Is that part of stage 3? Does the plan for Lavarack Barracks allow a location for the combat training centre?

Brig. G. Kelly—It is not part of stage 3; it is accommodated within the master plan for this stage and is shown as a dotted area in the diagrams that accompany the evidence. Colonel Dittmar may be able to elaborate on that and advise when this will be provided.

Col. Dittmar—The issue of the Combat Training Centre (Live) moving to Townsville is developing and it is Army's intention that we develop facilities here as quickly as possible. The Combat Training Centre (Live) is seen to be absolutely fundamental for us to develop a method to objectively examine the combat readiness of units and subunits. The fundamental difference between the Combat Training Centre (Live) and the way I have done business in the past has been the technology which supports it, and that continues to evolve. It is also fairly expensive, so we would see ourselves progressively developing a capability from an initial capacity to examine subunit level or company level operational capability but ultimately aiming for battalion groups with capability.

Locating it in Townsville is all about locating the training evaluation organisation as close to one of the principal customers as we can. Logically, the high readiness requirements out of the 3rd Brigade mean that we need to examine those units' operational readiness, and there is also a requirement for us to examine the operational readiness of units of the 1st Brigade. So locating it here in Townsville means that we are keeping it close and handy. It means that the personnel posted to that unit will have some opportunity to see their families during what is going to be a very busy work schedule. It also means that we can maximise the efficiencies of working in this area. But the organisation will not do a lot of work out of Townsville itself; its intention is to deploy to the field training area of Dotswood High Range and, ultimately, Bradshaw, where we can actually examine units in the field environment.

Mr LINDSAY—Has Defence looked at the cost of the CDS and its delivery of that project part of stage 3 of Lavarack?

Brig. G. Kelly—No, it has always been considered to be a separate project from phase 3.

Mr LINDSAY—You have a note here under 'Standards for working accommodation', and you have said that 'headquarters at company level and above will be generally separated from working accommodation'. Could you explain why that would be the case?

Brig. G. Kelly—This is based on the experience at Robertson Barracks where battalion and company equivalent headquarters were separated from what I would call the 'dirty area'. It has been very successful in Robertson Barracks where we have grouped, for example, Q stores, transport, weapons storage, showers and DP1—the personal equipment of the soldier—all in one area so that the 'dirty areas' are kept away from administrative areas. That has been very successful at Robertson but they are heavier units. That is the intention here—as a starting point. We will look at that closely with the user.

Mr LINDSAY—You have also said in the same paragraph:

Showers and change facilities will be provided for all staff, in proximity to storage areas ...

Why did you pick out storage areas for showers and change facilities?

Brig. G. Kelly—That is perhaps not as clear as it should have been. We meant the storage of personal equipment. The specific point to be made is that we will provide showers and toilets for all members of the unit. When this barracks was built 35 years ago, those facilities were only provided—showers in particular—for those living in. Of course, the people living out also

do PT in the morning, need to shower and change and need to change throughout the day for different reasons, and that was not provided. So the new facilities will provide showers for all members in close proximity to secure storage of their personal equipment. Their personal equipment normally consists of a trunk and personal webbing. In years past, that has sat on floors in offices, hung in laundries and in ad hoc circumstances, as you have seen on the tour. If we follow the Robertson Barracks model, we will provide individual cages for each person's equipment.

Mr LINDSAY—In 'Unit Requirements: Headquarters 3rd Brigade', it says that the proposal is 'for workshops and compounds for vehicles and equipment,' among other things. Why would Headquarters 3rd Brigade require workshops?

Lt Col. Nobes—I think you are talking about the headquarters company that provides the administrative, logistics support to the headquarters of the 3rd Brigade. In headquarter company there is a platoon that meets the requirement of the maintenance of the headquarters vehicles.

Mr LINDSAY—Wouldn't it be sensible to do that, say, in what was the BASB for the maintenance of the vehicles or in 10FSB?

Col. Dittmar—Fundamentally we have a difference here between what we used to describe as 'lines of logistics support'. Units are responsible for carrying out a certain degree of maintenance of the unit equipment within the unit. BASB or the CSSB fundamentally looks after a higher level of maintenance, so those things which are not normal driver maintenance or routine maintenance—bigger jobs—get done at the BASB and the big 's' jobs go out to the 10FSB.

Mr LINDSAY—In relation to the training facilities, is the training precinct commanded by the commander of DCSC?

Col. Dittmar—I do not think that the intention is for the training precinct to be commanded by DCSC.

Mr LINDSAY—Doesn't Colonel Perkin run the training facility or the training program?

Col. Dittmar—There are training units that would be commanded by training command representatives. The detachment of the Royal Military College, for example, is under command of the Royal Military College. There are a number of local administrative arrangements and there is a lot of interface with the corporate services in terms of the delivery of in-barracks administration, but they are not actually commanded by corporate services.

Mr LINDSAY—What was behind the question was: the training facilities will be at the western end of the base and DCSC, as you know, is down the centre of the base, effectively. Had any consideration been given to that particular situation where DCSC and training were apart?

Brig. G. Kelly—I do not think it is an issue, because I would not expect DCSC to actually command those elements. They may be responsible for bookings or allocations, but they are

responsible for such things throughout the barracks and throughout the region, so where they are located is not overly pertinent to where the training facilities are located.

CHAIR—I have got one particular question and it relates to your statement on page 22 of the report at paragraph 26, where you say that:

A comprehensive redevelopment of the existing facilities is not as cost effective as constructing new facilities given the location and nature of the existing facilities.

Then you go on to talk about why you need to provide new purpose-built accommodation but there does not seem to be anywhere in these notes where you give us evidence to support that in terms of the cost. Can you explain what you have done in relation to doing a cost comparison?

Brig. G. Kelly—Yes. We have done quite comprehensive studies looking at the various options, including refurbishment. The studies generally indicated that, because of the state of the facilities and the fact that they were so dysfunctional, in almost every case it was economically smart to construct new facilities rather than refurbish.

CHAIR—Is there any reason the committee has not been provided with a cost comparison?

Brig. G. Kelly—No, it was just in the interests of brevity in providing the evidence. I can certainly provide information from our initial studies.

CHAIR—I think it is quite important because, as I said, you have just got a generalised statement there as to one against the other, with no real evidence for the committee to examine.

Brig. G. Kelly—Correct. We can provide figures. They will be somewhat different from the figures that we now have because there has been development since that point. These figures were developed leading up to departmental approval in January this year, but that is a fairly comprehensive list of comparisons.

CHAIR—If the committee could have those it would be appreciated.

Senator CALVERT—We have been talking a bit about Robertson Barracks. When were the parking bays built here at Townsville for 3/4 Cavalry Regiment? How old are they?

Brig. G. Kelly—I imagine, unless that unit was raised later than the rest of the brigade, that it would have been in the 1964 to 1966 period.

Senator CALVERT—The parking bays at Robertson Barracks: how much bigger would they be than the ones here?

Brig. G. Kelly—I cannot answer that but they are primarily for different vehicles. The armoured vehicle bays at Robertson Barracks for 2nd Cavalry Regiment are primarily for light armoured vehicles, LAVs. At 1st Armoured Regiment they are for Leopard tanks, which are considerably larger. Both units—and, in addition, 5/7 Battalion, the infantry battalion, mechanised—do have M113s similar in nature to these vehicles, so they would have some bays

which are equivalent. But I suspect that in the interests of flexibility we would have built most bays so that they could accommodate the larger vehicles in that unit.

Senator CALVERT—In the proposals you have here, are you proposing to use any of the interlock paving they use in Darwin? It seems to have been quite successful up there.

Brig. G. Kelly—Where there are armoured vehicles or tracked construction equipment the intent would be to use interlock paving blocks, subject to us finding a better way of doing business.

Senator CALVERT—Colonel Dittmar did mention something about Bradshaw. Is that operational now?

Col. Dittmar—It is available for some training but my understanding is that until we have completed some of the major infrastructure we cannot maximise the range. There are still a road and a bridge to be constructed. Once they have been completed we will be able to fully utilise the facilities there.

Brig. G. Kelly—There has been a major breakthrough in the last two months. We have been dealing with the Northern Land Council for almost four years. The Public Works Committee examined that project in May 1997, so it is over four years. Shortly after it was approved in parliament a native title claim and a native land claim were imposed on different parts of the area. After almost four years of negotiation the Northern Land Council has agreed to a draft indigenous land use agreement and that will go through the normal process now. They have, however, given us approval to proceed with preparation for the bridge and we expect to go to tender through the Northern Territory government in about a month. That will see the bridge started this year and well under way before the wet; we hope to a point where it will continue through the wet. That would allow us access to Bradshaw for training in about the middle of next year. However, because the roads and the other infrastructure, including environmental controls, will not be in place, it will probably be 12 months past that point—in other words, the middle of 2003—that I would expect heavier usage. But from the time we provide the bridge in about 12 months time, lower level training can occur. It occurs to some extent now, but in a fairly difficult manner.

Senator CALVERT—On touring around this morning it became quite evident—particularly when Major Ferndale made a very positive bid about the fact—that most of your equipment cannot be stored under cover. That not only causes a deterioration in the efficiency of the units but also means replacing a lot of the equipment. Under this proposal are you confident that you would be able to store most of your equipment under cover, or is that still not possible?

Brig. G. Kelly—The user requirement was based on interviews conducted with each unit and an examination of their establishment—their establishment being the list of the vehicles that they own. So the costings are based on providing shelters for all the vehicles that can appropriately be put under a shelter. We would not, for example, put an engineer scraper under a shelter, but all vehicles that can go under shelters will be provided with shelters. The size of the Q Stores and other storage areas that have been costed is based on interviews with units and examinations of what they currently hold. So, yes, we would be confident.

Senator CALVERT—Has allowance been made for possible changes in vehicle size or height?

Brig. G. Kelly—No, we have not gone into that detail yet, but, as an example, we are aware of an increase in the size of the N113 which is proposed through another project. The current length of an N113 is 4.86 metres, and it is likely to come in a stretched version of 5.9 metres and it will go in width from 2.5 to 2.7 metres. So we have to take that into account, and we will take into account future expansion. At Robertson Barracks, typically, every component we built has 25 per cent expansion capability—that is, hangars for vehicles, headquarter buildings and so on. They have been built in a modular fashion so that we can add to them as necessary. We have provided enough space between those components for a 25 per cent expansion.

Senator CALVERT—So I presume you will do the same here?

Brig. G. Kelly—Yes, we will. I suppose you could say that we did that 35 years ago, because these buildings are quite a long distance apart, but we have never got back in and funded some of the changes that have been made. At Robertson Barracks it is being done in a manner which I think encourages significant change to be accommodated. We have also built buildings so that they have maximum internal flexibility, with modules and readily moveable walls.

Senator CALVERT—I presume all the other equipment that is required for servicing vehicles, such as hoists, proper pits and facilities for the proper disposal of oil, will all be covered to overcome the deficiencies that obviously were not made available in past planning.

Brig. G. Kelly—That is correct. Robertson Barracks has a number of ways of handling the servicing of vehicles. It has pits, ramps and hoists—depending on the particular needs of that unit—and it has environmentally acceptable and appropriate oil recovery procedures.

Senator CALVERT—I think I raised a question this morning when we were doing our windscreen tour about the use of shade cloth, but it was pointed out that because of the cyclone situation here that probably would not be a wise move. Has it ever been considered in the short term?

Brig. G. Kelly—I cannot answer the question, Senator.

Senator CALVERT—I guess, given the trouble you would have to go to to do the right thing as far as cyclonic conditions are concerned, it would probably be better to go a bit further and make something more substantial.

Brig. G. Kelly—I would think that the frame and the anchorage points et cetera have to be cyclone proof. The shade cloth itself could be seen as expendable without too much difficulty, but I cannot answer the question as to whether it has been considered or not.

Senator CALVERT—I want to ask about one other small thing. It is going to take four years to do everything in this proposal. What effect will that have on the efficiency of the units, because you will have to be moving things around all the time, won't you? Have you taken all of that into account?

Brig. G. Kelly—We have done, without coming up with a solution yet. We will develop that in concert with the users. The major benefit of the form of contract we are using is that, if we make changes as we go, the risk is ours—that is, we are not going to be hit with ridiculous variations by the contractor, but we will manage those through and minimise the cost of making changes. The units which are to be replaced will generally be rebuilt in the same area, so while there will have to be some decanting into other areas—and that is costed in the cost plan—we hope that in value management we will come up with smart ways of minimising that, and we may in fact be able to build some elements of units without moving them.

Again, the managing contractor approach—particularly with the contractor being on site for a long time—does lead to close relationships between the brigade and the contractor. I think I could point to the deployment to Timor as an example of that. The contractor was on base, the brigade deployed to Timor and went through all its processes, and I do not think there was an impact on either the contractor or the brigade; we simply worked it through. The living in accommodation, being generally a greenfields site, was a bit removed from the action. It will be much harder to do that if we are right in the middle of a unit area, but I am sure we can work through it. It all comes down to continual liaison and good forecasting.

Senator FERGUSON—We discussed a couple of issues in the private briefing this morning, but I think some things should go on the record. You have a capped budget of \$170 million and you have given us a current estimate for the scheduled work of \$230 million. Yet you tell us that, with some rationalisation, with sharing, with value management and with cost savings, you are going to try and maximise the scope that is going to be delivered. Bearing in mind that with all of your contingency plans, contingency costs and estimates for stage 1 of redevelopment you had an overrun of \$4 million, how on earth do you expect to make enough savings on this scheduled work and the current estimates to enable you to complete the work?

Brig. G. Kelly—I have to agree that I feel more comfortable coming before the committee with a clear scope with a corresponding price. We normally do that with a stand-alone building, for example. Here we do not have \$170 million or even \$230 million worth of scope, we actually have about \$400 million worth of scope still to go. So this is a never-ending project—until we get to that point. When we developed this project we selected a component of that because we knew that \$400 million was too much to deliver under one arrangement; it would just drag on for too long. So we selected a certain amount of scope and we priced that. It currently comes to \$230 million. However, for other reasons, on the basis of our capital infrastructure budget within Defence we are limited in this stage to \$170 million. So we have a scope which we know currently exceeds our estimates. We are confident in our estimates because they have been developed by our current managing contractor and a completely separate estimate has been developed by an independent consultant. They were very close in their outcome. So we believe that based on the scope that we have agreed, the prices are right. We have confidence in that scope and that cost. I believe that, when we get into the value management stage, we will find further savings. That is certainly the intent: to reduce the cost so that we can deliver more of the scope out of the total package than we currently can. But I feel obliged to come before the committee with the current cost plan, including contingency, noting that all of that contingency will be converted to bricks and mortar at some stage. So if the estimates are accurate then the \$14 million or so worth of contingency money which is currently listed against that contingency will all convert to bricks and mortar immediately, which gets us

almost all the way through the list of scope. If we make additional savings then we might get further through it.

Senator FERGUSON—So why was that \$4 million overrun in stage 1?

Brig. G. Kelly—We were wrong.

Senator FERGUSON—But now you are sure you are right.

Brig. G. Kelly—Our estimate for stage 2—it is actually stage 2—was based on our experience in Darwin. We thought we could do much better delivering living in accommodation for a much cheaper price. We put an extreme amount of effort into value managing and designing the living in accommodation, and we have a very good outcome as a result of that. When we got into it, we found that we could not make the savings that we had hoped to over the Darwin version and therefore, when you multiply by 1,100 the additional cost for a room over that estimated, it is a fairly significant increase in cost. Although the value management that was done for those living in rooms did not reduce it to what we thought it might, it did reduce it a significant degree from what we started with. To me, that clearly indicates that our initial estimates were simply incorrect. But we have designed them in such a way that the operating costs should be significantly lower than in Darwin. In Darwin, for example, all living in accommodation is airconditioned, as is the entire barracks. All of the administrative facilities in Robertson Barracks are airconditioned. The design in Townsville is completely different; it is optimised for the north. And the view amongst the design team is that we should only have to use airconditioners for perhaps a couple of months per year. Mr Frame might be able to add to that.

Mr Frame—I can certainly add to the design intent and what has been achieved in the living and accommodation units for a tropical environment. It is our belief that those units would be very habitable throughout the year without airconditioning, but airconditioning was a requirement for Defence for a level 5 accommodation standard, which has been provided.

Mr LINDSAY—Is part of the stage 2 cost overrun attributable to changes in industrial relations during the course of the project?

Brig. G. Kelly—We do have a project agreement for this project and there was an additional cost to negotiate that. It was done 100 per cent in accordance with the Commonwealth government national code of practice for the construction industry. It was only justifiable because by developing that agreement we were able to make profit in terms of guaranteeing handover dates for living and accommodation, when we were able to then receive level 5 rent as opposed to level 1 rent. So there was a business case behind that which justified the adoption of the project agreement.

Senator FERGUSON—Let us say that we accept your proposition that you have got the prices right and we will not have an overrun. But perhaps the savings aren't there that you might think are there, and from past history that is fair enough for us to assume. Does that mean that come 2004 you are going to be asking for another \$50 million or \$60 million to complete this stage of the development? Or are you going to wait until we go to stage 4 and instead of asking for \$130 million you are going to ask for \$190 million, plus whatever the cost might be at that

stage? I am not quite sure what your plans are in order to try and finalise the redevelopment of stage 3.

Brig. G. Kelly—The current cost plan does not indicate this but it is my hope that we will deliver all of the scope, other than 3rd Combat Engineer Regiment, which would perhaps be beyond our capability. The cost of that is \$32 million. My intent would be, if the committee agrees to the scope from this hearing, that we would then be free to go back and program the additional \$32 million, if that is what is required as a variation to this stage—that is, to fund it as an increase to the cost cap of this project or to raise it as a new project if that makes budgetary sense but not have to come back to the committee, because the committee will have agreed the scope and this would be seen as repetitive work that you had already looked at in any case.

Senator FERGUSON—The committee actually need more than hope—we are spending taxpayers' money. The thing I cannot understand is why you did not present to us a cost estimate incorporating your anticipated savings, which would increase the scope of the work you can do, and then say, 'If cost savings can be arranged, this is the additional work that we are able to achieve under the budget.' You have given us the full Monty and then said, 'Gee, we hope we can have some cost savings here and we would value management and all those other things. We can do more work with the \$170 million you promised us. We have got \$230 million worth of work which we think we can save a lot of money on.' I am just surprised that you did not do it the other way.

Brig. G. Kelly—I agree that I could have chosen better words. One of the slides I showed in the confidential briefing this morning, which was the cumulative effect in priority order, shows what we expect to deliver for \$170 million. I indicated then where I thought we would get to if the contingency was not used up in delivering that scope, which basically would leave 3rd Combat Engineer Regiment and perhaps some other minor elements out of the scope. I agree that I could have used better words. With contingency and estimating, we are not in a perfect world—sometimes we have overruns, although they generally are not significant. On the Robertson Barracks project, which has just been completed and totalled about \$450 million, we are handing back somewhere in the vicinity of \$22 million that was not used.

Senator CALVERT—While we are getting the figures straight, where is the other figure that we saw this morning—the \$11.2 million that was deferred for living-in—coming from, just for the record?

Brig. G. Kelly—You have referred to the overrunning costs in stage 2. Part of that was in living-in accommodation, because we were unable to deliver 108 rooms—about 10 per cent of the requirement.

Senator CALVERT—So, in other words, the overrun on stage 2 was actually \$15 million, or \$15.7 million, not four.

Brig. G. Kelly—On the run, I could not put the figures together but your logic is correct.

Senator FERGUSON—Well, \$15.747 million.

Brig. G. Kelly—Correct. I showed two serials this morning. The living-in accommodation overrun was about 10 per cent; 108 rooms were not delivered. We made a decision late last year that we would not pursue that in this project because there are changes going on in terms of policy for living-in accommodation within Defence. In my organisation in particular, the view was that we would not deliver the remaining rooms; we would wait and see how the first thousand settled in and whether the Townsville market could accommodate rental allowance for those who chose or needed, because of the number of rooms, to live out.

We have since been persuaded by the Deputy Chief of Army that those rooms should proceed, and on that basis we intend to proceed with the additional 108 rooms. We did not change the scope of this work because we had already scoped it up and we did not want to reduce the scope that we thought we could deliver. So our strategy to deliver those additional rooms is to go to our minister and seek a variation to the stage 2 project for the additional money to deliver the additional rooms. They will have to be funded—out of our hide basically—from the existing capital works program. So, if we are going to spend an additional \$11 million in the next financial year on living-in accommodation at Lavarack, \$11 million worth of other works—probably medium works—will need to move to the right or be cancelled. That is a matter of priorities.

Senator FERGUSON—Brigadier Kelly, could I ask you to give us a supplementary set of figures which would put down on paper for us the exact work that you can do for \$170 million if you cannot achieve the savings that you think you can save? You have given them to us roughly in the confidential briefing but there are things like demolition, which is at the end of the list, some of which will have to take place regardless. So could you give us a detailed list of the work that you could do if there were no additional cost savings through value management or rationalisation?

Brig. G. Kelly—I can do that.

Senator FERGUSON—And then could you give us the work that you think you could do if you did achieve some of those savings so that we have got some idea of exactly where we are going? We might find that if you can achieve those savings there is perhaps \$20 million worth of work undone. I would like to know what parts of this proposed schedule you will not be able to deliver if you do not get the cost savings and the contingency is used in any way, for instance, because management fees are a percentage so there might be some scrap of saving or something in management fees. Could you give us a supplementary costing?

Brig. G. Kelly—I could do that immediately by tabling a copy of the slide I used this morning and simply marking on it some cut-off points, but I will come back to you with a professional document.

Senator FERGUSON—I would rather that you came back with it if you could.

Brig. G. Kelly—The point I am making is that we have the information.

Senator FERGUSON—You are anticipating this work to finish in 2005. You are talking about a further development stage of \$130 million—which would be stage 4—which, by the

time we get to 2005, will not be \$130 million, unless you have used figures that take inflation into account

Brig. G. Kelly—No, they would be current dollar.

Senator FERGUSON—They would be in current dollars. Are you anticipating that no approval would be sought until subsequent to the completion of stage 3 in 2005?

Brig. G. Kelly—I cannot say that we might not seek to overlap them, but it has not been programmed at this stage.

Senator FERGUSON—In which case you might have to convince somebody else besides Senator Calvert and me.

Brig. G. Kelly—I cannot make a comment on that.

Mr HOLLIS—Following on a little bit from Senator Ferguson's question, over the years we have spent a lot of money on this base. When this work is completed—and given the difficulties about whether some work is going to be cut down or not—how much more work will have to be done at this base?

Brig. G. Kelly—The identified scope beyond the scope we have briefed today is about \$130 million worth. The unit which is left out at this stage is 4th Field Regiment Artillery. They were originally going to be scoped in this proposal but when it was clear that they were way outside the cap we dropped that off. So 4th Field Regiment and some other elements—including, I think, a gymnasium and some supporting elements—come to \$130 million.

Mr HOLLIS—Given the vagaries of the weather in this part of the country, how confident are you of the completion date?

Brig. G. Kelly—Estimating four years out is always difficult. We have taken the advice of our consultants and contractors on this and we trust their judgment. They have delivered us a very good service over the last few years. The evidence is that with smart planning the weather does not impact that much at all.

Mr Frame—From our point of view, we have a lot of knowledge about construction in North Queensland and we allow an appropriate contingency for lost time due to wet weather, which ranges between 20 and 30 working days per annum.

Mr HOLLIS—I have a more general question. We had a look at the living-in accommodation last night. What I would like to know is what impact that has had on retention rates, but as they are not in there yet I guess you do not know what impact they have had. I know there has also been some publicity recently about retention rates in the defence forces in general. Would you hazard a guess? Will it have an impact or will it be so standard that that will be the accepted norm for ever and it will not greatly impact on retention rates?

Brig. G. Kelly—Roughly 800 people have moved into these rooms, so they have been occupied. Some have been in there for some time, so we should have a feel for what they think of the new rooms. We probably do not have a feel for what impact it has on retention. What we do know is that in exit interviews soldiers say that the accommodation is appalling and that that is one of the contributing factors to leaving the service. They are also, in many instances, looking for flexibility, and that is why we are not building a room per eligible person on the base. There is an acceptance that some people have a desire to rent in town, for a different lifestyle, and that will be accommodated. The chief of staff might be able to say something about how the accommodation is viewed.

Lt Col. Nobes—The accommodation standard you saw last night is very well regarded by the personnel of 3rd Brigade, especially given what they came for. They welcome the privacy. They welcome the ability to store their goods and chattels—in particular, their prize possession, their car—under cover, whereas they could not do that before. They also have a little locker in there at the end for the goods that go with that car and their personal goods. They welcome the opportunity to hook up to all the media facilities that are available to their brethren who live in civvy street—cable TV and all this sort of stuff—and to do so in the privacy of their own room. They welcome the mess facility that gives them a better facility than they have ever had for relaxation and recreation. So it has been more than welcome by the soldiers, given what they came from.

Senator FERGUSON—Will stage 2 be delivered on time?

Mr Frame—The target date given to Thiess for completion of stage 2 was 1 December 2001. Through some scheduling changes, that will be delivered about mid-September this year.

Senator FERGUSON—So really you are ahead of schedule?

Mr Frame—Yes, we are ahead of schedule by about 3½ months.

Senator FERGUSON—So there is no reason you cannot get stage 3 completed by 2005? It is not as though you have a history of overrunning.

Brig. G. Kelly—It is a matter of spending a lot of effort up front, agreeing a concept with the users, locking that concept in and then developing the detail so that we can move into construction in a very efficient manner. We did that with the living-in accommodation: we spent six months or more in design, and the thousand-plus rooms that you saw, plus the three large messes, were delivered in I think in 14 months.

Mr LINDSAY—I would like to raise the issue of the use of local contractors in this project. What assurances can you give that local contractors will have a role in the project? How can you do that? Mr Frame, perhaps you might like to comment, if you are the successful provider, on what processes your organisation has to ensure that packages are the right size or whatever. Could you give the committee some feedback on that?

Brig. G. Kelly—I think I should open and talk about the policy we have and the way that that is implemented through our contract. The assurance I can give is simply based on experience. The experience of stage 2 and the other major project that we have happening at the RAAF base

at the moment is that about 75 per cent of subcontract work—by package number and by value—goes to local contractors, ‘local’ being North Queensland. The form of contract we use—a managing contractor—requires a large contractor like Thiess to handle the management, design and construction. Only a large organisation can do that for such a large project. The subcontracting is then done by trade packages and they are of a nature which encourages local input. Seventy-five per cent of those subcontractors were local and some of the larger subcontracts which were actually ones from, say, Brisbane were also executed locally using some local labour and local facilities. So I think we are able to say that, based on experience from stage 2 here at Lavarack and a number of other projects in North Queensland, a large number of local contractors do benefit.

The process is nevertheless in accordance with Commonwealth policy. The managing contractor is expected to do the subcontracting but, on our behalf, a project consultant agrees to the strategy, the approach to tendering and the short list in the first stage and then approves the recommended winner of that subcontracting process. It is a good process and it has been quite favourable to local contractors.

Mr LINDSAY—Mr Frame, what assurances can you give?

Mr Frame—I would add to what Brigadier Kelly has said that the strategy that Defence wish us to adopt—which is really competitive tendering in a manner that enables local business to participate, with packages of an appropriate size which are in the capabilities of local businesses—would be adopted on stage 3 as it was for stage 2. We are very experienced in North Queensland and regional areas. We understand the capabilities of the local businesses here and we package accordingly. In stage 2 we had 199 work packages, both for design consultants and trade subcontractors. We would expect to have a similar number of those, of varying sizes, to match off against the capabilities. I would also add that the best value would be achieved by using local subcontractors where their labour and equipment are held locally. They can provide the best value. It is a matter of accessing that value, and you can do that by packaging the work within their capabilities.

Mr LINDSAY—Would you undertake to run a briefing process for stage 3 similar to what you did for stage 2 to inform the local contractors as to their opportunities?

Mr Frame—Yes, absolutely. Before, during the design phase of stage 2 when we were managing the design, we had quite an extensive program of advertising and liaison with local business groups, the chamber of commerce, Townsville Enterprise and other initiatives run by the state government, to promote the opportunities for local subcontractors and the ways they could market their services to us and participate in the process.

Mr LINDSAY—In stage 2 there were some innovative construction techniques used, and I refer particularly to off site prefabrication. Is that kind of innovation applicable to working areas?

Mr Frame—Absolutely. One of the benefits in having a major construction project is the pre-planning that goes into it. We spend an enormous amount of time in the design and planning phase to ensure that we get the best possible value. I have no doubt there are going to be some very innovative approaches to the delivery of these facilities just because of the sheer number of

them. There are an awful lot of buildings. We can do something fairly significant and fairly special, I think.

Mr LINDSAY—Brigadier Kelly, this morning on our inspection I spoke to a number of the customers of stage 3, down at a fairly low level in the order of things. They have seen indicative plans as to what might be happening in their areas but they said to me, ‘Look, the boffins don’t understand. This is not really the way of the world. We’d operate differently.’ Could you describe to the committee what the process will be to make sure that people at the coalface are satisfied that the facilities provided are indeed functional and appropriate?

Brig. G. Kelly—The key word you used there was ‘indicative’. All the plans we have at this stage are indicative and I would have to say that I do not particularly agree that they are going to look like that either. I think we can massage the functional relationships and the layout of many of those facilities.

The common way we do this is, at this stage, to talk to—for example, in a battalion—the CO, the company commanders, the QM; the people who have an understanding of how their organisation works and a broad picture of how they want it to work. We get into design once we have, for example, laid down some broad concepts of commonality around the brigade so that we do not all reinvent the wheel and have completely different ideas—and that is what we get at this stage because everyone tends to look at what they have had in the past. Once we agree commonality and some broad themes we then go into user group meetings at a very detailed level. That means getting the mechanic from the workshop floor to work with us and tell us how he or she works and, to give an example that we saw this morning, how we should recover the oil. So that happens during the value management stage.

I think we have demonstrated to the brigade throughout the living in accommodation and mess value management that we are prepared to do that, and I believe that the brigade drove most of that process. Much of the layout, the architectural style, that you saw last night was driven by the brigade. I sat in on one value management session—I do not often do that but I had the privilege to sit in on one—where there were half-a-dozen soldiers representing the views of their units as to what they required of the living accommodation and the mess. So that is the way that we do business.

Mr LINDSAY—Thank you. For the record, would you explain to the committee why the working areas, excluding conference rooms and so on, are not airconditioned?

Brig. G. Kelly—I would simply say that this is an Army policy, and I will ask Colonel Dittmar to expand on it in a moment. It is a view that has been held for a long time in this area, going back three brigade commanders when I first started talking to them about the living in accommodation upgrade and then the final development of the whole base. The last three brigade commanders, going on now four brigade commanders, have all said, ‘We don’t want airconditioning throughout the barracks. It’s not appropriate.’

Mr LINDSAY—This is a function of remaining acclimatised ‘in case’. Is that right?

Col. Dittmar—That is exactly right. We do not want to have an artificial environment where people can work in an airconditioned sense but then cannot continue to function in the rigours

of the real environment. So it is all about acclimatisation. The work that is being done down at the admin support battalion area using some solar passive and other measures means that you have an environment that is actually comfortable to work in without making it completely artificial and airconditioned.

Mr LINDSAY—Okay. Would you now explain to the committee why approval is needed this year for this project and what the benefits are of moving directly from stage 2 to stage 3?

Brig. G. Kelly—Approval is required from our point of view because this project is probably five years overdue and the longer we leave it to start the longer soldiers and units have to put up with what are, in my view, unacceptable conditions, and so we have programmed for this project to occur over the next four years. I do not think it is more complex than that. It needs to be done, we give it a high priority; therefore it should be programmed now. In terms of rolling stage 2 and stage 3 together, I should make the point for the record that Thiess have not been appointed yet as the managing contractor for stage 3. In accordance with their conditions of tendering competitively for stage 2, we have the right to roll them over into stage 3 for a number of reasons. It would retain the corporate knowledge and the liaison that they have built up in the brigade over the last three years. It would maintain an orderly flow of delivery and there would be efficiencies, we would hope, in engaging the same organisation that is already established on-site. So we included that option when we competitively tendered for stage 2. Industry bid on that basis and broader industry is happy with that approach because they think it is smart. They are not wasting money by perhaps bidding against someone who would appear to have one leg in the door.

We have also been criticised in the past by the Australian National Audit Office for not including this option in staged projects where there was intended to be an overlap. If there was not some sort of an overlap—if it was three years before we started the next stage—then it would be unacceptable to look at rolling over the same contractor. But the ANAO recognised that it was inefficient from our point of view and inefficient from industry's point of view, and they pointed out that all probity requirements could be met if we tendered in the first place with this in mind. And that was done. So subject to receiving a favourable bid from Thiess—which was one of the two preconditions; the other being a satisfactory performance and the performance has been very satisfactory—subject to receiving that acceptable bid, the intention is to roll Thiess onto stage 3.

Mr LINDSAY—Eighty million would be fine, Mr Frame. Brigadier Kelly, one last question in relation to the confidential cost estimate: 1st Battalion and 2nd Battalion are very similar in what is being provided. Site works and services for 1st Battalion are a quantum of money and for 2nd Battalion it is about a three million deal. Could you explain the difference?

Brig. G. Kelly—I could guess but I hope Mr Frame can explain it exactly.

Mr Frame—I just have to refer to the numbers—I do not keep those on the top of my head—but one of the significant differences between the two battalions is the condition of the existing land that is being developed on what is currently a developed site. So that site has to be cleared and decanted. In establishing the cost plan, if there is a decanting issue of moving people out of existing accommodation we have included that there. So I hope that answers your question.

Brig. G. Kelly—Very specifically, against one battalion for example there is an additional \$2 million for temporary accommodation.

CHAIR—Perhaps you could provide some details of that for the committee when it meets to deliberate at a later date.

Brig. G. Kelly—We will do that.

CHAIR—Thank you very much. As there are no other questions, before closing I would like to thank all the witnesses who have appeared before the committee today and especially those people who assisted our inspection and private briefing this morning. And before closing it is necessary that the committee authorise the publication of evidence.

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 and submissions presented at public hearing this day.

Committee adjourned at 12.14 p.m.