PUBLIC ACCOUNTS COMMITTEE

AREAS OF COMMITTEE INTEREST: GOVERNMENT OFFICE ACCOMMODATION

TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 21 MARCH 2011

Members

Mr J.C. Kobelke (Chairman)
Mr J.M. Francis (Deputy Chairman)
Mr A. Krsticevic
Ms R. Saffioti
Mr C.J. Tallentire

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Hearing commenced at 2.04 pm

MARNEY, MR TIMOTHY MICHAEL
Under Treasurer, Department of Treasury and Finance, examined:

TONDUT, MR JOHN
Executive Director, Building Management and Works, Department of Treasury and Finance, examined:

The CHAIRMAN: Welcome. As you know, we have some formalities. However, Mr Marney and Mr Tondut, on behalf of the Public Accounts Committee, I thank you for your appearance before us today. The purpose of this hearing is to assist the committee to develop a better understanding of the government's office accommodation policies and related matters. I think you have already met all members of the committee—perhaps not Chris Tallentire on my left. The Public Accounts Committee is a committee of the Legislative Assembly of the Parliament of Western Australia. This hearing is a formal procedure of the Parliament and therefore commands the same respect given to proceedings in the house itself. Even though the committee is not asking witnesses to provide evidence on oath or affirmation, it is important that you understand that any deliberate misleading of the committee may be regarded as a contempt of Parliament. This is a public hearing and Hansard will make a transcript of proceedings for the public record. If you refer to any documents during your evidence, it would assist Hansard if you could provide the full title for the record.

Before we proceed to the questions we have for you today, I need to ask you a series of questions. I ask: have you completed the "Details of Witness" form?

The Witnesses: Yes.

The CHAIRMAN: Do you understand the notes at the bottom of the form about giving evidence to a parliamentary committee?

The Witnesses: Yes.

The CHAIRMAN: Did you receive and read the information for witnesses briefing sheet provided with the "Details of Witness" form today?

The Witnesses: Yes.

The CHAIRMAN: Do you have any questions in relation to being a witness at today's hearing?

The Witnesses: No.

The CHAIRMAN: Thank you. We have some questions for you today, but before we ask them, you may wish to make an opening statement and speak to some of the material that you have presented to us. I thank you for that material.

Mr Marney: Thank you, Mr Chair. How much time have you allocated for this?

The CHAIRMAN: We certainly think that we should be able to finish within an hour.

Mr Marney: We could take an hour to do our presentation or we could whip through the key points and go straight to your questions. I will go through this pretty quickly and, if you want, you can follow the slide show document. It may be that your questions come up during the slides, and I would be happy to take them at that point rather than wait until the end. In fact, if the presentation is comprehensive enough, we will definitely get to the key areas that you are interested in.

The document is in four parts: firstly, the context of works reform and the overall strategy that we are implementing. Part 2 indicates why we need to do something, and that is really the consequence of the piecemeal approach and where we are at at the moment. Part 3 outlines how we will achieve the reforms and what we will do going forward, and part 4 provides a little more detail around the first phase of the reforms and also the longer-term reform agenda.

Up until recently—up until these reforms—we had a very devolved, piecemeal approach to government accommodation and the strategy thereof. We are moving towards a much stronger, centre-driven, strategy-driven coordination of government's overall accommodation requirements. The works reform business solution plan, which you have a copy of, includes a range of recommendations specific to government accommodation; that is, recommendations 19 through to 23. Those recommendations go, essentially, to a more strategic total portfolio approach to the delivery of accommodation for public servants. Previously, I think the committee had asked questions about who does what in this space, and slide 5 tries to go into some detail about that. That detail is also covered in the works reform business solution plan to give you a sense of the responsibilities of the agencies in this reform agenda, the responsibilities of Building Management and Works, and the responsibilities of Treasury in the delivery of the reforms.

I will skip to slide 8, which highlights the consequences of the piecemeal approach to government accommodation that has prevailed up until today. We have 148 leases in the CBD, covering 86 separate buildings, and the government owns at least 10 other buildings. Members will see the scattering of leases in the blue balloons in slide 8. The next slide highlights that the total number of buildings in which the government has leases is 369, and there are 482 separate leases. This is a big portfolio of activity that we are trying to draw together. In drawing it together, one of the key points, as per slide 10, is to drive a more contemporary footprint per workstation. At the moment, our average footprint is around 19 square metres per work point and our target is 15 square metres, which is more aligned with standard commercial private practice. If it were somewhere like a call centre or that sort of business operation, the current drive is 10 to 12 square metres per workstation. Even at 15 square metres, it is reasonable. But driving from 19 to 15 square metres is almost a 20 per cent saving in your accommodation footprint. Apply that to the 400-plus leases and we are talking about big money.

[2.10 pm]

Mr C.J. TALLENTIRE: Is that across the board, open plan?

Mr Marney: That is what drives to 15 square metres per workstation, but there is a range of other elements, which we will get to shortly. Going to slide 12 and starting with the overall strategy, there are three basic components: firstly is decentralisation from the CBD—those agencies that do not need to be in the CBD, taking them outside and picking up much lower accommodation costs as a result—secondly, even within the CBD consolidating to fewer buildings so we do not have 300-plus buildings; thirdly, the new fit-out standards.

We might skip forward to slide 16 and decentralisation. Basically, this highlights that from market testing that we have done, the rates in the CBD are around 30 per cent higher than in non-CBD locations and even CBD fringe is still quite expensive. Again, the compelling argument is that if an agency does not, for business reasons, need to have a presence in the CBD, then it should be in a non-CBD location.

Principle 2, slide 17: the aim is to consolidate to 15 to 20 locations and establish precincts within the CBD for those agencies that do need a presence in the CBD, whether that be a parliamentary precinct, a planning and transport precinct, such as at 140 William Street—essentially identifying like agencies that should be grouped together in the same location.

The third principle is to locate new government office accommodation in metro activity centres as identified in the "Directions 2031" planning documents and the centres that are highlighted in that document, particularly Joondalup. I think there is also Stirling, Rockingham, Fremantle and so on—looking at some of those centres going forward.

Then the fourth principle is looking at our footprint in regional areas. In order to enhance not only the way in which agencies work together in regional areas, but people being able to access agencies and services and also efficiencies in common facilities, we are looking at consolidating and co-locating government agencies in regional towns. There has been some of that activity happening already, particularly within building management and works and government procurement, as well as small business development. There has emerged over a time a co-location of those agencies in regional centres—so driving that a bit further across a broader range of agencies.

Principle 5: sticking to the 15 square metres. This is a substantial driver of savings in the whole exercise and it is through more use of open plan, through the minimisation of office spaces, through less onsite storage, more reliance on offsite storage, and through shared facilities, such as meeting facilities and the like.

At some point, if any members of the committee would be interested, I would be happy go take you for a look through 140 William Street to get a sense of exactly the fit-out and, if you like, the contemporary philosophy around the building operation that drives a much more efficient space requirement.

Mr J.C. KOBELKE: How much of 140 William Street has the fit-out been completed?

Mr Marney: At the moment the answer, technically, is probably none, but the first agencies roll into 140 William Street in a significant way towards the end of April; that is small business development and planning. I will be moving in three weeks, but that is temporary fit-out; it is not the final fit-out. There are a couple of floors that the fit-out is almost complete. But the concept of the building is that meeting spaces and public meeting areas are all concentrated in the lower floors of the building, shared meeting rooms, boardrooms are on the next level and then the agencies are above that. So if someone is going to meet with someone from external, they meet them downstairs and no-one travels through the building into pockets of meeting rooms on each floor. It is quite a different way of working and, not surprisingly, one that is meeting with some resistance as well, but I am sure people will get used to it.

Mr C.J. TALLENTIRE: Have you got evidence that shows that open plan does increase efficiency?

Mr Marney: It increases efficiency from a number of perspectives. Straight off, with fewer walls there is less cost. But with open plan and greater reliance on natural light your energy costs are down; that is a further saving. You can fit more people in the space. If you have meeting rooms or offices, they tend to take up more space and that is what drives your average to 19 or 20 square metres instead of 15.

Mr A. KRSTICEVIC: Have you had a look at the commonwealth? I came from the Australian Taxation Office and we went to the same design, open plans and no walls. The only people who had offices were the senior managers. The high-level managers and the middle managers were out on the floor and I think it had a huge impact in terms of opening up communication between people and people understanding what they were doing. Have you had a look at that model—the commonwealth did that a long time ago—and what the efficiency gains are from that and how they can translate to us?

Mr Marney: It is very hard to measure. A lot of our work areas at the moment already have open plan, but not to this sort of design extent or architectural efficiency, if you like. So a lot of those benefits are already there. Having said that, one of the biggest hurdles in getting people to embrace the new accommodation is the use of low partitions and no offices for middle managers and so on.

Mr A. KRSTICEVIC: Get over it.

Mr Marney: Yes. The partitions are easier to get over because they are lower. Standardising the fit-out is also important because agencies change, work areas change, the machinery of government changes. If you customise your fit-out for a specific agency, it makes it very difficult to then move agencies in and out of that space flexibly. But if it is a generic fit-out across the whole sector, pretty much you can move anyone anywhere and it is the same. Did you want to add anything to that? I think technology as well—ICT, cabling through buildings, phone, PABX, voice over IP, all that sort of technology—if you have a standard operating environment for all that, it makes it very easy to plug and play.

Mr Tondut: You think you are losing 20 per cent space so it is going to be crammed, but the feel is not crammed. If we fit out large floor plates like we have when we take a lot of space in the one lease rather than tiny little bits of leases all the time, you can fit it out a lot more efficiently.

[2.20 pm]

So, the feel is actually quite good, and getting all the meeting spaces down into the one area and setting that up efficiently looks like it is going to work well. In terms of other benchmarks, we have had a bit of a look at what the federal government has done. They have been running at 16 square metres per work point; we are targeting 15. Western Power is another example that is already well advanced in applying this model locally. They are talking very positively about a whole range of factors.

The CHAIRMAN: So, what is their target number?

Mr Tondut: I think they are around about 15, and they have gone for pretty much the same fit-out style as what we are doing at 140 William Street.

Mr A. KRSTICEVIC: As part of the process, obviously you have got your 20 per cent reduction in terms of your buildings, but how much work is being done behind the scenes in terms of the synergies between different parts of state government and putting them in the buildings together and work-mapping their flows to make sure you get efficiencies out of work processes as well?

Mr Marney: That is part of the overall strategies identifying which agencies should be co-located. So, for example, in next two to three weeks the Office of Government Procurement and Building Management and Works both move out to the Optima Centre in Osborne Park. At the moment they are in five or six different buildings, so just getting together in one spot, with shared processes, skill sets and so on is a major step forward. Again, 140 William Street is a major step forward because we will be able to get the Department of Planning and the Department of Transport in the same building along with, temporarily at least, the Department of Treasury and Finance, the Department of Local Government and the Department of Regional Development and Lands. So the capacity for cross-agency coordination, I think, is made easier by the fact that people meet in the same meeting rooms and are bumping into each other constantly. It is also different from a customer's perspective. For example, in Albert Facey House, we will be locating all of the accountability set of agencies together, so the Ombudsman, the Office of the Auditor General, the Information Commissioner, EnergySafety—that sort of regulatory set is all in one spot, so if someone has a regulation complaint kind of issue, they know that that is the place to go to. There is capacity for them to share corporate resources and enhance the triage of issues that they deal with, because often they will have to get together and figure out who is going to be the Ombudsman, who is going to be the Auditor General and so on. Part of the longer-term plan is to look at precincts as well—so a state development precinct where you might have the Department of State Development and the Department of Mines and Petroleum co-located—and consolidating education as well, which has numerous spots; and, further, ministers all to be located in Dumas House as opposed to scattered up and down the Terrace as they are at the moment. The opportunities are certainly there, and we are trying to make the most of them in adopting a precinct approach to our CBD footprint, rather than just a scattergun approach.

The last principle is around energy efficiency. Obviously, a big cost of in operating any major commercial building is the energy consumption, so by targeting green star ratings we are using that to drive reductions in energy costs of up to 50 per cent over the standard two to three star ratings. So, that is the broad plan.

If we go into the projects very briefly, and we have touched on these, the Herdsman Business Park and the Optima Centre: BMW and the Office of Government Procurement are moving there in a couple of weeks, along with the Department of Training and Workforce Development, which is most of Royal Street and some people out of Wellington Street. That will be a total of 900 work points in that location.

The CHAIRMAN: I cannot do the maths in my head. What does that come out to per square metre?

Mr Tondut: It is 15 per square metres exactly, yes.

Ms R. SAFFIOTI: BMW is currently based in East Perth. What is happening to that building? Is that a government-owned building or a leased building?

Mr Marney: It is a leased building, as I understand it.

Mr Tondut: We are in a number of buildings in East Perth. The main one, 169 Hay Street, is right next door to the Department of Housing headquarters, so housing are going to take over that space. The other significant building is in Wittenoom Street; that is a leased building as well. One of the agencies from Dumas House—I think it is the Department for Child Protection—is taking over that space.

Mr Marney: So Child Protection has some space in Dumas House. They will be relocated down to Wittenoom Street, which is then walking distance to where most of their people are.

Ms R. SAFFIOTI: Are there fit-out costs associated with the Wittenoom Street relocation and the Department of Housing relocation?

Mr Marney: There should not be; they are reasonably contemporary.

Mr Tondut: Certainly, the 169 Hay Street relocation will be very minimal. In terms of Wittenoom Street, we are doing some work with Child Protection to make it suitable for them. So, it does need some work, but it is a fairly new fit-out.

Ms R. SAFFIOTI: Are there any estimates for that relocation cost for Wittenoom Street?

Mr Tondut: I do not know it off the top of my head.

Mr Marney: I am happy to take that on —

Ms R. SAFFIOTI: Notice?

Mr Tondut: Yes—supplementary information.

The CHAIRMAN: We will make a note that that can be provided as supplementary information.

Mr Marney: The next major project that we have touched on is 140 William Street. We have now leased the entire building, plus the surrounding heritage building, at just over 2 000 square metres. There are around 2 500 workplaces, and 10 agencies to roll in there, with the first starting in April and rolling through until December.

Ms R. SAFFIOTI: Can I just ask about energy savings for this building, because this is the most energy-efficient commercial building, I think, in Perth. What are the estimated energy savings in this building?

Mr Tondut: In 140?

Ms R. SAFFIOTI: Yes.

Mr Tondut: It is estimated at about $200 000 a year.

Ms R. SAFFIOTI: Are those savings being taken back to consolidated fund or are they being passed on to the agencies?

Mr Marney: In the immense generosity of the Department of Treasury and Finance, those savings are being allowed to be retained and used for other purposes.

Ms R. SAFFIOTI: By the relevant agencies?

Mr Marney: Yes. There is no harvesting of those savings. I have to say that the maintenance of those savings, and, indeed, the maintenance of the ratings, also means that we have to use it in an energy-smart way, so you cannot have a printer on every second desk and a photocopier 20 feet from everyone. Again, it is a different mode of business operation.

The CHAIRMAN: Can I just ask, Tim, with respect to 140 William Street, there are two major buildings, plus heritage buildings. Will all of those be government owned or does that involve some leasing?

Mr Marney: One hundred and forty William Street is not government owned; it is all leased.

The CHAIRMAN: It is a long-term lease, is it?

Mr Marney: Yes.

The CHAIRMAN: Amongst these heritage buildings, is that bits and pieces of leases or is that rolled into a fairly simple one?

Mr Tondut: The whole concept at 140 is that the retail space is on the ground floor, so in the heritage buildings they will be retail outlets. We have taken the space in the floors two and three above—there are three different heritage buildings fronting onto Wellington Street.

Ms R. SAFFIOTI: Are they government owned or are they leased as well?

Mr Tondut: They are leased; they are all part of the 140 complex.

Ms R. SAFFIOTI: Can I ask: what is the per square metre deal, as in cost?

Mr Marney: The lease rate?

Ms R. SAFFIOTI: The lease rates/ I think it has been mentioned before, so I do not think it is confidential.

Mr Tondut: At 140 William Street, the first ten floors of the tower were originally negotiated as part of the development of the site. I can give you the numbers approximately: I think it was around about $380 per square metre for that space.

[2.30 pm]

When we negotiated for the floors 11 to 19 we negotiated separately for the heritage buildings and the tower. In the tower I think the rate we got was about 570, which at the time we were looking at something like 750 to 800 for an equivalent building in the terrace, so we were really pleased with that. We also got some exceptional lease off-sets like an $8 million contribution to the fit-out and some fairly extensive rent-free periods before we had to start to pay. I think the lease arrangements in the heritage buildings are a little bit lower than that.

Ms R. SAFFIOTI: Given the heritage buildings are probably not as functional as the tower, are you going to be able to achieve the 15-square-metre rule in that, or are those buildings being used for specific roles and agencies?

Mr Marney: Those buildings have a lot of internal walls which are heritage listed, so it precludes the 15 square metre achievement. But they will be used for, I think, Heritage Council and National Trust and specific agencies that—

Ms R. SAFFIOTI: That like that sort of stuff.

Mr Marney: Who probably are not going to damage the walls. Fortunately it is only 2000 square metres' worth. I think across the whole site we will still achieve a 15 square meter average.

Mr Tondut: The benefit is that they get access to the communal spaces in the tower, which is just 50 metres away, so they can still use all of the facilities.

Mr Marney: The next phase is looking at some existing government buildings that are underutilised and inefficient as well. Albert Facey House, as part of that central precinct, needs a substantial refit and base building works. As highlighted, that will initially be for the regulatory and accountability agency set. Dumas House, as I mentioned, for executive and central government precinct. Dumas House, obviously being a government-owned building, needs a substantial refit. In the process of doing a substantial refit, there comes a point where you actually have to consider the base building works as well. In looking at the base building framework, the building does not comply with current building codes. It does not have a fire system through it, it does not have adequate disability access. As soon as we start to do a significant refit, you have actually got to it bring up to building code standard. That is a chunk of work as well.

The other element of consolidation is options for the Premier's office,

The CHAIRMAN: Are you happy to talk on Dumas House before you move on?

Mr Marney: Yes, sure.

The CHAIRMAN: From the press release, unless I am double accounting, the cost of Dumas House is something like $112 million with all the components. Is that correct, or am I adding figures you cannot add?

Mr Marney: No.

The CHAIRMAN: I am just adding the figures out of the press release. Perhaps some of them cover other things that are also mentioned.

Mr Tondut: There are three components to it. The $26 million for the fit-out of just the spaces—where the workstations are. There is around about $20 million for the fire system, disability, the base building inside the building—removing all the ceilings, putting on a fire system, bringing the whole building up to a disability access standard. Then there is about $10 million for the external façade, so in total that will be 30 plus 26: 56.

The CHAIRMAN: Yes that is 56 and other subsequent parts; okay.

Mr Marney: So that is the total—56. In terms of the business case around, "Is it better to spend 56 there or go and lease a brand-spanking new accommodation somewhere else?", the payback on spending that $56 million at Dumas House is, from memory, about 15 years. Every year you stay after that without spending money—

Mr Tondut: It is about four years.

Mr Marney: Sorry, I am mixing my figures—four-year payback. In terms of cost-benefit, it is a very attractive solution to the problem of having to relocate not only public servants out of Governor Stirling Tower within the next 18 months but also a whole bunch of ministers.

Ms R. SAFFIOTI: Can I ask about ministers? So that is all ministers in GST currently, plus those ones down the terrace.

Mr Marney: There are a couple that will remain on the terrace.

Ms R. SAFFIOTI: As I recall, London House continues.

Mr Marney: Yes.

Ms R. SAFFIOTI: There is one or two ministers there.

Mr Marney: Two.

Ms R. SAFFIOTI: And then there is the one down the road near—

Mr Tondut: Allendale.

Ms R. SAFFIOTI: Allendale Square—that one will remain too.

Mr C.J. TALLENTIRE: And the May Holman Centre? Are there any ministers there?

Mr Marney: No.

Ms R. SAFFIOTI: So the three ministers remaining—is there any reason why they could not be moved as well?

Mr Marney: My understanding is they are all reasonably new fit-outs, so it would be kind of a waste of money, and their leases do not expire so there is not the same imperative.

The CHAIRMAN: So will the planning for Dumas House make allowances at some future time for all ministers to move in, or is there not space for that?

Mr Tondut: The master plan proposes that a second building be constructed on the site that would enable the full executive central agency precinct, which would have all ministers plus Premier and Cabinet, plus Treasury, plus the regulatory agencies. We are working on that as the 5 to 10-year horizon so that this is the first round of consolidation and trying to find that balance between using space that is freed up and looking at the space that we have already got.

The CHAIRMAN: Can I just ask: in terms of quitting 197 St Georges Terrace, how tight is the time frame? I understand from the media statement—again, this is seeking an extension on that—could you give us some explanation of where those matters are at?

Mr Marney: Yes, 197—the current lease expires in the middle of 2012, so in 15 months time. So we have to be out of there in 15 months. There is quite a few people in that building, so it is a fairly big logistical exercise to get people moved out in that time frame. It means we have to work very quickly on Dumas House and on the fit-out of 140 William Street to get those done to then progressively move people out of Governor Stirling Tower.

Ms R. SAFFIOTI: I am not trying to be too pessimistic here, but is that time frame achievable given it is just over 12 months and you have not started work on upgrading Hale House or Dumas? Extensions take longer than 12 months.

Mr Marney: Especially when you are dealing with heritage buildings. Time frames are tight. It is likely that there will be someone left behind when the wrecking ball starts swinging. In light of that, we will seek extensions of leases for a number of floors. That has only recently become an option. The previous owners wanted us out basically, because they wanted to gut the whole building. The current strategy, though, is the owners want to progressively refurbish the building rather than gut it completely. That gives us the opportunity to negotiate with them for early termination of some floors and extension of leases on others. It is likely we would have to get, hopefully, only around a three-month or so extension on a few floors to be able to make all this work.

Ms R. SAFFIOTI: Did the new owners of GST offer a lease deal to government, or were there any negotiations entered into with government?

Mr Marney: By the time of change of ownership we had already committed to the additional space in 140 William Street.

Ms R. SAFFIOTI: But not Dumas or Hale?

Mr Marney: I would have to take that on notice. I would have to look at the chronology of when ownership changed.

The CHAIRMAN: We would be very happy if you could note that as information that will be provided as a supplementary.

Mr Marney: Yes. No-one offered it to me.

Mr Tondut: I do not know exactly when the ownership changed. That is why I cannot answer the question specifically. We have in our plan enough in space for what our needs are, so it has not really been a consideration to take the space in that building. We have got enough space by entering into the leases in 140 and the Optima building. It gives us the footprint that we need in the master plan. It is a question now of just moving the agencies around in that space and making the best use of Dumas House and Albert Facey so we do not need the extra place.

[2.40 pm]

The CHAIRMAN: As Treasury has moved to 140 William Street, is that more or less longer term or is that an interim arrangement?

Mr Marney: It depends on the broader master plan. If there were another building to go ahead next to Dumas House, then Treasury would relocate with the Department of the Premier and Cabinet into that building, so that you would have all your central agencies that have a parliamentary connection all in that parliamentary precinct. So, that would be the ultimate goal. That would also mean we would be avoiding the opportunity cost of what is probably the city's most expensive car park in West Perth; that is, we have an at-level car park on a prime commercial building site.

Ms R. SAFFIOTI: Is that being investigated through government constructing that mini Dumas House or would it be similar to trying to structure a deal like 140 William Street?

Mr Marney: It is complicated by the fact that it is A-class reserve, so it is probably going to have to be a government-owned facility. But certainly we would want to get the best we can in terms of private driving of the design and construction and, most importantly, the maintenance over time. For me, the thing that scares me most about government owning buildings is we do not lock in maintenance for the life of the asset; so, using the procurement process to lock in maintenance as well, I think. If we are going to pursue a strategy of owning buildings, and the business cases certainly stack up in favour of that, then we need to make sure that we are actually going to spend the maintenance on them over time.

Ms R. SAFFIOTI: I ask about the old Treasury buildings. I do not know whether that is on a separate page.

Mr Marney: We have got that picked up somewhere.

Ms R. SAFFIOTI: That is sort of related to the Albert Facey one, is it not, in a sense?

Mr Marney: Yes.

Ms R. SAFFIOTI: Because if we talk about it later, that is fine, but if we are talking about the whole thing now —

The CHAIRMAN: Why do we not move on, because we are getting close to time?

Mr Marney: Yes. I think you get a sense of the broad direction that we are pursuing and the immediate projects that are on the go.

Ms R. SAFFIOTI: Yes.

Mr Marney: I am happy to leave that presentation with you, and if you have further questions when the supplementaries come through, as long as they are not 26 questions like some other committees recently gave me, I am happy to give you further information.

The CHAIRMAN: We are a very energetic committee; we will see if we can beat 26!

Mr Marney: So, old Treasury buildings, slide 36.

The CHAIRMAN: I am sorry, we were up to 27.

Ms R. SAFFIOTI: I think the chair wants to keep going through the presentation.

Mr Marney: Okay. So the other refurb in amongst all this, Albert Facey and Dumas, is Hale House. You will be familiar with the heritage-listed building across the road. Again, its location relative to Parliament and the Constitutional Centre makes it ideal for use for the office of the Premier, cabinet and cabinet services.

Ms R. SAFFIOTI: How many square metres is this Hale House? Does anyone know?

The CHAIRMAN: Do you mean currently or the final configuration?

Ms R. SAFFIOTI: Under the current plans for it.

Mr Marney: We will have to get back to you on that.

The CHAIRMAN: Again, I just note that we would seek supplementary information as to the actual floor area of Hale House once it has been refurbished or developed.

Mr Marney: Yes.

The CHAIRMAN: And is the cost of that currently $17 million?

Mr Marney: The total budget is $25.5 million; $17 million is for the construction and site works. Then there is an additional $8.5 million for fees, fit-out and contingencies. So, to make the shift in its entirety is $25.5 million, but the main construction activity is $17 million.

The CHAIRMAN: And where is the project currently up to, given the fact that it is heritage and you have a short time line?

Mr Marney: We just knock as much stuff down as we can quickly!

The CHAIRMAN: But are you ready to go to tender? Is the design done yet?

Mr Marney: I will let John answer that, and also comment on the procurement process.

Mr Tondut: A concept design has been done. We are now in the process of engaging an architect, so we have been to the market just recently to engage the architect to do the detailed drawings. We are also discussing other planning issues with the Heritage Commission and that sort of thing, and investigating the building itself and what issues are associated with it. So, it is in that planning phase.

The CHAIRMAN: So, if there are delays, given the complexity of working in heritage, then your fallback is, hopefully, to have the Premier remain in GST for a period?

Mr Tondut: We are working on a time frame of around about October 2012. That is the best-case scenario to get the building completed. So, yes, we are expecting to negotiate, and have started to negotiate, with the new owners around the possibility of an extension of a few months. As a quid pro quo, as Tim said, if we release some floors, they will be pretty happy about that.

The CHAIRMAN: So, it is not a good look to have the Premier evicted on to St Georges Terrace!

Mr Tondut: No.

Mr Marney: Or the wrecking ball through the window! It is complicated—it is an operating building now as well. So the fabric of the building is not so dilapidated that it is an old Treasury kind of challenge, but it is still challenging.

Mr Tondut: Just in terms of that last comment, if we got to that situation, what we could do is have a phased completion of Hale House. We have contemplated that whereby we could get part of it ready for occupation. We prefer not to. It is probably not good for the Premier to be in that situation either. Our fallback would be to have the Premier in by June, in a building that was not quite completed; some of the works would still be under construction.

Ms R. SAFFIOTI: I will just ask a couple of things associated with that. Hale House currently houses Education staff from, I think, distance education, does it not?

Mr Marney: The Centre for Inclusive Schooling.

Ms R. SAFFIOTI: So, they will be moved, obviously, to Education's offices in East Perth?

Mr Marney: As a first step, part of Education's challenge with Training and Workforce Development locating space there is to try to consolidate its hotchpotch of ad hoc leases all over the place. So, whether or not they remain there longer term would depend on that overall process of Education trying to optimise its use of "Silver City".

Ms R. SAFFIOTI: In trying to create these precincts, did the decision to have Training move out of the Education and Training building come to the central plan or was that decision undertaken separately in another process?

Mr Marney: It was taken separately in another process, created by the opportunity of us being able to lease the entire Optima building at Osborne Park, as opposed to two floors. We leased that building back in, I think it was, 2009.

Mr Tondut: Early 2010, I think it was.

Mr Marney: Yes. The market was very quiet at that point. So, it was very good value space. So, in light of that, we kind of hunted around to see if there was anyone who would be interested in sharing the building with BMW, and Government Procurement and Training and Workforce Development put up their hand. So they nominated themselves to move there.

Mr Tondut: If I can just add to that, another process that we went through was we asked all general sector agencies to do a 10-year horizon for us in late 2009. So, each agency gave us their expectations for accommodation going forward for about 10 years. So, we were going through all that information to try to work out with agencies how the consolidation plan should work and how the decentralisation plan should work. So, it came out of that process.

Mr Marney: It was not something that was driven by ministerial issues.

Ms R. SAFFIOTI: I was not alleging that at all! I just go back to the budget. The budget, as I understand it, for site works and construction issues regarding Hale House is estimated at $17 million, but we have not gone to tender yet to really know whether that is a solid number.

Mr Tondut: That is correct. We have built a fair amount of contingency into it because it is a heritage building, but we will not really know until we have completed our investigations as to how significantly we will need to use that contingency or not.

[2.50 pm]

Mr Marney: And, indeed, go through the process of a detailed architectural design.

Ms R. SAFFIOTI: Is the additional $8.5 million the fit-out costs; will that include the furniture and associated things?

Mr Marney: Yes.

Ms R. SAFFIOTI: Will that include security issues? I saw raised somewhere security issues and having an entire cabinet in an exposed building like that.

Mr Tondut: I think that is included in the $17 million. The fees, contingencies and fit-out are in the $8.5 million, but all the work associated with the building is in the $17 million.

Ms R. SAFFIOTI: Are the security issues addressed in the $17 million?

The CHAIRMAN: On the figures on page 29, how is that treated in terms of whose budget it goes into? Is most of that money going in as capital or is it recurrent in terms of the agencies?

Mr Marney: It is almost entirely capital and sits within DTF's budget. We are administering the whole program of works. For that whole program in terms of logistics—page 30—we have got 25 government agencies to relocate, 13 ministers; a total of 5 300 people to relocate, and almost 100 000 square metres of newly fitted-out space with new ITC platforms and so on, all due by 2012. It is a fair bit of work. In managing that work we are using the same program management office that we used for the Building the Education Revolution works—taking that exact same team of people and putting them to this task now that most of the schools are done.

Ms R. SAFFIOTI: I hope you have got air conditioners!

Mr Marney: There is a whole heap of work station contractors involved, obviously, because there are more than 5 000 work stations. That is the next four years of activity. The rest of the presentation really goes to the longer term around the precincts and the non-CBD accommodation, particularly looking at Stirling. I think the Department of Commerce has agreed in principle to relocate to Stirling. We have been to the market for expressions of interest for accommodation right across the metro area, so we will continue to quietly grow those processes and identify agencies that are happy to relocate.

The CHAIRMAN: Is any of that likely to happen in the next four years or is it pretty well set for beyond the four years?

Mr Marney: It will be just outside that.

Mr C.J. TALLENTIRE: With regard to right across the metropolitan area, there seems to be, on slide 34, clear emphasis towards the southern coastal suburbs. I am not seeing anything for the south eastern suburbs.

Mr Marney: Correct. That is based on Directions 2031. We have an existing footprint in Cannington, which was pursued by the previous government as almost a trial decentralisation process—not without its difficulties. We also have a Midland presence in Landgate.

Ms R. SAFFIOTI: Staff retention issues was a major issue in relation to Cannington OSS. How have they been built into the thinking of how you will retain staff in relation to people living in Armadale, for example, who now have to work in Stirling when previously they worked in the city centre?

Mr Marney: It is certainly an issue in terms of, I guess, winners and losers. I guess a whole bunch of people will end up closer to work and a whole bunch will end up further away. I think the EOI we went to the market with last year said that they had to be within walking distance of a train station, pretty much, so that at least the inconvenience was minimised by the ability to use train transport rather than having to cross through the city by car and so on. You are right; it is an inconvenience for some.

Mr C.J. TALLENTIRE: Am I right in thinking the Department of Agriculture is going to Murdoch, well away from the train station—certainly beyond walking distance?

Mr Marney: The Department of Ag and Food headquarters is currently under redraft with its business case for relocation so that one is on hold pretty much. There are a number of reasons for that. Part of the reconsideration of the business case is to see what alternative sites are there, and how they stack up. The original business case for that was done five, six years ago. For various reasons it is opportune to revisit it.

The CHAIRMAN: I am on 38. I do not know how far we are up to.

Mr Marney: I am happy to skip forward to 38. Item 36 is the old Treasury building, which the committee has some interest in. This one includes the development of significant office accommodation as a tower on the inside of the old heritage building; the heritage building itself becoming a hotel. There is 36 000 square metres for offices and potentially courts. Again, following the precinct approach around the old Treasury building, we have the District Court, the Magistrates Court and a lot of legal firms located in the old Supreme Court across the road, so using the tower and the old Treasury building for some court facilities and, potentially, the Department of the Attorney General consolidates that area as the legal precinct. Whether we would use the tower itself for court facilities or the adjacent buildings that are also being redeveloped in the Cathedral Square is a matter of detailed design work. That is the occupancy plan for 2014-15. It will redevelop that whole Cathedral Square precinct in one hit, including dealing with some longstanding issues of the City of Perth and library facilities and so on.

Ms R. SAFFIOTI: This is quite confusing because a premium is being paid on the office space to allow the heritage hotel to be rebuilt. Can you tell us, without the premium, what would be the square metre cost and with the premium how much it would be?

Mr Marney: I will have to get back to you. We will take that on notice.

The CHAIRMAN: Can you give us an answer via supplementary information?

Mr Marney: Yes.

Ms R. SAFFIOTI: Correct me if I am wrong, but there is an up-front payment, then there is a premium on the square-metre office space, or are they both the same thing?

Mr Marney: No; I am pretty sure there is both. We will give you a briefing note on the full detail of the deal, including the net present value of all those things rolled in. Basically, that shows that it will cost about $50 million to pay for the upgrading of the heritage building, which otherwise would have cost us in excess of $120 million. That is the basic financial proposition but I will get you the detail.

The CHAIRMAN: Thank you. Linking this through to 38, it seems to be against the intuitive feel of it that one of your savings is in moving people out of the CBD, yet you will put in a major new building near the top of the market. How does that fit with the move to move people out of the CBD to cut costs?

Mr Marney: As in old Treasury?

The CHAIRMAN: Yes.

Mr Marney: Some agencies have to be in the city and those legal entities have to be in that court precinct. By consolidating them into one building, maximising the efficiency of their fit-out, we will still save on what we would otherwise be paying, but meet their basic service requirements for a CBD location. The decentralisation is significant, but it is probably 20 per cent or thereabouts of the total CBD footprint. It is significant for a metropolitan area in terms of people numbers and activation, but it is not that substantial in terms of the CBD impact.

[3.00 pm]

Mr Tondut: We are looking at something in the order of 30 per cent at the moment, but we have not identified exactly —

The CHAIRMAN: And that is beyond the four-year plan is it, or within the four-year plan?

Mr Tondut: No, beyond.

The CHAIRMAN: I turn to 38—I think we are going to see if we can wrap things up fairly quickly—which indicates the avoided costs without, really, time lines or numbers in there. I am trying to get some understanding because an earlier page suggested that the capital costs of these immediate transitions are in the order of $200 million a fit-out. There might be some ongoing rent issues, but let us say they are minor. Is there some presentation which tries to balance these two together in terms of net present value or some more meaningful figure as to how much we actually are saving when we have got to meet large capital costs up-front and yet we do get an annual reduction in the costs of rent?

Mr Marney: The broad estimation of the savings is after four or five years around $20 to $25 million per annum. Because there are a lot of projects on the go, it is only really possible to quantify the cost–benefit payoff, if you like, on a project-by-project basis. But, for example, by replacing—which is slide 39—Governor Stirling Tower with 140 William Street and the Optima Centre, we will avoid rental costs of around $6.5 million per annum that we would have had to pay if we had gone with the stay-at-Governor-Stirling-Tower option as of two and a half years ago when they wanted to slug us for $750 to $850 per square metre. With the drop from 19 square metres base down to 15, that is another $4.7 million saving per annum. A basic shared telephone and computer network means we would save about $2.1 million. As John mentioned before, the energy savings in 140 William alone are around $200 000 per annum. So that gives a sense, if you like, building by building how the savings stack up.

Mr Tondut: The capital cost on a fit-out: we have to pay the capital costs for the fit-out, irrespective of which building we go to. As the leases come up and expire, we have to move to a new building, which was where we were left and we have to pay the capital cost.

Mr Marney: So back when we were negotiating for the lease at Governor Stirling Tower, we were told it is $750 to $850 per square metre or you are out—that was it. So we had to go somewhere else, regardless if it was 140 or Dumas or Optima; basically, we got kicked to the kerb which meant we would have had to go somewhere and refit somewhere, regardless. The new ownership probably has a different view, but given that we have to move 5 000-plus people, we had to take a decision almost two years ago to logistically get it done.

The CHAIRMAN: With respect to Dumas House, where is the mix in terms of having to move people out while you do the refurbishment, or are you just having to put up with a level of disruption as you do it while people are on different floors?

Mr Marney: We will have to do it while people are on other floors, so we are not going to vacate the whole building. A couple of floors become vacant when government procurement moves to Optima, so we will start on the refit of those floors, but obviously they are working floors with ministers having meetings and so on, so we are going to have to work around business hours for major elements of construction demolition that we have to do. Obviously, that adds cost to the project, but it is probably a lot cheaper than shifting people out to temporary accommodation for 12 to 18 months. But again, logistically, we have got dominoes falling all over the place and trying to line them all up is not an easy task.

Ms R. SAFFIOTI: I am just confirming that DPC is moving into Dumas with the ministers.

Mr Marney: Correct.

Ms R. SAFFIOTI: On page 9 we are shown the increased number of buildings that are being leased and the total number of leases. They seem to have increased quite significantly over recent years. I know you have got this process of trying to consolidate leases but while that plan is being undertaken, there has been an expansion of the number of leases and number of buildings. Is that because of some of the new departments? Is there any reason for that?

Mr Tondut: The piecemeal model has still been happening through to July 2010, so as agencies have needed some additional space, additional buildings have been negotiated and leased.

Mr Marney: Incrementally added to.

Mr Tondut: So it might be very small, I mean, that is the number right across the state.

Mr Marney: We did not release the overall master plan for government accommodation until June 2010, so right up until then it was situation normal, adhocery all over the place.

Ms R. SAFFIOTI: But given the floor space per worker is decreasing, that must mean a significant increase in the number of employees over that period of time.

Mr Marney: Quite possibly.

The CHAIRMAN: You did mention that all agencies were asked for a 10-year accommodation plan. Has that largely come in or have you still got a few recalcitrants that you are chasing up.

Mr Tondut: No, that was about 12 months ago. That was a core piece of information that helped us start to inform the master plan. I think when you say "all"; it was all the significant agencies who have a reasonable accommodation need.

The CHAIRMAN: Is it possible to make that available to the committee in terms of their 10-year forecasts?

Mr Tondut: They are in. I am not sure that I have got a consolidated report, but individual reports.

Mr Marney: If we can package it —

The CHAIRMAN: I am just looking for a summary of the major agencies and what they are projecting across the next 10 years, and then your aggregate even of some of the agencies that you have not put on the line items.

Mr Marney: We will see what we can package in a reasonable sort of form, but obviously it is their articulation of ambition; it may not be reflective of actual need.

The CHAIRMAN: I think Treasury might like to put that caveat on it.

Mr Marney: Yes; it could well be bullshit.

The CHAIRMAN: I have some formalities that I have to go through, but thank you for that presentation; that really led us through the material I think we were most interested in. Is it possible to have an electronic copy of that?

Mr Marney: Yes.

The CHAIRMAN: That will be very useful, thank you.

Again, thank you for your evidence before the committee today and the work that you have put in to preparing the presentation. A transcript of this hearing will be forwarded to you for correction of minor errors. Any such corrections must be made and the transcript returned within 10 days from the date of the letter attached to the transcript. If the transcript is not returned within this period, it will be deemed to be correct. New material cannot be added via these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on particular points and, also, in terms of answering the specific questions that you have promised to give us as supplementary information, please include that with the corrected transcript of evidence.

Again, thank you very much for your very valuable evidence to the committee today.

Hearing concluded at 3.07 pm