

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Finance and Administration Portfolio

Department of Finance and Administration

Additional Estimates Hearing – February 2007

Question: F80

Outcome 2, Output 2.2.1 Property Management and 2.2.2 Major Projects

Topic: Refurbishment of the Anzac Park East and West Office Buildings

Written Question on Notice

Senator Ludwig asked:

With reference to the *Statement of Evidence to the Parliamentary Standing Committee on Public Works* dated June 2004:

- (1) Could the department indicate who requested that the reference to the committee be rescinded as a matter of urgency and why?
 - a. In particular, the department's 2003-04 Annual Report states on page 113 that "there is a potentially serious impact on the AFP's activities if ANZAC Park West is not completed on time," could the department indicate what it understood that 'serious impact' to be at that time?

- (2) Could the department indicate why the reference was rescinded for both buildings rather than just the ANZAC Park West (which was the building required by the AFP)?

- (3) Paragraph 1.3.3 states that 'negotiations are underway with potential Australian Government tenants for East'. Could the department indicate:
 - a. How many potential tenants were engaged in discussions at that time?
 - b. Who those potential tenants were?
 - c. Whether a potential tenant has been selected and if so who?

- (4) Paragraph 1.5.1.4 states that 'Net present value analysis indicates that there is very little difference in the financial impacts of Option 2 and 3'. Could the department:
 - a. Indicate how this analysis compared with the actual outcome?
 - b. Conduct a revised net present value analysis based on the option selected (as of the date used for the original analysis).

- (5) Paragraph 1.9.1 states that the 'full cost of refurbishment of both buildings is estimated at \$83.7million'. Could the department:
 - a. Indicate whether the full cost of refurbishment has since been revised?
 - i. If so by how much?
 - ii. Why did the revision occur?

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- b. Detail the amount of money expended on the refurbishment to date.
- (6) Paragraph 1.9.1 also states that the ‘Market rental is estimated at \$8.3 million net per annum under 15 + 5 leases’. Could the department:
- a. Provide a breakdown of that \$8.3million for each of the two buildings (i.e. the market rental for ANZAC Park West vs. the market rental for ANZAC Park East).
 - b. Indicate whether that amount has since been revised and if so by how much.
- (7) Paragraph 2.16.1 indicates that the proposed works (excluding the AFP’s fitout) were to cost an estimated \$83.7 million based on 2004 prices. Could the department indicate:
- a. Whether this amount has changed?
 - i. If so, by how much and why?
 - b. Provide a breakdown of the original expected cost (i.e. of \$83.7million) by:
 - i. Consultant fees
 - ii. Project management and supervision costs
 - iii. Construction costs
 - iv. Legal costs.
 - c. Provide a breakdown of the current expected cost by:
 - i. Consultant fees
 - ii. Project management and supervision costs
 - iii. Construction costs
 - iv. Legal costs.
- (8) Paragraph 2.27.2 indicates that “the project delivery system will be selected that meets the AFP’s time, cost and quality objectives.” In particular it was to ensure that the AFP’s required occupation date could be achieved and that the ‘risks of delays are minimised’. Could the department indicate:
- a. What ‘project delivery system’ was selected?
 - b. When it was selected?
 - c. Which of the requirements covered by 2.72.2 it met?
 - d. Which of the requirements covered by 2.72.2 it failed to meet and why?
- (9) Paragraphs 2.28.2 and 2.28.3 set out the project milestones. For each milestone, could the department:
- a. Indicate whether the milestone was met on time? If not –
 - i. Provide a reason for the delay.
 - ii. Whether the milestone has since been met and when.
 - iii. Whether the target date has since been revised and to when.

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- (10) Paragraph 2.28.4 requested approval from the Committee to proceed with ‘time critical aspects’, namely (a) design and documentation of early construction works and (b) Expression of Interest process and invitations of tenders for the contractor. For each aspect, could the department:
- i. Indicate whether approval was given and when?
 - ii. Provide the date that action was proceeded with? (e.g. dates advertisements placed or any RFT issued).
 - iii. Whether it was completed and when?
 - iv. Details of what occurred (e.g. in the case of part (b): number of EoIs received, number tender applications received, whether a tenderer was selected).
- (11) For each of the two buildings (West and East):
- a. When did the department first become aware that there was going to be delays to the refurbishment?
 - b. What does the department estimate will be the total delay as compared with the original proposal contained within the Statement of Evidence?
 - c. Why did the department not refer the refurbishment of the building back to the Committee once the likelihood delays became known?

Answer:

- (1)
- a. The Department of Finance and Administration’s (Finance) 2003-04 Annual Report stated on page 113 that “As a result of the Australian Federal Police’s (AFP) current lease expiring in September 2006, there is a potentially serious impact on the AFP’s activities if ANZAC Park West is not completed on time”. The AFP and Finance jointly requested that the reference to the Parliamentary Standing Committee on Public Works (PWC) be rescinded as a matter of urgency because of the AFP’s lease expiry date. In a letter dated 26 March 2004, Commissioner Mick Keely of the AFP indicated to the Secretary of Finance, Dr Ian Watt, that an extension to this lease would not be entertained by the owners.

The Department disclosed these circumstances to the PWC in a letter dated 15 June 2004, noting the likelihood that Parliamentary approval for the project would be delayed by six months should a Federal Election be called. The PWC responded on 17 June 2004 stating that it was satisfied the proposed work was sufficiently urgent and that it would recommend that the referral of the work be withdrawn.

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- (2) The referral was rescinded for both ANZAC Park East and West buildings because there was a single appropriation for the two buildings and they were packaged together as a single referral to the PWC. Finance intends to refer ANZAC Park East to the PWC once a tenant has agreed to lease the building.
- (3)
- a. There were two potential tenants engaged in discussions at the time.
 - b. The Department of Defence and the AFP.
 - c. No tenant has been confirmed for ANZAC Park East. Finance is currently in negotiations with AFP.
- (4)
- a. Current analysis indicates that the original analysis to retain and refurbish ANZAC Park West (Option 2) is tracking closely to the actual outcome.
 - b. A revised Option 2 net present value of \$3.1 million has been calculated for ANZAC Park West. This is greater than the original assessed net present value of \$2.8 million, reflecting differences in rental returns and the actual phasing of development costs.
- (5)
- a. (i. & ii.) The full cost of refurbishment (excluding fitout) for ANZAC Park West remains at \$48.3 million as originally budgeted. A budget of \$35.4 million has been allocated to the refurbishment of ANZAC Park East.
 - b. To date, \$43.3 million has been expended on the refurbishment of ANZAC Park West, and \$0.1million has been expended for internal staff costs and minor consultancies for ANZAC Park East.
- (6)
- a. Market rental was estimated at \$4.8 million net per annum for ANZAC Park West and \$3.5 million net per annum for ANZAC Park East.
 - b. The estimated market rental for ANZAC Park West has been revised to \$5.2 million net for 2007-8. However, a final survey of the ANZAC Park West floor area has not been performed, which will determine the final rent to be received. The estimated market rental for ANZAC Park East has not been revised at this time, as no tenant has been confirmed.

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(7)

a. i. There has been no change to the estimate to date, however it is expected that the ANZAC Park East component of the budget will need to be refreshed, once a tenant is identified, to reflect both escalation since the budget was approved, plus changes to the relevant standards for accommodation.

b. Breakdown of Original Expected Cost (\$83.7million):

	West	East
i. Consultant Fees (Design Fees)	\$3.69m	\$2.31m
ii. Preliminaries, Project Management and Supervision Costs	\$5.17m	\$3.24m
iii. Construction Costs	\$39.46m	\$29.83m
iv. Legal Costs	\$0m	\$0m
Total	\$48.32m	\$35.38m

c. Breakdown of Current Expected Cost:

	West (Note:1)	East (Note:2)
i. Consultant Fees (Design Fees)	\$1.80m	0
ii. Preliminaries, Project Management and Supervision Costs	\$1.20m	0
iii. Construction Costs	\$44.80m	0
iv. Legal Costs	\$0.05m	0
Total	\$47.85m	(Note:2) 0

Note: (1) The reason for the discrepancy between the breakdown of the original estimate and the current expected costs for ANZAC Park West is that the preliminaries and design fees have been absorbed into the construction costs of the current expected costs. The breakdown of current costs does not include internal staff costs, which brings the expected cost up to the original estimate.

(2) The expected costs for ANZAC Park East will need to be revised once a tenant has been selected.

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(8)

- a. The delivery system chosen was for the base building to be delivered with a 'Develop, Design and Construct' contract managed by a Project Manager/Superintendent. The fitout was to be delivered using a 'Lump Sum' delivery method. This would involve engaging a fitout designer to design the works and for a Lump Sum contract to be tendered and awarded for the construction of these fitout works.
- b. The delivery system was agreed by AFP and Finance in December 2004.
- c. At the time the strategy was chosen, it was deemed to be the strategy that was most likely to satisfy all the requirements covered by 2.27.2. The requirements of objectives (b), (c) and (d) have been met in the delivery of the base building. The fitout works are yet to be completed, therefore achievement of the objectives for this component of work cannot be assessed at this stage.
- d. In relation to the objective “The required occupation date by the AFP can be achieved”, the delivery strategy did not meet the objective of occupation in June 2006. The original required occupation date set by the AFP was not achieved for four primary reasons.
 1. AFP was able to negotiate an extension to its existing lease end date by three months to end of September 2006, providing the project an opportunity to reduce project risks associated with the tight project timetable, and hence afford greater opportunity to achieve a better value for money outcome. This amendment to the project delivery period was advised to the PWC Chairperson on 31 January 2005.
 2. Delay occurred during the tender process for the Design and Construct contract for the base building works as a result of needing to address a number of risks prior to awarding the contract. When this contractor was engaged it became clearer the ANZAC Park West project would not be completed until at least mid 2007. This revised completion date was advised to the PWC Chairperson on 21 December 2005.
 3. The AFP requested some late changes to the base building works as a result of changes in the AFP's organisational structure and the resultant changes to its strategic accommodation requirements. These changes resulted in a nine week delay to the completion date of the base building works.
 4. The AFP required an extended design period for its fitout to address changes in the AFP's organisational structure and the resultant changes to its strategic accommodation requirements.

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(9)

- a. 2.28.2 Project Milestones for ANZAC Park West and the Cafeteria

Let Construction contract August 2004 – A contract for internal demolition was awarded in August 2004.

- i. N/A.
- ii. N/A.
- iii. N/A.

Commence Internal Demolition September 2004 - This target was met.

- i. N/A.
- ii. N/A.
- iii. N/A.

Complete base building and fitout June 2006 – This target was not met.

- i. See answer to (8) d above.
- ii. The Base Building reached Practical Completion in December 2006, the fitout is yet to be completed.
- iii. The target date has been revised to Mid 2008.

AFP Occupation July 2006 - This target was not met.

- i. See answer to (8) d above.
- ii. The target has not yet been met.
- iii. The target date has been revised to Mid 2008.

- b. 2.28.3 Project Milestones for ANZAC Park East – A tenant has not been secured for this building.

(10)

- a. Design and Documentation of early construction works

- i. Yes. Parliamentary approval to proceed with the project was given on 24 June 2004.
- ii. The design and documentation of the early works was undertaken in July 2004.
- iii. The design and documentation of the early works was completed in July 2004.

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- iv. The design documentation of the early construction works was undertaken by Gutteridge, Haskins & Davey (GHD) as a variation to their existing contract. The *Financial Management and Accountability Act 1997* requires efficient and effective use of public monies. In our best professional judgement varying the existing contract with GHD provided the best value for money in these circumstances.
- b. Expression of Interest and tenders for the contractor.
 - i. Yes. Parliamentary approval to proceed with the project was given on 24 June 2004.
 - ii. An EOI for the demolition contractor was not called. A Request for Tender advertisement for a demolition contractor was placed in the Canberra Times in July 2004.
 - iii. The works were completed in February 2005.
 - iv. Two tenders were received. The contract for internal demolition of ANZAC Park West was awarded to Byrne Demolitions on 31 August 2004.

(11)

ANZAC Park West

- a. The first amendment of the completion date occurred in late 2004, when the AFP negotiated a three month extension to its existing lease. See answer (8) d above
- b. The refurbishment of the Base Building was completed in December 2006. The only exception to this is the external works, for which the AFP have requested a redesign to meet a change in their operational requirements. The external works have been transferred to the fitout.
- c. On 31 January 2005, Finance wrote to the PWC to advise a change in the scheduled completion date for the refurbishment of ANZAC Park West. On 4 April 2005, representatives of Finance and the AFP met with the PWC Secretary to discuss the project. At this meeting it was concluded that as the PWC has exempted the project based on expediency, there was no need to reconsider the matter despite the delay.

ANZAC Park East

- a. Until a tenant is secured for this building, a completion date cannot be identified
- b. Until a tenant is secured for this building, a completion date cannot be identified.
- c. Finance intends to refer ANZAC Park East to the PWC once a tenant has agreed to lease the building.