



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT COMMITTEE ON PUBLIC WORKS

**Reference: Proposed fit-out of new leased premises for the Department of Health
and Ageing at Scarborough House, Woden Town Centre, ACT**

MONDAY, 22 MARCH 2004

CANBERRA

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JOINT COMMITTEE ON PUBLIC WORKS

Monday, 22 March 2004

Members: Mrs Moylan (*Chair*), Mr Brendan O'Connor (*Deputy Chair*), Senators Colbeck, Ferguson and Forshaw and Mr Jenkins, Mr Lindsay, Mr Lloyd and Mr Ripoll

Senators and members in attendance: Senators Colbeck and Ferguson, Mr Jenkins, Mr Lindsay, Mrs Moylan, Mr Brendan O'Connor and Mr Ripoll

Terms of reference for the inquiry:

To inquire into and report on:

The proposed fit-out of new leased premises for the Department of Health and Ageing at Scarborough House, Woden Town Centre, ACT.

WITNESSES

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Committee met at 10.31 a.m.

KING, Ms Christine Brenda, Acting Assistant Secretary, Corporate Support Branch, Business Group, Department of Health and Ageing

OVERY, Mr Colin William, Project Leader, Scarborough House Team, Corporate Support Branch, Department of Health and Ageing

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SHEEHAN, Mr Stephen John, Chief Finance Officer, Finance Branch, Business Group, Department of Health and Ageing

LITTLE, Mr Robert Brian, Director, Donald Cant Watts Corke Pty Ltd

WOODROW, Mr Peter Roland, Canberra Branch Manager, APP Corporation Pty Ltd

CHAIR—I declare open this public hearing into the proposed fit-out of new leased premises for the Department of Health and Ageing at Scarborough House, Woden town centre, ACT. This project was referred to the Public Works Committee on 12 February 2004 for consideration and report to parliament. In accordance with subsection 17(3) of the Public Works Committee Act 1969, which concerns the examination and reporting on the public work, the committee will have regard to:

- (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 on the work;
- (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.

This morning we have had a briefing from the Department of Health and Ageing and we have inspected the site of the proposed works. We thank you for your cooperation in that. The committee will now hear evidence from the Department of Health and Ageing. The committee has received a submission from the Department of Health and Ageing. The submission will be made available in a volume of submissions for this inquiry and it will also be available on the committee's web site. Does the department wish to propose any amendment to the submission that has been made to the committee?

Ms King—Yes, we would like to add an addition to the submission at 2.8.1, 'Energy conservation measures'. Do you require me to read out the clauses to be inserted?

CHAIR—Yes, please.

Ms King—The corrections and additions read as follows:

Subsequent to the submission, the Department of Health and Ageing and Australian Greenhouse Office have agreed, in accordance with BOMA 1994 Energy Guidelines and Clause 4.1 of the Measures to Improve Energy Efficiency in Commonwealth Operations, the following intensity targets.

Base building—379Mj/m²

Tenant Light and Power—202Mj/m²

Making a total for the occupied building of 581 Mj/m²

The energy intensity target for the base building has been written into the agreement to lease.

The second correction is at paragraph 2.16.3. The budget estimate sets fit-out costs to be \$18,461,600, including GST. In the submission, it read \$18,461,680. The department would also like to table a letter from one of the departmental union representatives supporting the consultation process for the fit-out.

CHAIR—Thank you. I now invite you to make a brief opening statement, after which we will proceed to questions.

Ms King—As outlined in our submission, the Department of Health and Ageing currently occupies approximately 46,000 square metres of leasehold accommodation across 15 sites in the ACT, 12 of which are in the Woden town centre area. This disparate accommodation situation has arisen in meeting the department's needs on an ad hoc basis as staffing levels have increased in recent years. Health's current accommodation situation is far from suitable and poses many operational inefficiencies. By co-locating divisions, the department will enable improved communications and strengthen the flow of expertise and knowledge to keep pace with emerging health issues.

The department's property master plan identified approximately 25 per cent of the central office building leases as expiring in early to mid-2005, with the balance of leases expiring in June 2009. Additionally, Health has recently completed a program management review, resulting in significant changes to the organisational structure. Accordingly, the property master plan identified short-, medium- and long-term strategies for consolidating and improving its accommodation over a 10-year period.

In December 2002, Health advertised for proposals to provide primary commercial office space, and a total of six proposals were received. Two proposals were short-listed against the criteria for further consideration and, after further detailed evaluation, the Indigenous Business Australia's Scarborough House proposal was chosen as the preferred tender. In August 2003, the department's business management committee endorsed the objective to consolidate central office activities to achieve operational benefits. The department's long-term accommodation objective is to consolidate its central office functions, if possible, into two locations in the Woden town centre. Scarborough House is proposed to be one of these locations. On 1 December 2003, a letter of commitment was signed by both Health and IBA, and lease negotiations commenced.

The commencement date for the proposed new lease is 1 July 2005. Health proposes to lease Scarborough House for 10 years, with an additional five-year option. The department has been

located in Woden since May 1969 and the proposed 10-year lease of Scarborough House will see the department continuing its community presence as the Woden town centre master plan is further developed and implemented. The building is located at the northern end of the pedestrian precinct in the Woden town centre. Woden is a geographical and population centre of Canberra, with easy access by either public or private transport from all areas of the national capital. It is located near one of Canberra's largest shopping complexes; public parking, gymnasiums, child-care centres, health care facilities and other amenities and services are readily accessible.

The department has been liaising with the Australian Greenhouse Office to ensure that proposed energy targets can be achieved. Agreement was reached on 27 February 2004, with Mr Lloyd Woodford of the Australian Greenhouse Office, for the renovated Scarborough House to achieve a target combined base building and tenant light and power consumption of 581 megajoules per square metre. This equates to a 4½-star Australian building greenhouse rating. The contractors have signed an undertaking to meet a base building energy consumption of 379 megajoules per square metre.

Scarborough House is being renovated to provide A-grade accommodation, including the extension of its north and west facades. When completed, the renovated building will provide over 16,000 square metres of accommodation across 15 levels, including the ground floor. The new facades will also provide increased light penetration. The proposed fit-out will be specifically designed to meet Health's requirements, meet set industry and government standards, and provide flexibility to accommodate future departmental needs. It is estimated that the project will generate 250 jobs in the local construction industry.

The budget estimate developed by the quantity surveyors calculates a total fit-out cost of \$18.5 million, including GST. This includes costs for all items of loose furniture and assumes that no items will be reused. Information technology resources, both hardware and software, are currently budgeted for from within the department's existing finances. The department will ensure that the design is developed to a cost plan rate of approximately \$1,000 per square metre, rather than the design being costed after it has been completed. This will ensure that the end cost is within the specified budget.

Aspects of the fit-out design, especially services, will be undertaken in conjunction with base building construction wherever possible. This will help to realise budget efficiencies and design effectiveness. Construction of the building renovations commenced in February 2004 and the base building works are scheduled to be completed by 30 April 2005. The proposed integrated fit-out program is scheduled to be completed and ready for occupation by 1 July 2005, in conjunction with the cessation of many of Health's fragmented smaller leases.

In closing, I wish to reiterate that the department's current disparate accommodation is operationally inefficient and untenable in the long term. After due process, I am confident that the committee will concur that Scarborough House presents a timely accommodation solution that affords the department tangible and intangible benefits, including value for money, energy efficiencies and operational gains.

CHAIR—In 1.10.1 of your submission, you say:

There is a saving in property operating expenses to be realised from collocating fragmented leases into one site.

Can you give us any definitive figures of those savings to be realised from co-locating the various fragmented areas of health into this building?

Ms King—I am not sure that I can give you a definitive answer. I can certainly give you some indicative savings. At the moment, the cost of service and repairs in those fragmented leases is a third of our budget for repairs and services for the department generally. We would make savings in co-locating security arrangements, which are now spread around the precinct. We would make savings in travel costs for people from the outlying leases coming into the Woden area for meetings. So there are a range of savings that we anticipate.

CHAIR—Was there any proper analysis done of this? If so, is it possible for the committee to have a copy of that analysis?

Mr Overy—I have done some costings, which indicate that we could have a saving of approximately \$350,000 a year, based on the elements which Ms King spoke about.

CHAIR—That is based on the operating cost of the actual building?

Mr Overy—Yes.

CHAIR—It does not incorporate a factor for an amortised cost of the fit-out?

Mr Overy—No. These costs include the repairs and maintenance which Ms King spoke about and the cost of energy savings. Our new building is intended to be much more energy efficient, so there is a saving there. We currently spend approximately \$50,000 a year on venue hire for conferences, meetings and seminars in and around the local area. There are couriers and freight charges to and from the outlying leases.

CHAIR—Is it possible to let the committee have a copy of that analysis?

Mr Overy—Certainly.

Mr BRENDAN O'CONNOR—In paragraph 1.9 you outline the extent to which you have consulted with managers and staff—and indeed the CPSU. To what extent have you consulted with staff, particularly in relation to fit-outs? What was the nature of those consultations and what were the outcomes? Did the feedback that you drew from staff add value to the proposal to fit out the building?

Ms King—We have a staff consultative forum which was formed in December. The membership of the forum consists of representatives from the national staff participation forum, the business management units, occupational health and safety, and the environmental management strategy area. The consultative forum first met in January. Subsequent to that, we provided them with a number of presentations by architectural firms looking at fit-out concepts and the philosophy behind certain concepts. We have also taken them on tours of Scarborough House and a range of organisations in Canberra, such as the Australian Bureau of Statistics, DIMIA, the Department of Defence, the Department of Treasury and the Australian Greenhouse Office, to give them an idea of the sorts of fit-outs that are currently being implemented in Canberra.

A letter has just been tabled by one of the union representatives on the staff consultative forum. I think it is fair to say that the forum is generally comfortable with the level of consultation, the information that they are being provided with and the opportunity to have input into the fit-out. We have indicated to them that, once we have the design team on board, the design team will meet with the consultative committee to gain from them their views on the sort of fit-out that would be appropriate for meeting the business needs of Health.

Mr BRENDAN O'CONNOR—Will the space per employee increase, decrease or remain the same?

Mr Little—If you look at the three main buildings—Alexander, Albemarle and Penrhyn—you will see that the space per work position is about 14.81. In Scarborough House, we are looking at 14.6. So there is a slight efficiency there.

Mr BRENDAN O'CONNOR—Negligible.

Mr Little—I would also point out that, in the ABS and DIMIA, it is around 19 and 16 per square metre. So we are within those areas.

Mr BRENDAN O'CONNOR—In paragraph 2.2.1 you make reference to the fact that the building has been gutted and vacant for 10 years or thereabouts. Can you speculate as to why the building would have been empty for so long?

Mr Overy—I will have a go. The building, as it stood, was very inefficient in terms of the floor plate size. For that reason the government's property arm had difficulty in selling it. The floor plates covered approximately 650 square metres. As I explained at the site visit, the design of the building was such that it only allowed for offices to be placed around the external side of the building, with a passageway around the centre. It was not until the government found a developer who was prepared to look at the building in a different way. Extending the building to the north and the west increased the floor plate size by approximately 500 square metres, which makes it more palatable and efficient to fit out. It was at that stage that the government secured a sale. That is pure speculation on my part, but I believe that to be the case.

Mr BRENDAN O'CONNOR—I accept that. That was the rider I put on the question. I understand you are not in a position to unequivocally give an answer to that. I have two more questions. Mr Jenkins had to leave earlier but he was at the inspection. He wanted to ask whether there had been any attempt to allow for accommodation for cycle use by staff.

Mr Overy—Yes, there will be parking in the basement for bicycles.

Mr BRENDAN O'CONNOR—Consideration was given to including child-care facilities, but it was decided against the provision of child-care facilities in the fit-out. One of the reasons for that, in 2.11.1, was that there are child-care facilities available elsewhere. Was there any investigation of whether there are places available in those facilities within the precinct, or was it just that there are child-care facilities there, whether they are full or not?

Mr Overy—In the main, we are not moving people from other locations. The fragmented leases are within the Woden Town Centre. People who avail themselves of child-care facilities

will be doing so now. The second reason for not including them is that the building has no external area for children to play. It is a hard, landscaped surface in a locked area of land, and there are no facilities available adjacent to the building.

Ms King—It is fair to say that we have undertaken with staff to look at that issue again in the accommodation for 2009.

Senator FERGUSON—Following on from a couple of Mr O'Connor's questions, who was the previous owner of Scarborough House? Was it the federal government?

Mr Overy—It was the federal government.

Senator FERGUSON—Are you saying it took the federal government eight years to find a suitable purchaser of that building?

Mr Overy—I was asked to speculate.

Senator FERGUSON—What staggers me is that we were told in earlier conversations that there is scarcely any space to lease in the area—there is a one per cent vacancy rate. I find it staggering that a building can stay empty for 10 years, when there is a one per cent vacancy rate, with no developer wanting to take it on with the prospect of renting it out so readily in a market that is supposedly full.

Mr Overy—I agree with you. I think it took someone with some form of lateral thinking to see how they could make the building into a saleable item.

Senator FERGUSON—Did the federal government sell this building to Indigenous Business Australia?

Mr Overy—They did.

Senator FERGUSON—Who made the initial approach to you to be occupants? Did you approach them, or did they approach you?

Mr Overy—We had some expressions of interest for accommodation out in the marketplace, from memory in December 2002. They responded to that request.

Senator FERGUSON—Which would have been just after they purchased the building. Did you say they have had it for two years?

Mr Overy—I am not sure of the timing of the purchase.

Senator FERGUSON—Can you tell me the rental rate for the fragmented part of the health department that is currently being used?

Mr Overy—I can, but I would rather give it to you on a confidential basis. I can give you a list of the leases that will be terminated.

Senator FERGUSON—Is it more or less than what you have currently negotiated?

Mr Overy—It aggregates to be slightly less.

Senator FERGUSON—Your existing aggregates are slightly less?

Mr Overy—Yes.

Senator FERGUSON—The figure of \$270 is in your public document, and \$274 is the average per square metre. You have signed a lease for 10 years, with an option for another five?

Mr Overy—Correct.

Senator FERGUSON—What are the escalation arrangements for the lease?

Mr Overy—Three per cent per year, with a market review at year six and year 11 should we take up the option.

Senator FERGUSON—So you have three per cent fixed for 10 years, with a market review halfway through the initial lease?

Mr Overy—Yes.

Senator FERGUSON—How does that compare with other leases entered into by other departments in the Woden area?

Mr Overy—I am not sure.

Senator FERGUSON—I am not talking about another lease which we all know about.

Mr Overy—It compares very favourably with our own leases in the area. The market review could go down.

Senator FERGUSON—I understand that. It could go up.

Mr Overy—It could go up, it could go down.

Senator FERGUSON—If it is reviewed in the sixth year, and with inflation, there is the provision for them to increase the escalation.

Mr Overy—That is right.

Senator FERGUSON—But it would have to be an agreed amount.

Mr Overy—Yes.

Senator FERGUSON—If you did not agree, does the lease become null and void?

Mr Overy—No. There is a mechanism by which we can seek a third party, an arbitrator.

Senator FERGUSON—I was a bit concerned to learn in our earlier confidential briefing that a considerable sum of money was allowed for relocation—for what you termed ‘bits and pieces’. What sorts of bits and pieces were you talking about? It was a considerable amount of money.

Mr Overy—We needed to make allowances for a number of moves. The people who are currently in the outlying leases may not necessarily be the people who will move into Scarborough House. In effect, there could be one, two or three moves of people to realign our business entities so there is better cohesion between them. That is why the allowance is perhaps more than would normally be.

Senator FERGUSON—It is a lot of money.

Mr Overy—It is.

Senator FERGUSON—Can you give us a more detailed breakdown of that relocation figure? You would have to have arrived at it somehow.

Mr Overy—It was based on the cost of the program management review, which was undertaken when several of the divisions were moved around. The cost of that was analysed and put into the figures.

Senator FERGUSON—I must say that, of all your costings, that is the one that concerns me the most. I would be very interested to know whether, at the end of the day, we could get a report on the actual costs from you. I always get a bit wary of what look like inflated figures for things like relocation when it sometimes helps to improve the overall cost of the project.

Mr Overy—I am sure we can give you that undertaking.

Senator COLBECK—How final are the floor plans we have been provided with in respect of the final layouts?

Mr Overy—They are indicative only. They were produced by the building owner to demonstrate how people would fit on the various floors. I do not believe our final fit-out will look anything like that.

Senator COLBECK—When will the final plans be available?

Mr Overy—At this stage we have not engaged the designer to proceed to any form of design. We have selected a designer. Once we get that designer on board, I estimate that by around July we will have a set of documentation which will be finalised.

Senator COLBECK—We are essentially halfway through March so, in about 14 weeks, you expect to be able to finalise a contract with the designer and to have almost finalised the documentation?

Mr Overy—Yes.

Senator COLBECK—It is a pretty tight time frame.

Mr Overy—It is a tight time frame.

Senator COLBECK—Does your contracted designer feel comfortable with meeting that?

Mr Overy—He does.

Senator COLBECK—Obviously that is very important with respect to meeting your fit-out completion dates, and it potentially impacts on the costings going forward.

Mr Overy—Correct. I will explain a little more. We are trying to develop 11 floors of identical generic fit-out, so about three or four floors will need to be designed in detail. The others will be a replica all the way up the building.

Senator COLBECK—Given that that is the time frame you are looking at, and once you get to the stage of having your plans completed, say, at the end of June, it really makes things pretty tight with respect to potential escalations given that you have essentially allowed under six months, at current market rates, for escalation rates. I would be interested in seeing a time line for your project so we can fit the potential program dates versus potential costs with those. The fact that these are very much only indicative has an impact on my questions. I was concerned that there is not too much private space for employees in the indicative documentation that you have. That leads to the consultation: will there be staff input into the design process for the layouts of the floor levels of the same type?

Mr Overy—Most definitely. Through the staff consultative forum we have developed a process whereby the members of those forums go back to their various areas and discuss with their colleagues. They are in the process of writing back to us with a list of their needs, their likes and their dislikes from the fit-outs that they have seen. We will turn that into a brief for the architect, who will then go back to the consultative forum with a return brief. They will be party to all of those discussions.

Senator COLBECK—The indicative documentation provides for just under 100 people per floor on those floors. How does that fit in with prescribed floor areas for staff? What are those prescribed floor areas that will be provided under staff consultations?

Mr Overy—I am not sure how the indicative ones relate to the anticipated levels. We are looking at 14.6 square metres per person.

Senator COLBECK—What staff numbers does that provide for per level?

Mr Overy—I think it is close to 900.

Senator COLBECK—Over all the floors?

Mr Overy—Yes.

CHAIR—I would like to ask a supplementary to Senator Colbeck's question. I was momentarily distracted when Peter Lindsay vacated, but I do not think you asked it. It goes back to the time frame for completion. You have not been able to provide an exact fit-out design, and the time frame for doing that is quite tight. In your submission you talked about the figures excluding any temporary accommodation costs. Do you anticipate that there may be some temporary accommodation costs, particularly if you slip the time? If so, won't this blow out the budget? If so, by how much?

Mr Overy—If we slip as a result of the base building owner's failure to give us the building in time, the costs of the department will be borne by the building owner.

CHAIR—If the delays are due to the fact that you have not completed your part of the work, what happens to the costs with regard to relocating staff?

Mr Overy—There would obviously be more costs.

CHAIR—You have not made any contingency provisions for that?

Mr Overy—No, we have made no allowance for that.

CHAIR—That means you are very confident that you will move in on time.

Mr Overy—I am very confident.

CHAIR—The only other question I have, if my colleagues do not have any, is about fire safety aspects. The building is in the centre of a lot of other buildings. Have you considered the procedures for evacuation in the event of a fire or some other adverse event?

Mr Overy—The department has a consultant who advises on the evacuations of buildings. He will be involved in the evacuation procedures.

CHAIR—So you will be taking that into consideration as you proceed to complete the design as well? You will be looking at evacuation procedures at Scarborough?

Mr Overy—Yes.

CHAIR—The other issue is in relation to people with a disability. Has this been considered in the design?

Mr Overy—The base building, by the building owner, has gone through all of the checks with ACROD and similar organisations to ensure that it is friendly to people with disabilities.

CHAIR—In terms of your fit-out?

Mr Overy—Yes. Health has a number of people with disabilities working for the department.

Ms King—We also have our occupational health and safety people on the staff consultative forum.

CHAIR—How much input do you have into energy efficiency within the fit-out, or is that entirely the preserve of the building owners with respect to the refurbishment of the building itself?

Mr Overy—We are responsible for the tenant light and power and the associated costs of those. We have set ourselves a target of 202 megajoules per square metre. DIMIA is the latest building to be finished, and it runs at 183 megajoules per square metre. We are comfortable we can meet the same target.

CHAIR—But minimising energy consumption is at the top of your mind as you go through the fit-out process.

Mr Overy—Yes.

CHAIR—Are you consulting with the Australian Greenhouse Office on this?

Mr Overy—We are indeed, with Mr Lloyd Woodford.

Ms King—The department has an environmental management strategy, which will be applied to Scarborough.

Mr Overy—We will be looking at waste minimisation in total with Scarborough.

Senator COLBECK—Just going back to the design, you said in earlier evidence that the staff consultative group had been into other buildings that had previously been fitted out, including the most recent fit-out projects. I presume there would be some similarities in the layouts, and that is why you are taking them around. What about personal environmental issues like background noise levels and all those sorts of things? Are you taking on some consultations and feedback from those who were involved previous fit-outs and taking them into account so that they can be taken into account and mitigated into this new proposal?

Mr Overy—Yes. One of the questions we asked of all of the buildings we visited was about the level of intrusion of sound from one area to another. In most cases, people were comfortable with the way in which their own work space was set up and they did not find the noise intrusive.

CHAIR—Senator Ferguson reminded me to ask you to make sure that you provide us with all the detailed costings. I think you have a more definitive budget on the quantity surveyors.

Mr Overy—Yes.

CHAIR—If you could provide those to the committee, with a breakdown of the line items, that would be very useful, as well as the other information we have asked for. A program of works would be helpful to satisfy the committee that the program is achievable within the time frame. Thank you all for coming today and for assisting us with our inspection this morning.

Resolved (on motion by **Mr Brendan O'Connor**):

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 the public hearing this day.

Committee adjourned at 11.11 a.m.