

Report 5/2009

Referrals Made May to June 2009

- Fitout and External Works, ANZAC Park West, Parkes, ACT
- Fitout of Tuggeranong Office Park, Greenway, ACT

Parliamentary Standing Committee on Public Works

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Membership of the Committee

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List of recommendations

2 Fitout and External Works, Anzac Park West, Parkes, ACT

Recommendation 1

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: fitout and external works, Anzac Park West, Parkes, ACT.

3 Fitout of Tuggeranong Office Park, Greenway, ACT

Recommendation 2

The Committee recommends that the Department of Families, Housing, Community Services and Indigenous Affairs document procedures for notifying 'medium works' to the Public Works Committee and provide these to the Department of Finance and Deregulation for circulation as appropriate.

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: fitout of leased premises at Tuggeranong Office Park, Greenway, ACT.

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 a delegate of the Minister for Finance.
- 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

¹ 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.

- any other matter declared by the regulations to be a work.²
- 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.

Matters addressed in this report

- 1.6 Works considered in this report were referred to the Committee between May and June 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.⁴
- 1.10 Chapter 2 addresses the proposed fitout of Anzac Park West in Parkes, ACT by the Department of Finance and Deregulation (Defence) on behalf of the Department of Defence. This project is estimated to cost \$45.5 million.
- 1.11 Chapter 3 addresses the proposed fitout of Tuggeranong Office Park in Tuggeranong, ACT by the Department of Families, Community, Housing and Indigenous Affairs. The project is estimated to cost \$29.89 million.

2 The Act, Section 5.

3 The Act, Section 17.

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

- 1.12 Submissions are listed at Appendix A and Appendix B lists inspections, hearings and witnesses.

Issues of concern

- 1.13 At several times during the inquiries referred to in this report, the Committee was told that certain works were separate from the major building works and were being 'funded internally.'

- 1.14 The Committee makes it clear that public works are considered to be funded from monies expended by the Commonwealth and thus fall within the Act regardless whether they are funded from a specific appropriation, from internal agency budgets or savings, or through lease incentives. The Committee reminds agencies of section 5AA of the Act:

5AA Meaning of *public work*

- (1) A *public work* means:
- (a) a work to which subsection (2), (3) or (5) applies; or
 - (b) a work declared by the regulations to be a public work.

However, a *public work* does not include:

- (c) a work that is proposed to be carried out within the Parliamentary zone; or
 - (d) a work that is proposed to be carried out by or for the Commonwealth by way of assistance to an overseas country; or
 - (e) a work declared by the regulations not to be a public work.
- (2) This subsection applies to a work:
- (a) that is proposed to be carried out by or for the Commonwealth, either within or outside Australia; and
 - (b) either:
 - (i) in respect of the carrying out of which moneys appropriated by the Parliament are proposed to be expended by the Commonwealth; or

- (ii) in relation to which moneys appropriated by the Parliament are proposed to be expended by the Commonwealth.
 - (3) This subsection applies to a work:
 - (a) that is proposed to be carried out, either within or outside Australia, by or for an authority of the Commonwealth to which this Act applies; and
 - (b) either:
 - (i) in respect of the carrying out of which moneys appropriated by the Parliament, or moneys of the authority, are proposed to be expended by the authority; or
 - (ii) in relation to which moneys appropriated by the Parliament are proposed to be expended by the Commonwealth or the authority.
 - (4) For the purposes of subsections (2) and (3), it does not matter whether or not the work concerned is a work of which the Commonwealth, or an authority of the Commonwealth to which this Act applies, is proposed to become the owner.
 - (5) This subsection applies to a work:
 - (a) that is proposed to be carried out, either within or outside Australia, otherwise than by or for the Commonwealth or an authority of the Commonwealth to which this Act applies; and
 - (b) of which the Commonwealth, or an authority of the Commonwealth to which this Act applies, is proposed to become the owner; and
 - (c) in relation to which moneys appropriated by the Parliament are proposed to be expended by the Commonwealth or an authority of the Commonwealth.
- 1.15 In addition, the quality of the cost plans presented for the three inquiries the Committee examined on 4 August 2009 varied markedly.
- 1.16 There are currently no consistent guidelines for agencies preparing cost plans for the Public Works Committee. The Committee is aware that the

Auditor-General's Report 20/2008-09: *Approval of Funding for Public Works* made a number of recommendations aimed at improving the information provided in cost plans. Finance is currently developing guidance for agencies on how to improve cost plans presented to the Committee.

- 1.17 The Committee looks forward to the completion of these guidelines and will be requesting a briefing from Finance on the implementation of these recommendations to assure itself that the guidance provided to agencies is appropriate.

Fitout and External Works, Anzac Park West, Parkes, ACT

- 2.1 The fitout of Anzac Park West (APW), Parkes ACT, proposes to upgrade and refurbish office accommodation to house the Department of Defence (Defence). The project is being delivered by the Department of Finance and Deregulation (Finance). The total cost of this proposal is \$45.5 million.¹
- 2.2 The proposal was referred to the Committee on 14 May 2009.

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 project. The Committee received three submissions and two confidential supplementary submissions. 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 4 August 2009 in Canberra.
- 2.5 The transcript of the public hearing as well as the submissions to the inquiry are available on the Committee's website.² Plans for the proposed works are detailed in Submission 1: Department of Finance and Deregulation (Finance).

1 Monies already expended on the project are discussed later in the chapter.

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

Background

- 2.6 The Committee has been charged with considering the works before it, being the fitout of Anzac Park West for the Department of Defence. However, significant expenditure has already been undertaken on base building works, so the Committee has also considered the work in this context.
- 2.7 Anzac Park West (APW) is considered a significant building in the parliamentary triangle. It and Anzac Park East (APE):
- Were constructed in the mid 1960s and were occupied by a number of Commonwealth departments and agencies until 1999 when both buildings ... were mothballed.³
- 2.8 The buildings were first referred to the Public Works Committee on 26 May 2004 with a proposal to fitout APW for the Australian Federal Police (AFP) and refurbish APE with view to identifying a Commonwealth tenant.
- 2.9 The referral was rescinded by the House of Representatives on the grounds of urgency on 24 June 2004. Base building work was subsequently completed at APW at a cost of \$48.3 million in December 2006.⁴
- 2.10 As a result of organisational growth in the AFP, it was determined that both APW and APE would be unsuitable to meet new requirements of the AFP. However, the AFP commenced paying rent on APW in July 2007 although with no intention to occupy the building.
- 2.11 In June 2008 the AFP sought and received approval from this Committee to commence fitting out the Edmund Barton Building in Barton, ACT. However, the AFP was still liable for the rent over APW and at the time of that inquiry and the Committee was told that the AFP was in active negotiations with Finance to be released from its lease.⁵ This occurred in December 2008 with Defence agreeing to lease APW.
- 2.12 In the course of this inquiry, the Committee raised the question as to why a private tenant could not be sourced. Finance told the Committee that not only are APW and APE heritage listed, but they are also 'embedded in the

3 Submission 1, Department of Finance and Deregulation (Finance), p. 3

4 Submission 1, Finance, p. 3

5 See the Public Works Committee *Report 9/2008: Referrals tabled June to September 2008*

National Capital Plan [and are] designated as 'Commonwealth purposes', so only Commonwealth tenants can occupy these buildings.'⁶

- 2.13 While this does pose some difficulties for Finance in engaging appropriate tenants, the Committee remains concerned about the length of time these buildings have been vacant, particularly given the heavy concentration of Commonwealth departments in Canberra.
- 2.14 The prolonged vacancy of APE and APW is an unacceptable state of affairs. The Committee acknowledges that a devolved property management environment means that the Property and Construction Division of Finance may not always be aware of agency movements. However, it remains incumbent on Finance to be more proactive in pursuing tenants for Commonwealth buildings.
- 2.15 Nonetheless, the Committee is pleased that APW will soon be occupied.

Need for works

- 2.16 The Finance submission states that the need for the work is to:
- address an existing Defence accommodation shortfall; and
 - consolidate existing small, separate Defence leases.
- 2.17 In evidence, Defence confirmed that the site would provide:
- efficiencies for us from people working together and being able to reduce the need for cars and shuttles and other transport. It is more efficient for us because we are not trying to work together spread out over 12 little sites.⁷
- 2.18 In consideration of the stated need for Defence to meet existing accommodation shortfall and the need for APW to be occupied, the Committee finds that there is need for the proposed works.

Scope of works

- 2.19 The proposed scope of the works is detailed in Submission 1: Finance. In short the project proposes the following:

6 Mr R. Scott-Murphy, Finance, *Proof Transcript of Evidence*, 4 August 2009, p. 12

7 Mr M. Healy, Department of Defence, *Proof Transcript of Evidence*, 4 August 2009, p. 4

- fit-out works comprising:
 - ⇒ office accommodation for approximately 900 people;
 - ⇒ meeting spaces, conference and training rooms;
 - ⇒ ancillary spaces, including reception and customer service areas; security, mail, print, and computer server facilities; prayer, carer and parent rooms; first aid room; ablutions; break-out and tea areas; gym/wellness centre; bike store and storage.
- external works comprising:
 - ⇒ civil works, including car park, driveway and associated security and traffic control measures;
 - ⇒ landscaping, including gardens, outdoor break-out space, paths, ramps and handrails;
 - ⇒ limited base building refurbishment of the pavilion building, which is located on the grounds but not included in the Defence lease.⁸

2.20 The bulk of base building works were completed in December 2006 under the fitout agreement for the AFP. The building currently consists of:

- approximately 15 000m² of A-grade commercial office accommodation;
- an environmentally sustainable base building designed with a 4.5 star National Australian Built Environmental Rating System (NABERS) energy rating;
- 150 secure car parks; and
- 150 tenant car parks.⁹

2.21 The Committee inspected the building on 4 August 2009 and noted that a number of cosmetic base building works were to be completed and was told that these would be completed subject to tenant design requirements.

2.22 In addition to the main building, the site contains a pavilion that has previously been used as a restaurant and a staff canteen. The pavilion is not included in the Defence lease and Finance is seeking separate tenant lease the building, suggesting its possible use as a childcare centre.¹⁰

2.23 The Committee did not have the to opportunity to inspect the pavilion, but was told that it is in a state of disrepair. This proposal includes some

8 Submission 1, Finance, pp. 11-13

9 Submission 1, Finance, pp. 4

10 Submission 1, Finance, p. 13

limited base building works with the aim of finding a tenant who will be responsible for fitout costs.¹¹

2.24 At the hearing in August 2009, Finance stated:

Under our proposal to this committee we are seeking authority to refurbish the Pavilion building even though it is not part of the lease or memorandum of agreement between Defence and Finance. Our purpose is to again achieve an appropriate return on that asset for the Australian taxpayer. We are involved in negotiations at the moment with prospective tenants or licensees so that we could get occupation of a refurbished Pavilion building to the benefit of the local staff and community.¹²

2.25 Further to the public hearing, the Committee was made aware that Finance has identified a prospective tenant, but at the time of this report, was not able to place any details on the public record. The Committee requests to be kept informed about the future development regarding this building.

2.26 The Committee finds that the proposed scope of works is suitable to meet the stated need for the project.

Cost of works

2.27 The total estimated out-turn cost of the project before the Committee is \$45.5 million (including GST). The tenancy fitout will be funded by Defence at an estimated cost of \$38 million and Finance will fund the remaining \$7.5 million for base building, car park and the pavilion works.¹³

2.28 However, the following additional costs have been, or will also be, incurred:

- base building works completed in December 2006 at a cost of \$48.3 million as budgeted in 2006, discussed above; and
- active information and communications technology (ICT) infrastructure at a cost of \$7.4 million, funded by Defence.

11 Submission 1, Finance, pp. 13

12 Mr R. Scott-Murphy, Finance, *Proof Transcript of Evidence*, 4 August 2009, p. 14

13 Submission 1, Finance, p. 18

- 2.29 Therefore the total cost of works to fitout APW is in the order of \$101.2 million.
- 2.30 Whilst active ICT is not strictly a 'work' under section 5 of the Act, the Committee is disappointed that these works were not included in the overall budget with which it was presented. The Committee concedes, however, that there are a number of items associated with office fitout proposals that do not fall under the definition of a 'work' under the Act, such as active ICT and furniture.
- 2.31 However, the Committee urges all agencies to err on the side of transparency when in doubt. Once works are clearly over the threshold for referral under the Act, agencies should include the costs of all items associated with the proposed works.

Cost of vacancy

- 2.32 In addition to the cost of fitting out APW for Defence as part of this proposal, there have been ongoing costs to Finance as a result of the building being vacant. Excluding loss of rent, these costs total approximately \$420 000 per annum in maintenance costs.
- 2.33 Finance noted that the refurbishment of the building has significantly extended the economic life of the building:
- The normal life expectancy of a commercial office building is in the order of 25 to 30 years. These buildings, both East and West, were constructed in about 1965, so theoretically they had reached the end of their economic life when they became vacated. When we brought evidence to this committee previously on Anzac Park West and East, it was to invest an amount of money to refurbish and extend the building to extend the economic life, to get the best value to the taxpayer, of those assets. In Anzac Park West I believe we have done that: we have extended the building, we now have a reliable tenant and we will enjoy revenue to repay that investment over the next 15 years.¹⁴
- 2.34 Although there has been a significant loss of rent, Finance noted that under the lease with the AFP, four years rent was received.¹⁵ Market rental is estimated at \$5.6 million per annum for the 15 year lease with Defence.¹⁶

14 Mr R. Scott-Murphy, Finance, *Proof Transcript of Evidence*, 4 August 2009, p. 12

15 Mr R. Scott-Murphy, Finance, *Proof Transcript of Evidence*, 4 August 2009, p. 12

16 Mr R. Scott-Murphy, Finance, *Proof Transcript of Evidence*, 4 August 2009, p. 2

- 2.35 The cost of building maintenance and loss of rent represents a significant cost to the Commonwealth. The Committee notes that a similar cost is being incurred with APE and would like to see this building tenanted as a matter of priority.

Cost plans presented to this inquiry

- 2.36 The Committee received cost plans for the project and held an in-camera hearing with Finance and Defence on the detailed cost plans.
- 2.37 The Committee was not satisfied with the quality of the provided cost plans. The plans contained limited detail and more information had to be provided at the in-camera hearing and on notice.
- 2.38 Nonetheless, the Committee is satisfied that the cost plans for the project as presented to it, discussed at the in-camera hearing and provided on notice are adequate.

Project issues

Timing of referral

- 2.39 At the time that this inquiry was referred, it had not been determined which Defence business unit would occupy APW, but that a generic fitout brief for 900 persons had been defined. Given the history of this building, the Committee was concerned to ensure that binding agreements were in place and that the proposed expenditure would not again result in works that would be vacant.
- 2.40 The referral was made prior to the agreement of a memorandum of understanding (MOU) between Finance and Defence and the finalisation of lease negotiations. The Committee questioned the departments in detail at the public hearing about the intention of Defence to sign a binding lease.
- 2.41 A 'heads of agreement' was signed between Defence and Finance in October 2008 which 'was basically an intention to move forward, develop and come to an agreement on scope of work and price for the Anzac Park West building.'¹⁷ It was on this basis that the work was referred for PWC consideration.

17 Mr M. Healy, Defence, *Proof Transcript of Evidence*, 4 August 2009, p. 10

- 2.42 The MOU and lease defining the scope of works was not signed until 30 July 2009, eleven weeks after the referral was made to this Committee and less than a week prior to the Committee's hearing into the matter.¹⁸
- 2.43 While the timing of the referral of office fitout referrals can be difficult to balance, the need to present a reasonably well defined scope of works is essential so that the Committee is able to make its decision on matters of substance. Particularly in circumstances where the history of the building is such that it is with APW, it is incumbent on the proponent agency to ensure that the Committee has no reason to doubt any aspects of the proposal.
- 2.44 Defence did assure the Committee that it intends to honour the arrangement.¹⁹

Building access for people with disabilities

- 2.45 While undertaking the site inspection, the Committee noted some building features that did not appear to comply with standards for building access for people with disabilities.
- 2.46 Finance officers attending the site inspection expressed the opinion that the building was in compliance, and the submission notes that the building would comply with access standards under the Building Code of Australia and Defence's internal policy for the provision of access to facilities.²⁰
- 2.47 The Committee is of the opinion that Commonwealth offices must be national leaders in implementing measures to ensure access to access to premises by people with disabilities.
- 2.48 On a wider note, the Committee is aware that the Draft Disability (Access to Premises - Buildings) Standards have recently been released.
- 2.49 These standards will provide some consistency to disability standards for access to premises. If adopted, the Committee will look forward to the standards being rigorously applied to projects put before it.

Environmental standards

- 2.50 The base building works completed at APW in 2006 meet requirements for the National Australian Built Environment Rating System (NABERS) and
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18 Mr R. Scott-Murphy, Finance, *Proof Transcript of Evidence*, 4 August 2009, p. 7

19 Mr M. Healy, Defence, *Proof Transcript of Evidence*, 4 August 2009, p. 10

20 Submission 1, Finance, p. 14

the fitout will achieve a 4.5 star rating under NABERS. In addition, the selection of materials and finishes will be selected to meet Defence Green Building Requirements.²¹

- 2.51 However, the most significant environmental savings in APW come from the adaptive reuse of an existing building. Finance noted:

The big saving in extending the economic life of a building in this way is that the energy that it would cost to demolish the building, the energy that it would take to construct a building plus the energy that is embodied in all the materials to construct a building and, of course, the disposal to landfill of the wasted material are all avoided by extending the life of a building in this way.²²

- 2.52 Given that the life expectancy of a commercial building is 25 to 30 years and APW had 34 years of use prior to being 'mothballed', this fitout has effectively doubled the life expectancy of the building. This is to be commended.

Committee comment

- 2.53 While the Committee has had concerns about the management of Anzac Park West and the management of this referral to it, overall, the Committee is satisfied that this project has merit in terms of need, scope and cost.

21 Submission 1, Finance, p. 7, 14

22 Mr R. Scott-Murphy, Finance, *Proof Transcript of Evidence*, 4 August 2009, p. 14

- 2.54 Having examined the purpose, need, use, revenue and public value of the work, the Committee considers that it is expedient that the proposed works proceed.

Recommendation 1

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: fitout and external works, Anzac Park West, Parkes, ACT.

Fitout of Tuggeranong Office Park, Greenway, ACT

- 3.1 The fitout of leased premises at Tuggeranong Office Park (TOP) is proposed to provide office accommodation for the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA). The estimated cost of the project is \$29.8 million (including GST).¹
- 3.2 The project was referred to the Committee on 4 June 2009.

Conduct of the inquiry

- 3.3 The inquiry was advertised in local and national newspapers and submissions sought from those with a direct interest in the project. The Committee received two submissions and one confidential supplementary submission detailing the project costs. A list of submissions can be found at Appendix A.
- 3.4 The Committee undertook a site inspection on 4 August 2009 followed by a public hearing and an in-camera hearing on the project costs. A list of witnesses can be found at Appendix B.
- 3.5 The transcript of the public hearing as well as submissions to the inquiry are detailed on the Committee's website. Plans for the proposed works are

1 The full cost of the projects is discussed below.

detailed in Submission 1: Department of Families, Housing, Community Services and Indigenous Affairs.²

Need for works

- 3.6 The FaHCSIA submission states that the works are needed to:
- provide accommodation to an appropriate standard for staff;
 - consolidate existing leases and co-locate staff currently located across eight sites (including TOP);
 - mitigate a range of high-risk occupational health and safety building issues;
 - demonstrate the highest level of disability access standards;
 - improve physical security in line with government standards.³
- 3.7 At the site inspection, FaHCSIA noted that it employed a high number of people with disabilities and the site currently does not meet appropriate standards. The Committee observed this at the site inspection and agrees that there is significant need for the premises to be brought up to standard.
- 3.8 Therefore, the Committee finds that there is a need for the proposed works.

Scope of works

- 3.9 The proposed scope of works is detailed in Submission 1: FaHSCIA. In short, the project will provide:
- base building works, including:
 - ⇒ lift upgrades;
 - ⇒ removal of hazardous materials; extension of handrails, upgrading stairs to comply with access standards, extend balustrade and panels to terrace and balcony openings;

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

3 Submission 1, FaHCSIA, p. 9

- ⇒ replace Building Management System; upgrade Data Centre diesel generator controls; replace and upgrade chiller controls and refrigerant monitoring system and water treatment system;
- ⇒ replacement of emergency and exit light fittings; and
- ⇒ replacement of fire and smoke detectors and signage to comply with current regulations.
- tenancy upgrades, including:
 - ⇒ upgrade of the mechanical system to provide better environmental performance through replacement of sheathed ducting, rectifying leaks, additional temperature sensors and improvement in room design to make use of natural light;
 - ⇒ electrical and hydraulic services upgrade;
 - ⇒ provisions for people with disabilities and compliance with the Draft Disability (Access to Premises – Buildings) Standards, which will include reconfiguring doorways, toilets and kitchens.
- office fitout including:
 - ⇒ internal fitout of blocks A, B and C⁴, retaining workstations, partitions and storage units where possible;
 - ⇒ sub-floor structural support;
 - ⇒ new floor finishes and paint; and
 - ⇒ upgrading mechanical, electrical, hydraulic and fire services.⁵

Additional works

3.10 In addition to the proposed works, a range of other works have been undertaken at TOP, namely:

- Block A minor fitout project to ... accommodate staff who relocated from three expiring leases in Canberra in August 2008;
- Replacement of the obsolete and failing Electronic Access Control System at TOP;
- Replacement of the obsolete Fire Indicator Panel for TOP;
- Fitout of 6,450 square metres of office space in Block E to accommodate information management and technology staff relocating from four expiring leases in Canberra by 29 June 2009; and

4 Works at Block D and E have been undertaken separately.

5 Submission 1: FaHCSIA, pp. 22-28.

- Fitout of 6,484 square metres of office space in Block D to accommodate staff relocating from a large Woden lease in 2010.⁶
- 3.11 The notification of these works is discussed below.
- 3.12 At the site inspection, the Committee noted the poor condition of some parts of the site, including the poor access arrangements for people with disabilities. The Committee is pleased to note that the planned works will significantly improve the amenity for people with disabilities.
- 3.13 The Committee finds that the proposed scope of works is suitable to meet the stated need for the project.

Cost of works

- 3.14 The total cost of the proposed works is scheduled to be \$29.8 million, including GST. The Committee received a confidential submission detailing the project costs and held an in-camera hearing with FaHCSIA on the detailed project costs.
- 3.15 The Committee commends FaHCSIA for the quality of the cost summary submitted as part of this inquiry.
- 3.16 However, additional works were completed without notification to the Committee as outlined above. In total, \$15.205 million worth of additional works have either been commenced or completed. Therefore, the total cost of works at TOP for FaCHSIA is in the order of \$45 million.

Lease period and obligations

- 3.17 These fitout works refer to a lease period of seven years. The short lease has arisen due to the sale of TOP and the continued tenancy of FaHCSIA as a condition of the sale. The leasing arrangement negotiated as part of this sale placed significant fitout responsibilities on FaHCSIA. The Committee was told:

The building was privately financed with the Commonwealth guaranteeing a rental stream for investors for seventeen years under the terms of a lease known in the industry as a 'triple net lease', after which the building would be sold with proceeds returning to the Government. The original lessee was with the

6 Submission 1, FaCHSIA, p. 5

Department of Social Security, which subsequently split to become Centrelink and FaHCSIA. Centrelink managed the facility on behalf of the Commonwealth until it relocated to the Caroline Chisholm Centre in May 2008. At this time, FaHCSIA assumed responsibility for the management of the complex.

A trust deed with a sinking fund provided for a \$30 million refurbishment in 2001, by the then owner, TOP Pty Ltd. The refurbishment was subject to there being sufficient monies in the sinking fund after liabilities to the bond holders were extinguished. TOP Pty Ltd, in July 2006, advised that the funds were not available for the refurbishment. FaHCSIA understands that the shortfall in the value of the sinking fund was a trigger for the sale of the building.

The building was sold in June 2008 with the similar sub-lease arrangements to those previously in place, but excluding the requirement for the new owners to undertake the \$30 million refurbishment of the facility.

Under the conditions of the sale of TOP to the Cromwell Group, FaHCSIA as the current tenant was required to enter into a new eight and a half year sub-lease for the premises, based on similar triple net lease terms.

The sub-lease details are summarised as follows:

- Sub-lease commencement - 30 June 2008
- Sub-lease expiry - 5 December 2016
- Rental, Outgoings, Repairs and Maintenance Costs and Responsibilities - The lease requires that the tenant effectively assumes the normal 'building owner' responsibilities for statutory and operating outgoings, maintenance, building management and major repair expenditure for the premises in addition to paying the rent. Under the lease the building owner only has responsibility to replace certain assets once they are no longer economically repairable.⁷

3.18 FaHCSIA noted that:

The cash flows that we worked with assumed a substantial incentive from the market, if we went to the market in 2016. One of the reasons to select the option for the current way forward was that we would access the market at maximum market

7 Submission 1, FaCHSIA, p. 11

participation for any future property acquisition, including the option to stay at TOP, long term.⁸

- 3.19 The Department of Finance and Deregulation (Finance) confirmed that the sinking fund was used to pay investors rather than fund building refurbishment. Finance also confirmed that this arrangement was put in place when TOP Pty Ltd was established in 1988.⁹
- 3.20 The Committee has serious concerns that the sale negotiations have left FaHCSIA in an untenable position in regards to funding necessary fitout works. Nonetheless, FaHCSIA did provide independent evidence that the cost plan had been assessed to be reasonable in the current construction environment. The Committee also notes that the fitout cost per m² is lower than average and received assurances that furniture and fittings would be reused wherever possible to reduce costs.
- 3.21 The Committee acknowledges that FaHCSIA has little control over the terms of its lease due to the building sale conditions and is thus required to undertake a range of works under the terms of its lease. In addition, the Committee acknowledges that there are savings to be made with the consolidation of existing leases.
- 3.22 The Committee is satisfied that the cost plans for the project as presented to it and discussed at the in-camera hearing are adequate.

Project issues

Works completed without approval

- 3.23 In May 2009, FaHCSIA notified the Committee that a number of 'early works' had already been completed. Some of these works were relatively minor and therefore fall under the threshold for individual notification to the Committee, namely:
- minor fitout works at Block A in August 2008 at a total cost of \$1.02 million;
 - replacement of the electronic access control system at a total cost of \$670 000.

8 Mr J. Rogers, FaHCSIA, *Proof Transcript of Evidence*, 4 August 2009, p. 5

9 Correspondence, Department of Finance and Deregulation, received 21 August 2009.

- replacement of the fire indicator panel at a total cost of \$285 000.¹⁰
- 3.24 Two packages of works were also commenced that require individual notification to the Committee as 'medium works', namely:
- fitout of 6450 square metres of office space in Block E at a total cost of \$7.22 million;
 - fitout of 6848 square metres of office space at Block D at a total cost of \$6.01 million.¹¹
- 3.25 The Committee was not notified of these works until 20 May 2009. Although the delivery of these works was appropriate to manage various leases ending, these works should not have commenced without the approval of the Committee as 'medium works'.
- 3.26 The Committee acknowledges that FaHCSIA has disclosed the failure to provide appropriate notification on the public record:
- FaHCSIA acknowledge that formal notification should have been provided to the Public Works Committee at the time of Commissions Block E in July 2008. FaHCSIA has taken steps to ensure that it has a clearer understanding of our responsibilities to notify the Public Works Committee of such projects.¹²
- 3.27 Nonetheless, the additional works completed without the appropriate parliamentary approvals are a matter of serious concern for the Committee, particularly as the works already completed form part of the fitout of TOP as referred to this Committee.
- 3.28 The Committee considers that the failure to notify it of these works represents a lack of awareness in agencies of their obligations in relation to the Public Works Committee.
- 3.29 The Committee is aware that the Department of Finance and Deregulation (Finance) is in regular contact with all government agencies regarding the requirements of the Act and that both Finance and the committee secretariat are available to provide advice to agencies whenever required.
- 3.30 The Committee has since received further notifications of medium works being undertaken by FaHCSIA and is satisfied that FaHCSIA is now aware of its obligations to the Committee.

10 Submission 1, FaHCSIA, p. 5

11 Submission 1, FaHCSIA, p. 5

12 Submission 1, FaHCSIA, p. 6

- 3.31 However, the Committee also notes that the failure to notify it of works occurs on occasion for those agencies which only undertake capital works irregularly, largely due to the loss of corporate knowledge that occurs with staff turnover.
- 3.32 Therefore, the Committee is recommending that FaHCSIA document its procedures for notifying 'medium works' to the Public Works Committee and provide these procedures to Finance for circulation as it deems appropriate in order to assist other agencies to avoid breaching the Committee's Act and procedures.
- 3.33 The Committee encourages FaHCSIA to liaise with the committee secretariat on the development of these procedures and requests to be provided with the procedures once finalised.

Recommendation 2

The Committee recommends that the Department of Families, Housing, Community Services and Indigenous Affairs document procedures for notifying 'medium works' to the Public Works Committee and provide these to the Department of Finance and Deregulation for circulation as appropriate.

Environmental standards

- 3.34 All commonwealth agencies have an obligation to undertake building fitout to a 4.5 star rating under the National Australian Built Environment Rating System (NABERS). Agencies are also required to meet the requirements of the Energy Efficiency in Government Operations (EEGO) policy.
- 3.35 FaHCSIA told the Committee that given the short lease period, it may be difficult to reach the 4.5 star rating on Block E, which contains the Centrelink Data Centre, but the rating would be met in all other areas of TOP.¹³
- 3.36 The Committee notes that FaHCSIA is working closely with the Department of Environment, Heritage, Water and the Arts and has every intention to comply with these standards.

13 Mr J. Rogers, FaHCSIA, *Proof Transcript of Evidence*, 4 August 2009, p. 8

3.37 In addition to fitout standards required under NABERS and EEGO, FaHCSIA is implementing the following:

- The establishment of a rainwater collection system for the artificial river which runs between the east and west wings of the buildings. The current system is supplemented with potable water from the main water supply which increases costs to FaHCSIA and is not an efficient use of this resource;
- The establishment of improved waste management and recycling systems including the installation of a green waste composting facility.
- Improved monitoring of the diesel storage tank systems which service the Centrelink Data Centre power generation systems to protect the Murrumbidgee Corridor and catchments;
- Other water recycling and reduction measures including the waterless urinals, low water using shower heads, dishwashers, faucets and grey water recycling for the grounds maintenance where cost effective; and
- Reuse of existing furniture and partitioning where appropriate.¹⁴

3.38 In particular, the Committee commends FaHCSIA for the significant number of rainwater tanks being installed at TOP. The site hosts an artificial river which is currently serviced by potable water. The tanks will allow this river as well as other grounds maintenance to be serviced with grey water. Including the cost of installation, savings are expected to be in the order of \$30 000 to \$40 000 per year.¹⁵

3.39 The Committee is extremely pleased to see the use of rainwater tanks as part of this fitout, particularly given the limitations related to the lease payback period placed on FaHCSIA as discussed above. In this regard, the Committee considers that FaHCSIA is setting an example that other agencies should be working towards.

Committee comment

3.40 Overall, the Committee is satisfied that this project has merit in terms of need, scope and cost. The Committee is satisfied that FaHCSIA is responding appropriately to the need to provide improved working conditions for staff balanced with the short term of the building lease.

14 Submission 1, FaHCSIA, p. 17

15 Mr J. Rogers, FaHCSIA, *Proof Transcript of Evidence*, 4 August 2009, p. 8-9

- 3.41 Having examined the purpose, need, use, revenue and public value of the work, 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: fitout of leased premises at Tuggeranong Office Park, Greenway, ACT.

Senator the Hon Jan McLucas
Chair
10 September 2009



Appendix A – List of Submissions

Anzac Park West, Fitout and External Works, Parkes, ACT

- 1 Department of Finance and Deregulation
 - 1.1 Confidential
 - 1.2 Confidential
- 2 National Capital Authority
- 3 Department of Environment, Water, Heritage and the Arts

Fitout of Tuggeranong Office Park, Greenway, ACT

- 1 Department of Families, Housing, Community Service and Indigenous Affairs
 - 1.1 Confidential
- 2 Department of Environment, Water, Heritage and the Arts
- 3 Department of Finance and Deregulation (Confidential)



Appendix B – List inspections, hearings and witnesses

Anzac Park West, Fitout and External Works, Parkes, ACT

Tuesday, 4 August 2009 – Canberra

Site inspection

Anzac Park West building, grounds and pavilion, Parkes, ACT

Public hearing

Mr Simon Lewis, Deputy Secretary, General Manager, Asset Management Group, Department of Finance and Deregulation

Mr Mike Healy, Assistant Secretary Property Services, Department of Defence

Mr Rick Scott-Murphy, First Assistant Secretary, Division Manager, Property & Construction Division, Department of Finance and Deregulation

Mr Owen Hammond, Assistant Secretary - Branch Manager, Project Inception Branch, Property & Construction Division, Department of Finance and Deregulation

Mr Arthur Petsas, Director, Project Inception Branch, Property & Construction Division, Department of Finance and Deregulation

Mr Brett Morris, Director, Property Services, Department of Defence

Mr Jim Gilvarry, Project Manager APW, Southern NSW & ACT Regional Manager, Department of Finance and Deregulation

In-camera hearing

Seven witnesses

Fitout of Tuggeranong Office Park, Greenway, ACT

Tuesday, 4 August 2009 – Canberra

Site inspection

Tuggeranong Office Park buildings and grounds, Tuggeranong, ACT

Public hearing

Mr Robert Knapp, Group Manager, Corporate Support Group, Department of Families, Housing, Community Services and Indigenous Affairs

Mr Dave Agnew, Branch Manager, Property, Environment and Protective Security Branch, Department of Families, Housing, Community Services and Indigenous Affairs

Mr James Rogers, Section Manager, ACT Projects and Facilities Management Section, Department of Families, Housing, Community Services and Indigenous Affairs

Mr David Tynan, Assistant Section Manager, ACT Projects and Facilities Management Section, Department of Families, Housing, Community Services and Indigenous Affairs

Mr Paul Middleton, Consultant, XACT Project Management

In-camera hearing

Five witnesses