

## Proposed new National Archives Preservation Facility for the National Archives of Australia at Mitchell, ACT

- 6.1 The proposed new National Archives Preservation Facility (NAPF) was referred to the Committee on 24 May 2012. The National Archives of Australia (NAA) was the proponent agency.
- 6.2 The Committee conducted an inquiry into the NAPF, with public and in-camera hearings on 9 July and 2 November 2012.
- 6.3 All information from the inquiry, including submissions, public hearing transcripts and the Committee's report, can be found on the Committee's website.<sup>1</sup>
- 6.4 The Committee reported on 26 November 2012.<sup>2</sup> The Committee did not recommend expediency for the project, rather that the NAA seek funding to pay for the fit-out of the facility up-front.
- 6.5 Following the tabling of the Committee's report, the Director-General of the NAA wrote to the Committee requesting that the inquiry be reopened.
- 6.6 The Committee conducted a further public hearing with the NAA and the Department of Finance and Deregulation (DoFD) on 15 February 2013. The hearing was advertised on the Committee's website and by a media release.

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1 <[www.aph.gov.au/pwc](http://www.aph.gov.au/pwc)>

2 Report 6/2012.

## Project issues

### The pre-commitment lease (PCL) funding model

- 6.7 The pre-commitment lease (PCL) funding model was selected for the project. The NAA previously indicated that it had presented many funding options to government.
- 6.8 At the final hearing, the NAA clarified that it had presented the upfront payment model to government:
- I would like to clarify for the committee, as I note in the report and I may not have emphasised this clearly, that the design-build-operate is the upfront capital model that was requested from government.<sup>3</sup>
- 6.9 DoFD stated that the government had considered the options presented to it by the NAA. The government then determined that the NAA should use the PCL model to deliver the project.<sup>4</sup>
- 6.10 The Committee had expressed concerns with the NAA's development of the project and the validity of the PCL model. DoFD outlined its involvement in the development of project funding:
- When the modelling was done leading up to things being finalised, the archives spoke to finance and we assessed it. We thought that, based on the available information, it seemed like a reasonable approach. In a sense you might say both the archives and finance, as well as the consultants involved from the archives, thought those appeared reasonable assumptions to use.
- ... There are always uncertainties about these things, but it seemed like a reasonable approach to us.<sup>5</sup>
- 6.11 DoFD confirmed that it considered the PCL model to be an appropriate option:
- Yes, we certainly regard it as an appropriate option. When you look at the present value calculations, it is certainly within the ballpark of what is achievable or a reasonable approach to doing things.<sup>6</sup>

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3 Ms C. Watson, NAA, *transcript of evidence*, 15 February 2013, p. 1.

4 Mr G. Painton, DoFD, *transcript of evidence*, 15 February 2013, pp. 2-3.

5 Mr G. Painton, DoFD, *transcript of evidence*, 15 February 2013, p. 6.

6 Mr G. Painton, DoFD, *transcript of evidence*, 15 February 2013, p. 5.

## Committee comment

- 6.12 The Committee is satisfied that the PCL model is a valid funding methodology. However, the Committee has been extremely dissatisfied with the NAA's inability to clearly explain the PCL model and its implications. Agencies must be able to explain and justify project decisions to the Committee.
- 6.13 The Committee should not have to request the presence of officials from DoFD or other agencies at public hearings to justify a proponent agency's project decisions. Agencies should be more forthright in providing comprehensible information. For some projects and agencies this may be best done by the project management experts rather than agency subject matter experts.

## Public comparative costs

- 6.14 The Committee sought comparative cost estimates for the fit-out component of the project for the PCL model and the upfront payment option.
- 6.15 To get a comparative cost estimate for the PCL option, the net present cost (NPC) must be calculated. For the NAPF this involves 'discounting' the figure for the amortised shelving and fit-out to make it equivalent to today's dollars. This figure can then be compared to the upfront payment option figure.<sup>7</sup>
- 6.16 Based on correspondence presented prior to the final public hearing, the Committee is under the impression that the NPC adjusted fit-out figure for the PCL is approximately one million dollars less than the upfront payment figure for the fit-out.
- 6.17 Subsequent correspondence from DoFD stated:
- Using assumptions consistent with the original business case, and an 8 per cent discount rate, in net present value terms, the cost of leasing the fit-out and shelving is the same as purchasing the fit-out and shelving at the start.<sup>8</sup>

## Committee comment

- 6.18 The Committee does not appreciate the lack of clear and correct information throughout this inquiry. The provision of clear and correct

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<sup>7</sup> Mr G. Painton, DoFD, *transcript of evidence*, 15 February 2013, p. 3.

<sup>8</sup> Department of Finance and Deregulation, Submission 3, p. 1.

- information regarding the comparison of delivery models was absolutely crucial for the Committee's deliberations.
- 6.19 The lack of a public cost figure in the initial information provided, and the absence of appropriately adjusted figures that would have facilitated meaningful comparisons, impeded the Committee's ability to assess the project. For this project the Committee was also left to grapple with information that was in some instances contradictory, and sometimes even incorrect.
- 6.20 Deficiencies in the quality of the evidence provided to the Committee and the public resulted in a waste of valuable time and resources. The Committee observes that other agencies are able to provide cost estimates that are detailed, comprehensive, well-articulated and correct. The NAA should have fully answered questions at the public hearings, and should have prepared an easily accessible table of relevant figures so it could quickly provide correct information.
- 6.21 All agencies must be able to clearly explain the decisions they have made and the reasons for those decisions. If the agency is unable to provide a satisfactory explanation at a hearing, the information should be promptly conveyed to the Committee.
- 6.22 In submissions, correspondence and hearings, the NAA often reiterated earlier irrelevant or already accepted information, particularly regarding the need for the project, but repeatedly failed to adequately respond to the Committee's concerns.

### Discount rate to calculate NPC figures

- 6.23 The NPC calculation includes a discount rate. The Committee understands that the discount rate should be linked to the Treasury bond rate. However, the Committee was advised that the discount rate is determined on a case by case basis. According to DoFD:
- The discount rate used was a matter of judgement, rather than being set by an external body or institute.<sup>9</sup>
- 6.24 DoFD's advice stated that the NAA used 'a uniform 8 per cent discount rate.'<sup>10</sup>

### Committee comment

- 6.25 The Committee has privately received conflicting information, from various sources, regarding the determination of the discount rate.

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<sup>9</sup> Department of Finance and Deregulation, Submission 3, p. 1.

<sup>10</sup> Department of Finance and Deregulation, Submission 3, p. 1.

- 6.26 The Committee remains uncertain about how the NAA determined the discount rate of 8 per cent.
- 6.27 The Committee is concerned that there is no standard discount rate applied by DoFD or another agency.
- 6.28 The Committee is also concerned that agencies who do not frequently deliver large projects may not engage, seek advice from or listen to project management consultants with regard to project cost estimates.

### Final Committee comment

- 6.29 In the past year, the Committee has conducted several well-presented inquiries. For example, refer to the Australian Federal Police and Australian War Memorial inquiries in this report. In these inquiries, the proponent agencies provided clear, concise and accurate information at the time of referral, answered questions clearly at the public hearings and provided any follow up information as quickly as possible. Additional submissions, correspondence and hearings were not required.
- 6.30 The NAA should reflect on its performance and endeavour to learn from other agencies that navigate the Public Works Committee process, frequently or otherwise.
- 6.31 Information presented in submissions and in the hearings lacked clarity and failed to adequately substantiate the NAA's claims that the PCL funding model provided best value for money. At times the information was conflicting and incorrect.
- 6.32 The Committee is unimpressed that the NAA was not able to adequately explain the PCL funding model, and did not provide comparative figures until asked. The provision of this information at the beginning of the inquiry would have allowed the Committee to make a determination on whether paying for the fit-out component up-front would provide better value for money than the PCL option.
- 6.33 Given that this project has been in development for many years, the NAA's inability to provide clear and correct information in the initial submissions is incomprehensible.
- 6.34 Ultimately, the NAA relied on DoFD to substantiate the claim that the decision to pursue a PCL funding model was a decision of the Australian Government, and that the PCL model was a valid project delivery model. While the NAA did include this information, it was not sufficiently emphasised or explained.

- 6.35 The Committee is very disappointed that the NAA needed to rely upon DoFD to explain the PCL funding model and justify its use for the project. Such an explanation is the responsibility of the proponent agency.
- 6.36 In future, the NAA must take advice from project contractors or experienced agencies on how to provide clear information to the Committee.
- 6.37 The need for the project was accepted by the Committee in November 2012. Despite this, the NAA kept trying to reiterate the importance of the project, as though this would end the Committee's quest to determine whether the project provided best value for money.
- 6.38 This occurred again in the February 2013 hearing. The NAA must understand that the need for the project was very convincing, however this does not exclude the agency from being required to demonstrate that the project provides value for money.
- 6.39 This reflects extremely poorly on the NAA, and the Committee will continue to scrutinise the project as it progresses. The fact that the NAA is enacting a decision of the Australian Government does not excuse the agency's inadequate performance and inability to provide correct, clear information about the project.
- 6.40 Given that the Australian Government has declined to provide upfront funding for the fit-out, and DoFD and the NAA have reassured the Committee that the comparative costs are 'the same', the Committee has reconsidered the proposed funding model.
- 6.41 In view of the additional information provided, and in the context of a more comprehensive explanation of the PCL funding model, the Committee is now of the view that value for money has been demonstrated. As the need for the project has already been established, the Committee is now in a position to recommend expediency.

#### **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: proposed new National Archives Preservation Facility for the National Archives of Australia at Mitchell, ACT.**

**Ms Kirsten Livermore MP**

**Chair**

**18 March 2013**

