



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT COMMITTEE ON PUBLIC WORKS

**Reference: Fit-out of an extension to leased premises for IP Australia in Woden,
Australian Capital Territory**

FRIDAY, 10 FEBRUARY 2006

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**JOINT STATUTORY COMMITTEE ON
PUBLIC WORKS**

Friday, 10 February 2006

Members: Mrs Moylan (*Chair*), Mr Brendan O'Connor (*Deputy Chair*), Senators Forshaw, Parry and Troeth and Mr Forrest, Mr Jenkins, Mr Ripoll and Mr Wakelin

Members in attendance: Senators Forshaw, Parry and Troeth and Mrs Moylan

Terms of reference for the inquiry:

To inquire into and report on:

Fit-out of an extension to leased premises for IP Australia in Woden, Australian Capital Territory.

WITNESSES

AMBROSE, Mr Derek, Chief Financial Officer, IP Australia 1

**DOWSE, Mr John, Principal, Haralambous Dowse and Associates; and Tenant Advocate, IP
Australia..... 1**

HEATH, Dr Ian, Director-General, IP Australia..... 1

PLUNKETT, Mr Adrian, Director, New Accommodation Project, IP Australia 1

Committee met at 11.41 am**AMBROSE, Mr Derek, Chief Financial Officer, IP Australia****DOWSE, Mr John, Principal, Haralambous Dowse and Associates; and Tenant Advocate, IP Australia****HEATH, Dr Ian, Director-General, IP Australia****PLUNKETT, Mr Adrian, Director, New Accommodation Project, IP Australia***Witnesses were then sworn or affirmed—*

CHAIR (Mrs Moylan)—My apologies to those members of the public in the audience today for the slight time delay in starting the public hearing. I now declare open this public hearing into the proposed fit-out of an extension to leased premises for IP Australia in Woden, ACT. This project was referred to the Public Works Committee on 12 October 2005 for consideration and report to parliament.

In accordance with subsection 17(3) of the Public Works Committee Act 1969:

- (3) In considering and reporting on a public work, the Committee shall 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.

I welcome witnesses from IP Australia. The committee has had an inspection of the premises this morning and also a confidential briefing from IP Australia on the financials. We thank IP Australia for the arrangements for that inspection this morning. The committee has received a statement of evidence from IP Australia. This will be made available in a volume of submissions for the inquiry and it is also available on the committee's website. Does IP Australia wish to propose amendments to the submissions made to the committee? In fact, this may be a time for you to clarify the costing for us.

Dr Heath—We would like to amend page 30 of our submission. The '\$12.95m' in paragraph 2.21.1 should be amended to read '\$14.45m'.

CHAIR—Should that be \$14.451 million?

Dr Heath—Yes.

CHAIR—I now invite you to make a brief opening statement and then we will proceed to questions.

Dr Heath—Thank you for the opportunity to present our proposal. As outlined in our submission, IP Australia currently occupies three buildings in Woden, ACT. Our signature building is Discovery House, which was built and occupied by us in February 1997. IP Australia also occupies the Sirius Building, which was built in the late 1960s, and 10 Corinna Street.

In March 2004, IP Australia implemented a restructure of its organisation to align and co-locate certain groups. At the same time we were planning an increase in staffing levels as a medium-term goal to enable the organisation to meet its examination work. IP Australia commissioned a review of its short-, medium- and long-term accommodation requirements. The brief was to allow for IP Australia's immediate and future expansion needs in the Woden area, based around the retention of Discovery House, if possible, as our signature building.

It is advantageous to us, we believe, that occupation of the new fully fitted-out accommodation should occur before the expiry of the Sirius Building lease option in October 2007. The site the Discovery Building and this proposal is on is owned by Challenger Financial Services Group. The development is being undertaken by that organisation. A new lease is proposed which will run for 15 years for the whole of the building. We believe this arrangement will deliver substantial savings on the current lease on the current Discovery House over the next five years.

The need for the new proposed building was driven by a combination of planned staff growth and the inability of the existing accommodation to meet the medium- and long-term requirements of IP Australia, in addition to the inability to satisfy the functional co-location requirements. The Sirius Building has been continually occupied since the late 1960s, and many of the building services there are reaching the end of their useful life. My colleagues and I would be pleased to answer any questions you have on the proposal.

CHAIR—Thank you very much. We were just having a discussion about values of the lease. It may be necessary to provide some of the figures to us on a confidential basis. In general terms, I notice that, at 1.72 of your submission, you indicate that the total area of office space leased in the three buildings at the present time is 20,068 square metres. I do not think the leasing cost that was in your submission was commercial-in-confidence. It is in the little chart in paragraph 1.2.4. In the submission you have said that the current rents range from \$248 per square metre per annum to \$350 per square metre per annum and that the new building extension will provide approximately 10,500 square metres of lettable office space. Are you able to give us, either on the public record or in commercial-in-confidence, the per square metre rate for the new arrangement? Presumably there would be a different rate for the existing building. I take it you are renegotiating those leases as well; is that correct?

Dr Heath—That is correct. The rate for the whole building from 1 July 2007 will be \$365 per square metre.

CHAIR—What is the negotiated rate for existing buildings? Do you have that?

Dr Heath—The current rate for the existing Discovery Building, of which this is an extension, is \$350 per square metre—that is on there. On 1 October 2007 that was scheduled to go up to \$420 a square metre.

CHAIR—Will that go up then?

Dr Heath—No. We are getting it for \$365. It was going up, but the renegotiation means that we get it for \$365 for the whole building, going forward.

CHAIR—What is that going forward? Is there an annual rent review?

Dr Heath—There is an annual rental review with a 3.25 per cent annual—

CHAIR—That is 3.25 per cent annual?

Dr Heath—That is correct.

CHAIR—In your submission you talk about looking at the options. Did you examine options for moving into a completely new building and, in that process, look at current rental values in the Woden area?

Dr Heath—Yes, we did. There are a couple of options. One is taking a complete new building, or an extension. As I mentioned, we did have a desire, if possible, to maintain our occupation of the existing Discovery Building as our signature building. As I recall, when we looked at all those options, the rental offering which we were looking at here we believe was a competitive market rate.

CHAIR—Did you do a complete analysis of that? Did you actually have much to choose from in the Woden area?

Dr Heath—At the time there were two major options we were looking at, aside from the one before you. One was what is called the Glasshouse Building, which you saw going up over the road. The other was essentially an offer from the owner of the Sirius Building, the old building we occupy, to redevelop that site for us completely. They were the two local options. There were not a lot of other options in the Woden area that were identified.

Mr Dowse—There was a fourth option that came through a little later than our analysis of the earlier options, which was a development that is adjacent to Juliana House, also in Woden.

CHAIR—Did you document these options and do an analysis on them? If so, is that available in confidence to the committee?

Dr Heath—We can certainly show you the analysis we did of those three options, where we did net present values and all those sorts of things. We would rather do that confidentially.

CHAIR—That would be useful. Thank you.

Senator PARRY—Madam Chair, I will not ask any questions in the public section, in the interests of time. I had my extensive go in the private session. Thank you.

Senator FORSHAW—Just continuing on with the issue of the current leases and the new lease, what is the total lettable area of the new buildings, when occupied, that you will be paying for?

Dr Heath—The total lettable area—

CHAIR—It is at that same table at 1.4. It is 10,500 square metres.

Senator FORSHAW—I was looking at another figure, which is the land. There is a figure later on in the submission about the land.

CHAIR—That is not at that table, but the lettable area, I think, is 10.5 thousand—that is at 1.72.

Senator FORSHAW—That is what you will be paying for?

Dr Heath—Yes.

Senator FORSHAW—I am not as well versed in property matters as other members of the committee. I am also interested in the arrangements for the car park.

Dr Heath—The total area of the whole new building will be just over 21,000 square metres. The total area of the new wing is just over 10,000 square metres.

Senator FORSHAW—Earlier, you stated the new figure you are going to pay per square metre. How much was that?

Dr Heath—It is \$365 per square metre for 21,000 square metres.

Senator FORSHAW—You multiply that by 21,000.

Dr Heath—That is right.

Senator FORSHAW—Does that include the car park? What is the position with the car park? I understand there is increased car parking.

Dr Heath—The car parking is additional and not at that rate.

Senator FORSHAW—What will be the arrangement there?

Dr Heath—There is a fixed rate for car parks. I just have to find it, if I may.

Senator FORSHAW—Is it in the submission? I cannot recall.

Mr Plunkett—It is \$1,750 for the underground car parks. There is a separate rate for the on-grade car parks. There are about 60 on-grade car parks, which are at a substantially lower figure. But we can provide that to you.

Senator FORSHAW—So it is \$1,750 per car park per annum.

Mr Plunkett—Yes.

Senator FORSHAW—You state in one section of the submission that with regard to the lease there are contingency arrangements in place if there is an overrun on the construction time beyond, obviously, October and/or December, which is when the current leases expire. If that goes to figures, you may want to provide them to us in confidence. Is there an arrangement with the current lessors?

Mr Dowse—The legal terms of the agreement for lease and lease between IP Australia and Challenger Financial Services have an obligation on Challenger Financial Services, if they fail to deliver the building on time, to facilitate an ongoing accommodation solution to IP Australia's satisfaction and for Challenger Financial Services to bear any additional costs in providing that accommodation solution.

Senator FORSHAW—I was hoping you would say that. I assumed that might be the case. Thank you.

Senator TROETH—The car park that we looked at is now user pays?

Mr Plunkett—That is correct.

Senator TROETH—Will the proposed car park be user pays as well for your staff?

Dr Heath—We have not made that decision at this stage. That is one of the issues we have to work our way through, because to date we have not provided any car parking for staff, except for a few executive staff. Some of the things we will work through with our staff are some options about how we may do that. My expectation is that there will be some transfer of value for these car-parking spaces, but how we will structure—

Senator TROETH—What does 'transfer of value' mean?

Dr Heath—It may well be that in negotiating an employment arrangement with somebody, they may get this much salary, other things and a car park. That is the way my package is currently structured. It comes with a car park, which I pay fringe benefits tax on. That is one way of doing it. Another way of doing it is to say that these parking spaces are available to staff for a fee, which they pay the organisation. I have notions—I cannot put it any stronger than that—that I might like to use some of these car parks as incentives to people for them to car pool, or something like that. Some of them may be provided free if they are used by particular people in a particular way. We just have not done that yet. It is an obligation on the builder to provide that many car parks—that is a planning requirement of the ACT government. We have not done the internal management work yet on how we will manage those car parking spaces.

Senator TROETH—When we looked at the outside of the building, you indicated that there could be a traffic management issue, given the conjunction of various streets and what have you.

Dr Heath—I think the traffic management issues tend towards an improvement rather than a degradation. As you saw at the car park we inspected, there is an exit quite close to the corner of Furzer and Launceston streets, which I think personally is in busy times a bit dangerous as it is, because you exit the car park right into an intersection. That will be shut off and all the traffic going into that car park will be around in Worgan Street, which is a much quieter street. The exit goes into the middle of the street. So it is actually an improvement. There should be no increase in traffic because of the building, and the exits and entrees are slightly better than the current arrangement.

Senator TROETH—I understood also that possible—and I say ‘possible’—child-care facilities, a cafe and a gym may be built or provided. What is the progress report on those?

Dr Heath—On each of those as follows. In relation to the child-care issue, after getting enough information to understand what we needed to provide to have a viable child-care centre we formed a view that the site would not be suitable to try to do that. But we did approach the department of health, which is our adjacent Commonwealth neighbour, and talked to them about their future plans. They indicated they have a further building project on their horizon. So we have formally approached them and we have formally got a reply from them indicating that they would be most interested in us joining with them to do a joint venture child care in relation to that project. That is where that one has ended up.

In relation to the cafe, in the planning at this stage we are continuing with developing some sort of cafe facility on the site. The building plan has a building there. Our expectation is that the cafe would be leased to a commercial provider. The style of café, in terms much how full blown it will be, has not been quite finished at this stage, but that is continuing.

In relation to the gymnasium, the likely location of that, in our thinking, was in the basement area that is currently under the old building. We have not finalised the pressures on that space for other purposes, particularly storage. The tendency is that it is looking tight and we may not be able to do it, but that just has not been finalised at this point.

Senator TROETH—If some or any of those are included, will that affect the project cost?

Dr Heath—We are not expecting the cafe arrangements to affect any of the costings that we have put before the committee. The child-care one is now separate in the future and we will have to work through those arrangements at that time. If the gymnasium goes ahead, I would not expect there to be any significant fit-out costs, but to put something in there might be a slight variation in the costs that you have seen.

CHAIR—Given that one of the jobs of this committee is to look at projects in terms of any revenue they might generate, would you anticipate revenue being generated from a cafe, a gymnasium and indeed the car parking? It is clear from what you have said that you are not quite sure about some of these aspects, but would you undertake to keep the committee advised as to your decisions and to also advise us of what revenue they might be anticipated to produce?

Dr Heath—Certainly.

CHAIR—I presume that if you were leasing the cafe out you would do so to a tenant. Is that the idea?

Dr Heath—That would be the idea. It would be a subletting.

CHAIR—Would the gymnasium be on a similar basis?

Dr Heath—We have not thought that one through, to be frank—that is one of the issues—and would not do so until there was a physical space to even contemplate the notion of it. We did visit a few other agencies in town that have similar sorts of things. They seem to have owned the space and managed the space but paid for, in some way, perhaps through staff contributions or directly, some individuals to come in and do supervised gymnasium work at certain times. So the physical gym is owned and maintained at the organisation's expense. When the use of the gym is being supervised by skilled people, they are from outside, contracted in in some way.

CHAIR—So these facilities may just be provided at cost as part of the service to your employees.

Dr Heath—That is right. We have a program, as I think has been mentioned, although it may not be mentioned there. Healthy staff is a good thing. The balance is how to do it. We have a very active ride to work program, we have people doing 10,000 steps all over the place, and the gymnasium was coming through that same thinking—asking: 'What sort of facilities should you be provide, as it is in the organisation's interests to provide certain facilities to help your staff remain healthy?'

CHAIR—In any event, as part of our responsibility we need to consider that. So if you would keep us updated in relation to what you are doing there we would appreciate that, thank you. Also, just talking about car parking and bicycles, in the new car parking arrangements are you making provision for bicycle storage?

Dr Heath—From memory, about 110 spaces for bicycles are being provided in the new car parking space.

Senator PARRY—Has a traffic impact statement on the site been undertaken by the developer or by the department?

Mr Dowse—Yes, there has been.

Senator PARRY—By the developer?

Mr Dowse—There certainly has been by the developer, yes. As part of his development application and approval to proceed with the development a traffic impact statement was completed and presented to the local authorities.

Senator PARRY—Have you sighted the impact statement, in particular, in relation to the issues that have been raised?

Mr Dowse—Yes, we have. Obviously we are comfortable and confident that traffic management will work throughout the period of the construction activity and certainly post completion.

CHAIR—Obviously this work will go on within a confined area and with other established buildings around it. Has that been taken into account in terms of managing the building developments there?

Dr Heath—It certainly has. As I have been saying to my staff for a little while, we will be renovating our home while we are living in it so we are going to have some issues with undertaking those renovations with staff. We are certainly working closely with the project management about all of the issues of noise, dust, dirt and traffic disruptions that such a building program will entail. Nonetheless, there is an inevitability that the amenity of our current building will not be as good as it currently is while the building beside us is being built. You cannot build a building that close without some impact.

CHAIR—Is there some ongoing consultation process with the staff?

Dr Heath—We have an ongoing consultation process now with trying to design the fit-out and we have a project and staff in there whose role it is to do that sort of liaison through the whole project. Staff will be inconvenienced at certain points. Information about when this will be at its worst and why is one of the ways you manage that sort of thing, making sure that people understand that next week they will be doing all of the concrete pouring so the big concrete trucks will be there and that is what will be stopping you walking by, and all those sorts of things.

Mr Dowse—Perhaps I could add that, given the potential disruption to staff and inconvenience, we made a point of pursuing and agreeing in the legal terms of the agreement—the agreement for lease and the lease—that the developer is obliged to present and have IP Australia agree to a management plan for the site and the environs. So we are very conscious of potential disruption.

CHAIR—Just talking about staff and disruption, the other issue of course is whether or not the works can be completed within the time frame. Obviously, you have a limited time on the Sirius Building. How confident are you, given the current building climate and what appears to be a shortage of people in the building industry, that the developers can actually bring this project in on time, and what contingency arrangements have you made?

Dr Heath—We have a relatively high level of confidence. It is in the contract but we are conscious that unforeseen things can make a difference to that. We have good confidence at the moment. I personally would like to see a digger out there digging holes in the ground right now, to improve my confidence. The major issue we have is the Sirius Building. The current lease expires in October 2007 and the contract with the builder is to deliver the building to us by August 2007. The contract has in it a range of penalty clauses in the sense of the developer's obligations to us if there is a failure in that space. We have an option on the Sirius Building to extend its lease. We would be forced to exercise that option and, essentially, the builder would be forced to buy us out of that option when the building was available for us to move in.

CHAIR—What is that option arrangement?

Dr Heath—It is a five-year option. If we exercise it we have to commit to another five years at the Sirius Building, which of course we would not need.

CHAIR—So there is a strong buy-out option in your contract with the builder or there will be—

Dr Heath—That is right.

CHAIR—to ensure that, if that did occur, they would foot the bill?

Dr Heath—They would have to foot that dead cost that would sit there in that Sirius option, among other things. That is the major one that sits there.

CHAIR—There are always a few issues in these. We are always very keen to make sure that the buildings and the fit-outs meet all the requirements in terms of fire and evacuation and, of course, in this day and age, everyone is concerned with security of buildings. In that mix, there is access for people with a disability. Could you just run through for the public record the issues around fire management, security and evacuation of the building and disability access, please.

Dr Heath—Let me start with disability access. The building brief essentially requires the builder to meet the relevant building code standard for disability access. The sorts of things that will be included in that will be accessible car parking, self-contained unisex access toilets on every floor in the new wing, disability accessible showers and making sure that all the lifts that operate in the building meet the standard for disabled access. All of the walkways and corridor ways and those sorts of things have to meet a standard for disability access.

CHAIR—I notice in the costings we went through in the confidential briefing that you have made allowance for some additional fire services.

Dr Heath—Yes. In relation to the fire services, the usual standards for the local fire authorities need to be met so that all of the fire detection and suppression systems and smoke hazard management and those sorts of things will be there. But we have also made provision for making sure that, when the fit-out is finalised, all of the fire services that the base building needs to meet—any additional fire services, because we have put walls or blockages in places—are met as well.

In relation to security, the building will basically operate with security passes. That is our current mechanism. There is provision for the current manned entrance to remain, of course. Other access points will be accessed by a swipe security card. There will be provision to man the main access in the other wing if we wish but under current planning we probably will not. Staff will be able to enter the building by swiping a card and the door will open—that sort of thing. There will be electronic access controls to the car park, the bike parking and the loading docks. We see our building as essentially a relatively low-threat location, but we have to make sure that the security levels are adequate. We expect that some of the redesign we are proposing on the existing ground floor will improve access for security, and we have security cameras in strategic locations around the building's car parks, storage areas, entrances, exits and those sorts of things.

CHAIR—So you have given us a good rundown on fire safety and disability access.

Dr Heath—Yes.

CHAIR—Finally from me, just a question on the environmental considerations. As you are aware, the government did set up the Greenhouse Office with the intention of trying to reduce the use of energy in buildings and therefore bring down greenhouse gas emissions. Can you for the public record just give us some detail on what is being done in relation to the building to minimise energy and probably water use as well?

Dr Heath—We have contracted for a building which meets the Australian building greenhouse rating of 4.5 and in the contract we have contracted arrangements so that that is tested. Certain obligations will fall on the building owner to make sure that the building maintains that rating over time, with penalties of various sorts. The sorts of things which the building will have to achieve that rating include things like: double glazing; special lighting arrangements so that the lights come on and off depending on whether anyone is there, rather than being on when the building is empty; using stormwater, grey water and recycling; trying to maximise the use of natural light and those sorts of things to minimise electric use; and having the overall building management system for its environmental controls zoned and controlled in a way to achieve that sort of an outcome.

CHAIR—Have there been consultations with the Greenhouse Office on ways to minimise energy consumption?

Mr Plunkett—Yes.

CHAIR—Before closing, I would like to say thank you for appearing before the committee and particularly for helping us with our inspection this morning. It was much appreciated.

Resolved (on motion by **Senator Parry**):

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 12.17 pm