

Report 3/2011

Referrals made February to March 2011

- **Proposed development and construction of housing for the Department of Defence at Muirhead, Darwin, NT**
- **Proposed Robertson Barracks electrical reticulation system upgrade, Darwin, NT**
- **Proposed redevelopment of the Australian Defence Force Academy, Canberra, Australian Capital Territory.**
- **Larrakeyah housing project budget update**

Parliamentary Standing Committee on Public Works

June 2011

Canberra

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Membership of the Committee

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Members Mrs Karen Andrews MP

Mr John Forrest MP

Senator Michael Forshaw

Mr Steve Georganas MP

Senator Gavin Marshall

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List of recommendations

2 Proposed development and construction of housing for the Department of Defence at Muirhead, Darwin, Northern Territory

Recommendation 1

The Committee recommends Defence Housing Australia engage a social and cultural planner for the entire Muirhead development (including consideration of stage 1), and incorporate the findings and recommendations of that plan into the present proposal (stages 2 – 7).

Recommendation 2

The Committee recommends Defence Housing Australia engage a social and cultural planner for all future developments that involve the development of more than 50 lots, regardless of how many lots Defence Housing Australia will retain.

Recommendation 3

The Committee recommends that the House of Representatives resolve, pursuant to Section 18(7) of the *Public Works Committee Act 1969*, that it is expedient to carry out the following proposed work: development and construction of housing for the Department of Defence at Muirhead, Darwin, NT.

3 Proposed Robertson Barracks electrical reticulation system upgrade, Darwin, Northern Territory

Recommendation 4

The Committee recommends that the House of Representatives resolve, pursuant to Section 18(7) of the *Public Works Committee Act 1969*, that it is expedient to carry out the following proposed work: Robertson Barracks electrical reticulation system upgrade, Darwin, NT.

4 Proposed redevelopment of the Australian Defence Force Academy, Canberra, Australian Capital Territory.

Recommendation 5

The Committee recommends that the House of Representatives resolve, pursuant to Section 18(7) of the *Public Works Committee Act 1969*, that it is expedient to carry out the following proposed work: redevelopment of the Australian Defence Force Academy, Canberra, Australian Capital Territory.

Introduction

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

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

2 The Act, Section 5.

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

Structure of the report

- 1.6 Works considered in this report were referred to the Committee in February and March 2011 by the Special Minister of State, the Hon Gary Gray MP. The Committee is also reporting on a budget update held in relation to a work that was considered, and reported on, in 2009.
- 1.7 In considering the works, the Committee analysed the evidence presented by the proponent agency, public submissions and evidence received at public and in-camera hearings.
- 1.8 In consideration of the need to report expeditiously as required by Section 17(1) of the Act, the Committee has only reported on major issues of concern.
- 1.9 The Committee appreciates, and fully considers, the input of the community to its inquiries. Those interested in the proposals considered in this report are encouraged to access the full inquiry proceedings available on the Committee's website.
- 1.10 Chapter 2 addresses the proposed development and construction of housing for the Department of Defence at Muirhead, Darwin, Northern Territory. The project is estimated to cost \$410 million.
- 1.11 Chapter 3 addresses the proposed Robertson Barracks electrical reticulation system upgrade, Darwin, Northern Territory. The project is estimated to cost \$43.4 million.

3 The Act, Section 17.

- 1.12 Chapter 4 addresses the proposed redevelopment of the Australian Defence Force Academy, Canberra, Australian Capital Territory. The project is estimated to cost \$98.5 million.
- 1.13 Chapter 5 addresses the budget update for the Larrakeyah housing project, located in Darwin, Northern Territory. The works are underway, and are being undertaken by Defence Housing Australia.
- 1.14 Submissions are listed at Appendix A, and inspections, hearings and witnesses are listed at Appendix B.

Proposed development and construction of housing for the Department of Defence at Muirhead, Darwin, Northern Territory

- 2.1 The proposed development and construction of housing for the Department of Defence at Muirhead, Darwin would develop 930 residential lots, build 279 houses, sell most of the remaining vacant lots to the public and sell some to the Northern Territory Government.
- 2.2 The proposal was referred to the Committee on 10 February 2011.

Conduct of the inquiry

- 2.3 The inquiry was advertised in local and national newspapers and submissions sought from those with a direct interest in the proposal. The Committee received four submissions, four supplementary submissions and one confidential supplementary submission detailing the project costs. A list of submissions can be found at Appendix A.
- 2.4 The Committee undertook a site inspection, public hearing and an in-camera hearing on the project costs on 3 May 2011 in Darwin.
- 2.5 The transcript of the public hearing as well as the submissions to the inquiry are available on the Committee's website.¹ Plans for the proposed works are detailed in submission 1: Defence Housing Australia (DHA).

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

Need for the works

- 2.6 The submission from DHA states that the works are necessary to meet (in part) the housing requirement for Defence personnel in Darwin. This requirement has significantly increased over recent years, as many of DHA's existing properties do not meet the standard required by the Department of Defence's *New Housing Classification Policy*, introduced in July 2007.
- 2.7 There are significant constraints in the existing housing market in Darwin, and DHA is unable to secure sufficient additional existing houses of an acceptable standard.
- 2.8 The Committee finds that there is a need for the works.

Scope of the works

- 2.9 The proposed scope of the works is detailed in Submission 1: DHA. Briefly, the project proposes the following works:
- development of stages 2 – 7 of the 167.6 hectare site in northern Darwin, including services, to create 930 residential lots, of which the smallest will be 450 square metres;
 - construction of 279 detached DHA homes on individual residential lots, of which most will be single storey houses;
 - sale of the remaining undeveloped residential lots, including 15% of lots to be offered to the Northern Territory Government for 'Affordable and Community Housing' purposes.
- 2.10 The proposal would be completed in stages: construction work for stage 2 would commence in November 2011, and the entire project would be complete in June 2019.
- 2.11 The Committee finds that the proposed scope of works is suitable to meet the needs of the Muirhead project.

Cost of the works

- 2.12 The total out-turn cost for this project is \$410 million, including land costs and GST. The Committee received a confidential supplementary submission detailing the project costs and held an in-camera hearing with DHA on the project costs.

- 2.13 The Committee is aware that DHA has had some difficulty delivering constructions in Darwin according to its proposed budget, and the Larrakeyah project is discussed in chapter 5 of this report. The Committee notes that, in the case of the present proposal, the project budget runs over eight years. The Committee sought DHA's assurances at its hearings that the budget is robust and conservative in order to ensure that the budget provision is sufficient for the entire project.
- 2.14 The Committee is satisfied that the costings for the project provided to it are adequate.

Project issues

- 2.15 During its public hearing in Darwin on 3 May 2011, the Committee heard evidence from three organisations which submitted to the Committee. The Committee was very pleased to have input from a diverse range of groups, and issues raised during the hearing are discussed below.

Block size

- 2.16 The Committee is well aware that there is a broad range of lot sizes, ranging from the minimum permitted size of 450 square metres up to 4,000 square metres. Evidence heard at the hearing suggested that the smallest block size is substantially smaller than the average lot size in Darwin.²
- 2.17 The Committee is also aware that DHA is seeking to create a development that can accommodate a range of different houses. Many of its clients – members of the Australian Defence Force with families – are deployed overseas for substantial periods of time, and their spouse or partner is effectively a single parent during those periods. The Committee is aware that large housing blocks with extensive gardens could in fact be a burden for many of these parents.
- 2.18 Additionally, part of DHA's agreement with the Northern Territory Government for the development of the Muirhead site, stipulates that DHA make 15 per cent of lots available to the Government for 'affordable housing and community housing purposes'.³ To this end, DHA is seeking

2 Miss M. Clinch, Planning Action Network Inc., *Transcript of Evidence 3 May 2011*, p. 17.

3 Submission 1: DHA, p. 5.

to provide lots that are smaller and hence less expensive. However, these lots will have street frontage similar to substantially larger lots, to ensure that, from the street, there is no obvious difference between large and 'affordable' lots.⁴

- 2.19 In summary, whilst the Committee is aware that there is concern in the Darwin community about the proposed size of Muirhead lots, DHA must achieve a balance between the competing pressures on the development. The Committee is satisfied that the proposed lot sizes and lot arrangement are a reasonable compromise between the different demands placed on DHA.

Block orientation and house layout

- 2.20 During its site inspection, the Committee visited two DHA houses in the suburb of Lyons, which is next to the proposed Muirhead site. The houses were of a similar size and construction cost, but were built with different orientation and layout. The more recent house had been situated on the block to catch the prevailing breezes, and with the use of louvre windows on three sides of the main living space, there was a significant difference in the internal temperature.
- 2.21 DHA has also proposed a block layout according to which most blocks will be oriented within 30 degrees of North. Combined with DHA's proposed 'building envelopes', the spaces between houses will act as breezeways, utilising the prevailing breezes to cool those houses.⁵ The Committee is impressed by these 'passive' cooling designs, which will enable houses to be comfortably cooled in the dry season with much less reliance on air-conditioning.

Site remediation

- 2.22 At its public hearing, the Committee sought DHA's assurances about the full remediation of the Muirhead site, especially given the site's previous use by the Department of Defence.
- 2.23 DHA subsequently provided the Committee with the 'Unexploded Ordnance Assessment' report,⁶ which was prepared for the Department of Defence in 2006, before the land was transferred to DHA.⁷ The report

4 Mr. P. Howman, Defence Housing Australia, *Transcript of Evidence*, 3 May 2011, p. 5.

5 Submission 1: DHA, p. 12.

6 Supplementary submission 1.5: DHA.

7 Mr. P. Howman, DHA, *transcript of Evidence*, 3 May 2011, p. 9.

concludes (in part) that 'The likelihood of UXO [Unexploded ordnance] being remnant on site is considered negligible' and recommends that 'no further UXO works be conducted within this site'⁸.

- 2.24 The report gives a fairly conclusive finding about the site's suitability for development. The Committee underlines the importance of DHA giving absolute certainty to potential buyers about the site conditions, and DHA must ensure that any discoveries made during the construction process are communicated to prospective buyers.

Social and cultural planning

- 2.25 After the Committee's hearing in May 2011, DHA forwarded additional documentation to the Committee regarding Social and Cultural Planning for Muirhead. This information has been taken as a supplementary submission to the inquiry, and is available on the Committee's website.⁹
- 2.26 DHA states that there are no social or cultural plans developed by the Darwin City Council that would apply to the project. DHA has consulted the Council about its requirements as part of the normal development approval process.
- 2.27 DHA's supplementary submission provides some detail about the existing local facilities, but there has been no effort to systematically assess the ultimate population profile in Muirhead. Given the size of the development – which will essentially constitute an entire new suburb – DHA cannot rely on vague assumptions about residents' social and cultural needs.
- 2.28 A social and cultural plan would address numerous questions, such as the community profile, community needs and expectations, community values, passive security and safety measures. Witnesses at the hearing raised concerns about the way Muirhead would integrate with the surrounding areas of Darwin, from a social and cultural perspective:

The area of Muirhead is fairly close to some areas within Darwin that have some significant youth issues. By not providing appropriate spaces for young people who are going to be forming part of that community, there is the possibility that that new community of Muirhead may be adversely impacted by some of

8 Supplementary submission 1.5: DHA, p. 12.

9 Supplementary submission 1.6: DHA.

the issues that are currently occurring in the northern suburbs areas of Darwin ... There has been an increase, from our own experiences, in the amount of young women who are engaged in criminal activity, and there is an increase in activity of young people relating to physical assaults and those kinds of things. If public spaces that involve families and the ability for community to come together are not provided, there is a risk that the community becomes fragmented and there may not be the ability to draw that community together as a community.¹⁰

- 2.29 The Committee is not suggesting that DHA necessarily provide facilities of a particular kind. Rather, DHA must properly understand the community needs to inform its decisions about the proposal. It is important that DHA undertake this work in all projects of such a significant size. DHA must be proactive about this, and cannot excuse its failure to undertake social and cultural planning merely on the basis that the Darwin City Council does not require it to be done.

Recommendation 1

The Committee recommends Defence Housing Australia engage a social and cultural planner for the entire Muirhead development (including consideration of stage 1), and incorporate the findings and recommendations of that plan into the present proposal (stages 2 - 7).

Recommendation 2

The Committee recommends Defence Housing Australia engage a social and cultural planner for all future developments that involve the development of more than 50 lots, regardless of how many lots Defence Housing Australia will retain.

Affordable housing

- 2.30 The Committee was pleased to take evidence from representatives of the National Foundation of Australian Women and the Young Women's

10 Ms. C. Hilton, YWCA Darwin, *Proof Transcript of Evidence*, 3 May 2011, p. 22.

Christian Association (YWCA) Darwin at its public hearing. Both witnesses raised important issues about the broader issue of affordable housing in Darwin and elsewhere, and the role DHA might play in providing that housing.

- 2.31 In relation to the present proposal, the witnesses suggested that, to assist the provision of affordable housing, DHA might consider:

‘...collaborative processes that could be undertaken with developers, NT government and the community, whether that is private sector investment or community organisations or the new Darwin affordable rental housing company...’¹¹.

- 2.32 The Committee is aware that public hearings provide valuable opportunities for different organisations and individuals to meet and discuss collaboration. The Committee is hopeful that the kind of ideas suggested by YWCA Darwin might be further explored by DHA, as a result of the discussions that began at the public hearing in Darwin.

Committee comment

- 2.33 Overall, the Committee is satisfied that this project has merit in respect of need, scope and cost.
- 2.34 Having examined the purpose, need, use, revenue and public value of the works, the Committee considers that it is expedient that the proposed works proceed.

Recommendation 3

The Committee recommends that the House of Representatives resolve, pursuant to Section 18(7) of the *Public Works Committee Act 1969*, that it is expedient to carry out the following proposed work: development and construction of housing for the Department of Defence at Muirhead, Darwin, NT.

11 Ms. C. Hilton, YWCA Darwin, *Proof Transcript of Evidence*, 3 May 2011, p. 23.

Proposed Robertson Barracks electrical reticulation system upgrade, Darwin, Northern Territory

- 3.1 The proposed Robertson Barracks electrical reticulation project aims to provide a major upgrade to the electrical distribution system on the base in order to meet existing demand, with sufficient redundancy, and to meet future demand resulting from continuing developments on the base.
- 3.2 The primary objectives of this project are to:
- upgrade the existing high voltage power supply and distribution system so that it is reliable and has adequate redundancy to maintain power supply to essential infrastructure in the event of failure of one of the supply points; and
 - provide sufficient spare capacity to allow for future development of the base for approximately 15 years.
- 3.3 The proposal was referred to the Committee on 23 March 2011.

Conduct of the inquiry

- 3.4 The inquiry was advertised in local and national newspapers and submissions sought from those with a direct interest in the proposal. The Committee received one submission and one confidential supplementary submission detailing the project costs. A list of submissions can be found at Appendix A.
- 3.5 The Committee undertook a site inspection, public hearing and an in-camera hearing on the project costs on 4 May 2011 in Darwin.

- 3.6 The transcript of the public hearing as well as the submissions to the inquiry are available on the Committee's website.¹

Need for the works

- 3.7 The Department of Defence stated that there has been significant growth within the base, including:
- general growth associated with changes to Army's command and operational requirements over the last 15 years;
 - construction of the 1st Aviation Regiment facilities; and
 - additional living-in accommodation.
- 3.8 The Department explained that growth within the base has led to increased demands on the electrical reticulation system throughout the base, resulting in almost no spare capacity within the existing system. The Department also stated that the system is prone to failure during tropical and electrical storms and does not provide adequate redundancy.
- 3.9 The Committee finds that there is a need for the works.

Scope of the works

- 3.10 The proposed scope of the works is detailed in Submission 1: Defence.
- 3.11 To support the upgrade works proposed by this project, the Northern Territory's Power and Water Corporation (PaWC) has agreed to complete staged increases in the high voltage power supply to the base.
- 3.12 The on-base works will include the following:
- installation of a new intake switching station (ISS1), upgrading of an existing intake station (IS1) and upgrading two existing intake switching stations (ISS2 and ISS3);
 - extension of Feeder A from IS1 to ISS1 and interconnection of all the intake switching stations;
 - installation of high voltage cables to improve ring main configuration;
 - installation of five new substations, upgrading the equipment in five existing substations and upgrading the capacity of one substation;

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

- extension of the primary and secondary high voltage distribution systems;
- upgrading the network configuration;
- increasing the existing emergency power from 1.0 MVA to 7.0 MVA by constructing a new 7.0 MVA central emergency power station (the existing 1.0 MVA central emergency power station will be decommissioned); and
- installation of new power control and monitoring systems.

3.13 Construction will commence in late 2011 and be completed in mid 2013.

3.14 The Committee finds that the proposed scope of works is suitable to meet the needs of Robertson Barracks.

Cost of the works

3.15 The total out-turn cost for this project is \$43.4 million, excluding GST, which includes the cost of management and design fees, construction, equipment, contingencies and an allowance for escalation. The Committee received a confidential supplementary submission detailing the project costs and held an in-camera hearing with the Department on the project costs.

3.16 The Committee is satisfied that the costings for the project provided to it are adequate.

Project issues

Project partner

3.17 The Committee sought more detail regarding the relationship between the Department and the PaWC, in relation to this particular project.

3.18 When asked whether there were any particular difficulties foreseen in completing the work in the proposed time, in light of the need to work closely with the PaWC, the Department explained:

We do have an undertaking from Power and Water Corporation where they have indicated to us their master planning for electrical supply in that area, and we have had an exchange of

letters to the effect that we understand exactly what they are planning to do and the time frames that they are planning to do it. We have developed this project around the time frames of Power and Water Corporation. So the expectation is that we will have the infrastructure ready and in place within the base at around the same time that Power and Water Corporation are in a position where they can turn on the larger feeders to the base.²

- 3.19 The Department's project manager explained that they had been working with the PaWC for more than a year to ensure that they are abreast of all of the requirements of the Department and the base itself.³
- 3.20 The Department provided to the Committee a letter from PaWC outlining its commitment to the Department's project objectives and timelines.
- 3.21 The Department also explained that the program of works for the Robertson Barracks upgrade project is achievable, including trade and supply issues, despite a significant amount of work being conducted in the Darwin area over the next two to three years.

Committee comment

- 3.22 Overall, the Committee is satisfied that this project has merit in respect of need, scope and cost.
- 3.23 Having examined the purpose, need, use, revenue and public value of the works, the Committee considers that it is expedient that the proposed works proceed.

Recommendation 4

The Committee recommends that the House of Representatives resolve, pursuant to Section 18(7) of the *Public Works Committee Act 1969*, that it is expedient to carry out the following proposed work: Robertson Barracks electrical reticulation system upgrade, Darwin, NT.

2 Brig. D. Naumann, Department of Defence, *proof transcript of evidence 4 May 2011*, p. 4.

3 Mr. M. Wright, contractor's representative, Department of Defence, *proof transcript of evidence*, 4 May 2011, p. 5.

Proposed redevelopment of the Australian Defence Force Academy, Canberra, Australian Capital Territory.

- 4.1 The proposed redevelopment of the Australian Defence Force Academy (ADFA) aims to update and extend existing facilities, and provide new facilities, which will meet the needs of ADFA for coming decades.
- 4.2 The proposal was referred to the Committee on 23 March 2011.

Conduct of the Inquiry

- 4.3 The inquiry was advertised in *The Australian* newspaper. The Committee received one submission, and one confidential supplementary submission detailing the project costs. A list of submissions can be found at Appendix A.
- 4.4 The Committee undertook a site inspection, public hearing and an in-camera hearing on the project costs on 3 June 2011 in Canberra.
- 4.5 The transcript of the public hearing as well as the submissions to the inquiry are available on the Committee's website.¹ Plans for the proposed works are detailed in submission 1: Department of Defence (Defence).

¹ <www.aph.gov.au/pwc>.

Need for the works

- 4.6 The submission from Defence states that the works are necessary in order to ensure that the facilities meet the education and training needs of ADFA, particularly given changes in teaching techniques and spatial requirements since its establishment in 1986. In addition, many of the other facilities – administrative, messing, accommodation and physical training – are in need of refurbishment due to their age.
- 4.7 The Committee finds that there is a need for the works.

Scope of the works

- 4.8 The proposed scope of the works is detailed in Submission 1: Defence. The project proposes the following works:
- five new teaching spaces for 30 to 60 students each;
 - new 1,200 seat auditorium to replace the existing Adams Hall building, new indoor sports centre, and new overhead cover to the existing gymnasium form-up area;
 - new battle physical training area;
 - refurbishment of the teaching and lecture facilities in Buildings 30 and 32, of the Cadets' Mess kitchen, servery and bar area, of the Divisional Officers' working accommodation, and of the Chaplains' offices and prayer room;
 - refurbishment of the Other Ranks' and Senior Non Commissioned Officers' accommodation and new secure storage for cadets' bikes and flammable goods storage within the cadets' living-in accommodation precinct; and
 - upgrade to the site services infrastructure for the new 1,200 seat auditorium, the new indoor sports centre and mechanical plant upgrades to five existing buildings.
- 4.9 If Parliamentary approval is given, construction will commence in late 2011 and will be complete by the end of 2014.
- 4.10 The Committee finds that the proposed scope of works is suitable to meet the needs of the ADFA Redevelopment project.

Cost of the works

- 4.11 The total out-turn cost for this project is \$98.5 million, excluding GST. The Committee received a confidential supplementary submission detailing the project costs and held an in-camera hearing with Defence on the project costs.
- 4.12 The Committee is satisfied that the costings for the project provided to it are adequate.

Committee comment

- 4.13 Overall, the Committee is satisfied that this project has merit in respect of need, scope and cost.
- 4.14 Having examined the purpose, need, use, revenue and public value of the works, the Committee considers that it is expedient that the proposed works proceed.

Recommendation 5

The Committee recommends that the House of Representatives resolve, pursuant to Section 18(7) of the *Public Works Committee Act 1969*, that it is expedient to carry out the following proposed work: redevelopment of the Australian Defence Force Academy, Canberra, Australian Capital Territory.

Larrakeyah housing project budget update

- 5.1 In 2009, the Parliamentary Standing Committee on Public Works conducted an inquiry into the proposed construction and renovation of housing for defence at Larrakeyah Barracks, Darwin. The works were proposed by Defence Housing Australia (DHA), and had an estimated total cost of \$57.6 million (including GST) or \$52.4 million (excluding GST).
- 5.2 This budget figure was included in the statement made by the Parliamentary Secretary for Defence Support, when the proposal was referred to the Committee for inquiry on 17 September 2009. The Committee undertook an inquiry between September and November 2009.
- 5.3 The Committee tabled its report on 23 November 2009. The House of Representatives resolved that it was expedient for the works to proceed on 26 November 2009.
- 5.4 In early 2011, DHA wrote to the Committee seeking its agreement for the project to proceed with an amended budget. The original budget proved to be insufficient to complete the works, and DHA proposed both a reduced scope and larger budget to complete the project.
- 5.5 The Committee held a public hearing into the budget problems on 21 March 2011, and subsequently agreed to the project proceeding with an amended budget. This chapter deals with the issues raised in the hearings, and the Committee's findings about risk management by DHA and in the Australian Government more broadly.

The original inquiry

- 5.6 As noted above, the Committee conducted its original inquiry in 2009. The Committee held public and in-camera hearings on 9 November 2009 in Darwin. During the in-camera hearing, the Committee undertook its usual

inquiries about the strength of the budget, the risks to the project and the robustness of the budget's projections.

- 5.7 The Committee is always diligent in testing the assumptions underlying project budgets. In this case, the Committee had no reason to believe that the budget presented by DHA was problematic. In its report (Report 7/2009), the Committee wrote that:

The Committee is satisfied that the costings for the project provided to it are adequate.¹

- 5.8 As noted above, the Committee recommended that the House of Representatives approve the works, which it did on 26 November 2009. DHA subsequently proceeded with the project.

Correspondence received in 2011

- 5.9 As also noted above, the Committee received correspondence from DHA in early 2011, notifying it that the total budget of the project was insufficient to complete the works. DHA also sought the Committee's agreement to complete the project with an amended budget.
- 5.10 The Committee advised DHA that it would be holding public and in-camera hearings into the budget overrun, and DHA provided the Committee with an updated brief on the budget problems. This has been placed on the Committee's website.²
- 5.11 At its public hearing in March 2011, the Committee heard evidence from representatives of DHA about the reasons for the budget overrun, and some details of the proposed new budget. A transcript of this hearing is also available on the Committee's website.³

Budget overrun

- 5.12 In its correspondence to the Committee, DHA outlined the main deficiency of the original budget. The original budget was \$57.6 million (including GST), and DHA was seeking the Committee's agreement to proceed with a new budget of \$63.8 million (including GST).

1 Parliament of Australia, Parliamentary Standing Committee on Public Works, *Report 7/2009 – Referrals Made August to October 2009*, p. 14.

2 <www.aph.gov.au/house/committee/pwc/briefingdocuments2011>

3 <www.aph.gov.au/house/committee/pwc/briefingdocuments2011>

- 5.13 The civil and housing construction works accounted for the vast majority of the budget overrun. As DHA informed the Committee, initial tenders for these parts of the project ranged from \$68 million to \$97 million, well above the project budget. DHA commenced negotiations with the preferred tenderer, attempting to reduce the tender (with some success). DHA also negotiated with the Department of Defence, in order to save costs by reducing the project scope.
- 5.14 However, these negotiations did not result in a scope and tender that could be funded under the original budget, hence DHA's request for agreement to proceed with a larger budget.

Hearings in 2011

- 5.15 In its background paper, DHA advised the Committee that there were three main reasons for the inadequacy of the original budget:
- Darwin market conditions;
 - cost uncertainties associated with architectural design; and
 - DHA's inexperience with building high-set tropical homes.⁴
- 5.16 During the hearings, the Committee sought DHA's explanation as to why these cost pressures were not sufficiently accounted for during the budget process. It is unacceptable that these risks were only properly understood after the project had been considered by the Committee and Parliament.

Darwin market conditions

- 5.17 Members of the Committee raised the question of market conditions at the hearing in early 2011:

Senator TROETH— ... [We] are certainly aware that there are higher costs not only in Darwin but also in most of North Queensland because labour and building is higher than the rest of Australia. Again, given that Defence has been building in Darwin, I think, since the 1970s, why wouldn't Defence already factor that in? Is there is a sudden leap in the cost of building and labour?

4 Letter from Mr. P. Howman, *Larrakeyah updated budget brief*, 11 March 2011, available at <www.aph.gov.au/house/committee/pwc/briefingdocuments2011>

- 5.18 DHA responded to the Committee that there are significant pressures on the construction industry in Darwin, due to population growth and the limited months in which construction can be undertaken, given the climate patterns.⁵
- 5.19 The Committee is not satisfied with these answers. All the market conditions cited by DHA for the budget inadequacy were foreseeable. The conditions were well known in the local community.

House design

- 5.20 Members of the Committee reminded DHA that, during the original hearing in 2009, it advised that:
- The houses we intend to construct will be tropical-style, high-set homes promoting design principles specific to Darwin and the site conditions.⁶
- 5.21 No mention was made of the risks associated with the design or construction of this style of house. The Committee's usual inquiries about risks were satisfied with assurances from DHA that it had a suitably large contingency to cover any project risks that materialised.
- 5.22 In its original report, the Committee commended DHA for constructing houses that were designed for Darwin's climate.⁷ The Committee continues to support DHA's efforts to improve the capability of the Darwin construction industry to deliver houses that are designed for the local climate.
- 5.23 DHA must properly assess projects on an individual basis. DHA builds a large number of houses around Australia each year, and it cannot simply rely on general assumptions about the cost of housing design and construction. In this case, it was clear that the project differed significantly from previous projects, and DHA should have properly taken this into account.
- 5.24 DHA is conscious that it is pushing the Darwin design and construction industry forward by its decision to build high-set homes. Indeed, at a hearing for a different proposal in 2010 DHA noted:

5 Mr P. Howman, DHA, *Proof Transcript of Evidence*, 21 March 2011, p. 4.

6 Mr P. Howman, DHA, *Proof Transcript of Evidence*, 9 November 2009, p. 2.

7 Parliament of Australia, Parliamentary Standing Committee on Public Works, *Report 7/2009 – Referrals Made August to October 2009*, p. 15.

The committee also witnessed DHA's strategy to reinvigorate the local building industry to be more innovative in taking account of the tropical climate in future housing constructions ... The building industry in Darwin is currently geared to delivering southern style homes and the committee members would have seen much evidence of this this morning while driving around various suburbs to get to Muirhead and to this facility today. DHA has already implemented a strategy leading to affordable house constructions in Muirhead to be more attuned to Darwin climatic conditions, so it has developed a pilot home, which the committee visited this morning, to test various ideas and to show the local building industry the direction in which an important customer is heading.⁸

- 5.25 Again, the Committee is fully supportive of DHA's efforts to encourage housing in Darwin that is more attuned to the local climate. However, DHA must ensure that, if it is seeking tenders for house designs that it knows to be uncommon in the market, it must make sufficient budget allowances.

Committee comment

- 5.26 The Committee is concerned that the reasons for the budget overrun in this case were not unforeseeable. DHA must have been aware that there were local market and industry conditions that could cause problems with the project budget. The Committee considers it unacceptable that DHA did not do more work to identify these risks before the project commenced. The Committee has sought DHA's assurances that its internal budgeting processes have been improved to take account of this unfortunate turn of events. At the budget update hearing in March 2011, DHA assured the Committee that:

Wherever we introduce a new product we need to revisit our process of validating prices, and we have done that recently with some additional broadacre land... We have done the same thing with engineering estimates, where we have employed a couple of different engineers. One will do the estimates, another will do a review of those estimates, but we do not take the halfway measure. We get them all into the room together and keep them

8 Mr. P. Howman, DHA, *Proof Transcript of Evidence*, 15 April 2010, p. 3.

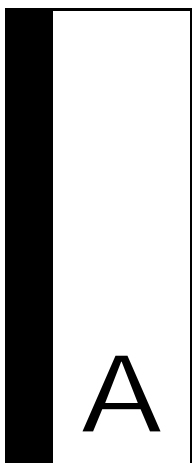
there until we come out with what they agree is the right number.
So we have changed that process for new and different products.

- 5.27 The purpose of risk management is to ensure that projects are not derailed by events or decisions that may or may not occur. In this case, there were numerous market conditions and cost pressures that DHA knew to be risks. They were not entirely unforeseen. However, DHA did not sufficiently investigate their likelihood and impact on the project.
- 5.28 The Committee is left to conclude that either DHA was not properly informed about the extent of the risks to the project, or that it failed to include sufficient budget provision to protect the project. Either way, DHA must improve its internal budget process to ensure that this does not occur again.
- 5.29 The Committee notes that DHA operates on a commercial basis, and that it returns profits to the government by way of dividends. Nonetheless, DHA is a public authority spending public money, and it has a responsibility to ensure that the money is well spent. Robust budgeting is a fundamental part of getting good value for money, and the Committee expects all agencies to ensure that project budgets are properly prepared.

Ms Janelle Saffin MP

Chair

16 June 2011



Appendix A – List of Submissions

Proposed development and construction of housing for the Department of Defence at Muirhead, Darwin, NT

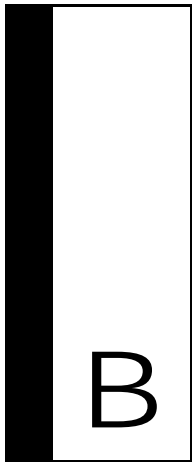
1. Defence Housing Australia
 - 1.1 Confidential
 - 1.2 Defence Housing Australia
 - 1.3 Defence Housing Australia
 - 1.4 Defence Housing Australia
 - 1.5 Defence Housing Australia
 - 1.6 Defence Housing Australia
2. Equality Rights Alliance
3. National Foundation for Australian Women
 - 3.1 National Foundation for Australian Women
4. The Planning Action Network Inc (Plan)
5. NT Shelter

Proposed Robertson Barracks electrical reticulation system upgrade, Darwin, NT

1. Department of Defence
 - 1.1 Confidential

Proposed Australian Defence Force Academy redevelopment, Canberra, ACT

1. Department of Defence
 - 1.1 Confidential
2. Academy Graduates Association Inc



Appendix B – List of Inspections, Hearings and Witnesses

Larrakeyah housing project budget update

Monday, 21 March 2011 – Canberra, ACT

Public Hearing

Defence Housing Australia

Mr Peter Howman, Chief Operating Officer

Ms Maree Lewis, National Manager, Construction

Department of Defence

Mrs Susan Parr, Assistant Secretary, Garrison Estate and Business Support

Mr Guy Taylor, Assistant Director, Relocations and Housing

In-Camera Hearing

Four witnesses

Proposed development and construction of housing for the Department of Defence at Muirhead, Darwin, NT

Tuesday, 3 May 2011 – Darwin, NT

Public Hearing

Defence Housing Australia

Ms Cate Heys, Regional Manager,

Mr Peter Howman, Chief Operating Officer

Mr James Wallace, Senior Development Manager

dKO Architecture

Mr David Randerson, Director

Investa Property Group

Ms Rebecca Dawson, Sustainability Manager

Mr Lloyd Jenkins, Group Executive Officer

Mr Paul Perkovic, Project Director

National Foundation for Australian Women

Mrs Marie Coleman, Chair, Social Policy Committee

Planning and Land Action Network (Plan)

Ms Margaret Clinch, Convenor

SMEC Urban (SMEC Australia Pty Ltd)

Mr Carl Wilkinson, General Manager, Queensland and Northern Territory

Tract Consultants Pty Ltd

Mr Mark Doonar, Director

Mr Peter Nelson, Associate, Urban Design

Young Women's Christian Association Darwin Inc

Ms Christa Hilton, Executive Director

In-Camera Hearing

Ten witnesses

Proposed Robertson Barracks electrical reticulation system upgrade, Darwin, NT

Wednesday, 4 May 2011 – Darwin, NT

Public Hearing

Department of Defence

Mr John Cotton, Contact Administrator

Lieutenant Colonel Robert Fosbrook, Chief of Staff, Headquarters 1st Brigade

Mr Robert Matruglio, Project Director, Northern Territory

Brigadier Darren Naumann, Director General, Infrastructure Asset Development

Mrs Rachel Rees-Scott, Manager, Estate and Facilities Services

Mr Michael Wright, Contractor's Representative

Irwin Consultant

Mr Colin van Eck, Design Consultant

In-Camera Hearing

Seven witnesses

Proposed Australian Defence Force Academy redevelopment, Canberra, ACT

Friday, 3 June 2011 – Canberra, ACT

Public Hearing

Department of Defence

Mr Timothy Keane, Project Director

Brigadier Darren Naumann, Director General, Infrastructure Asset Development

Mr Anthony Neill, Design Manager

Colonel Paul Petersen, Deputy Commandant, ADFA

Mr Antony Rogers, Project Manager & Contract Administrator

Mr Rick Zentelis, Director, Heritage and Biodiversity Conservation

University of New South Wales

Dr David Blaazer, Associate Dean (Education)

In-Camera Hearing

Seven witnesses