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Proposed Specific Nutritional Capability Project for Defence Science and Technology Organisation at Scottsdale, Tasmania

5.1 The project at the Defence Science and Technology Organisation (DSTO) facility at Scottsdale in north-eastern Tasmania aims to address the shortcomings of the current facility and to enhance capability by providing a new cell culture laboratory.

5.2 The cell culture laboratory will enable DSTO to use modern techniques to investigate the impact of nutrition on health and performance outcomes. It will open up opportunities in the field of nutrigenomics and improve research and development into nutrition that is optimised to meet the specific needs of the Australian Defence Force (ADF).

5.3 The key objectives of the project are to:

- address the limitations to DSTO outcomes caused by the existing facilities including deteriorated infrastructure, poor work flows, and OH&S and functionality issues; and
- provide a contemporary facility that enables DSTO to meet ADF directives and taskings in relation to nutrition and food science capabilities.

5.4 The estimated cost of the project is $18.7 million.

5.5 The proposal was referred to the Committee on 16 June 2011.

Conduct of the inquiry

5.6 The Committee received four submissions and one confidential supplementary submission detailing the project costs. A list of submissions can be found at Appendix A.

5.7 The Committee undertook a site inspection, public hearing and an in-camera hearing on the project costs on 27 July 2011 at Scottsdale, Tasmania.

5.8 The transcript of the public hearing as well as the submissions to the inquiry are available on the Committee's website.[1] Plans for the proposed works are detailed in Submission 1: Department of Defence (Defence).

Need for works

5.9 DSTO requires purpose designed contemporary laboratory and working accommodation to enable it to provide the outcomes required by Defence, including a full research and development capability.

5.10 In the current facilities, personnel at DSTO Scottsdale are only partially able to meet their requirement to conduct research and development of Defence nutrition and food technology. This is largely due to:

- the deteriorating condition of the facilities;
- Occupational Health and Safety (OH&S) issues;
- legacy design issues which have resulted in poor work flows and functionality; and
- limiting site wide services which are aged and are at or nearing the end of their effective life.

5.11 The Committee inspected the existing Scottsdale facility, finding that a substantial overhaul is long overdue.

5.12 The Committee finds that there is a need for the proposed works.

Scope of works

5.13 The proposed scope of the works is detailed in Submission 1: Defence.[2]

5.14 The major elements of work proposed are as follows:

- New laboratory building – to facilitate the construction of the new laboratory building, the existing administration functions will be relocated to a temporary facility located on site. There will be a partial demolition of the existing brick administration and laboratory buildings. A new laboratory building will be constructed, to provide a

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

2 Submission 1, Department of Defence, pp. 5-6.

pilot scale food processing plant, test kitchen and sensory evaluation, meeting room, constant temperature and humidity store rooms, various laboratory spaces and supporting rooms.

- Refurbished Quonset Hut - The remaining section of the existing brick laboratory building will be demolished and the Quonset Hut will be refurbished to provide a new entry, foyer, reception and working accommodation zone that is directly linked to the adjacent new laboratory building.
- External works and infrastructure upgrades – the external works and infrastructure upgrades will comprise:
  - external works – landscaping, redesigned car park, new facilities entrance, fencing and civil works;
  - electrical - new transformer, main electrical switchboard and distribution mains to all new and existing sub boards;
  - water - new water main and sub mains to all buildings, filtration system and separate fire main;
  - storm water - new storm water drainage and retention systems; and
  - gas – new bulk gas storage tank and distribution mains.[3]

5.15 There will be minor alterations to the existing production facility, including works at the entry points to facilitate better work flows in the final arrangement.[4]

Cost of works

5.16 The total estimated out-turn cost for this project is $18.7 million, (excluding GST). The Committee received a confidential supplementary submission detailing the project costs and held an in-camera hearing with Defence on those costs.

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

3 Submission 1, Department of Defence, pp. 5-6.

4 Submission 1, Department of Defence, pp. 5-6.

Project issues

Options considered

5.18 The options considered for this proposal were:

- do nothing – this option was considered unsuitable as it did not allow DSTO to address Defence capability requirements;
- minimal refurbishment – while this option could address the most serious issues with the site, it would require further investment in the long term to allow DSTO to address Defence capability requirements. It is likely that this would result in abortive costs; and
- full refurbishment and rebuild - Defence has concluded that the best way forward is to fully refurbish/rebuild the facility on the existing site. This option will provide a purpose built facility that includes all the necessary laboratory and pilot food technology facilities required to meet Defence capability and provide staff with suitable working accommodation.[5]

5.19 The option of moving to a new site in Scottsdale, or a site elsewhere in Australia, was not included in Defence's submission.

5.20 Defence explained why a move to another site was not considered:

> When this project was first considered back in 2008, one of the considerations we had at the time was whether we could in fact procure a new package of land and undertake construction on that. There was an issue that we looked at there that caused us to rule it out very early in the piece, and that was the time it would have taken us to undertake a procurement activity through the Lands Acquisition Act … Also, the scope of the work that was being proposed at the time was the work within the laboratories that you saw this morning and the admin facilities and so on. We were not looking at doing any work in the production facility … there is a substantial amount of money involved in redeveloping the laboratories and the administration facilities, but there is also a significant cost if we were to have to relocate the production facility … There is also a significant risk that would be introduced into the project if we were to look to relocate that production facility, and that risk is our ability to actually relocate that very

5 Submission 1, Department of Defence, p. 2.

> specific piece of equipment that we use for the freeze-drying process.[6]

5.21 Defence further explained that moving away from Scottsdale would be more expensive:

> When we then had to revisit the project … we were looking more at relocating to somewhere other than Scottsdale … What we found, though, was that the costs of that relocation were substantially more than it would cost us to do the renovation work or the reinvestment work that we are proposing to the committee today.[7]

5.22 Defence explained that one of the key reasons for remaining on the current site was that a key piece of machinery, the freeze-drying unit, could not be moved without great risk to its continued operation and performance. Defence explained that relocating the production facility, which includes the freeze-drying unit, was never in the scope of the project:

> It was intended that it would stay there, and the only time that we really looked closely at the costs of relocating it was when we had the problems with the tender process last year. We thought: 'Do we really want to pursue the completion of the facility or the continuation of the facility in Scottsdale on that site?' That was the first time that we looked in great detail at it. Up to that point, as I say, it had been outside of the scope of the project. It was only looked at … when we looked at the various options, and one of the options was to pick up and move altogether so we needed to cost into it the cost of relocating that piece of equipment.[8]

5.23 There was some concern amongst Committee members as to the life expectancy of the freeze-drying unit and the fact that a decision to rebuild the facility on the existing site hinged on the use of that unit.

5.24 Additionally, it appeared that the working life freeze-drying unit was essentially not guaranteed in the long term. Defence did eventually answer the question concerning the expected performance life of the freeze-drying unit, stating that, with regular controlled maintenance, it is expected to operate for another 10 to 15 years.

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6 Brig. D. Naumann, Department of Defence, transcript of evidence, 27 July 2011, p. 2.

7 Brig. D. Naumann, Department of Defence, transcript of evidence, 27 July 2011, p. 2.

8 Brig. D. Naumann, Department of Defence, transcript of evidence, 27 July 2011, p. 2.

5.25 The Committee is satisfied that Defence has fully considered the options available for this project proposal. However, much of the detail only came to light during the public hearing. There was also concern that the issue regarding the freeze-dryer unit was not raised prior to the public hearing. The Committee emphasises that critical information such as this must be provided before the hearings.

5.26 The Committee expects proponent agencies to provide considerable detail on the options considered for any project proposal. Regardless of any decision made by Defence, each and every option that Defence considered must be discussed at length in the submission to the inquiry.

Recommendation 6

The Committee recommends that the Department of Defence provide full and complete details on all options considered for all future project proposals.

Project planning

5.27 The proposed works at Scottsdale were previously notified to the Committee as a medium works project on 11 June 2010. At that time, the cost estimate for the project was $12.6 million, excluding GST.

5.28 Defence explained the need to reassess the project:

> On 10 April 2010, the works were publicly tendered as a head contractor tender. The tender prices submitted exceeded the approved project budget due to the high demand and limited supply across all building trades in Tasmania, coupled with the remote locality of Scottsdale. In accordance with Defence Procurement and Financial Management policy the tender process was formally cancelled.[9]

5.29 A review of the project by Defence resulted in a revised out-turned project cost estimate of $18.7 million, (excluding GST).

5.30 The need to redevelop the proposal has essentially caused a delay of approximately 18 months, which has attracted considerable comment in the community, the media and with members of parliament.

9 Submission 1, Department of Defence, pp. 13-14.

5.31 The revised project cost is considerably more than the initial project cost estimate, indicating that Defence's project planning processes and cost estimates were inadequate.

5.32 Defence discussed at length its planning process for this project and the reasons for any delays:

> When we brought the project to [the Committee] as a medium work we had a budget of $12.6 million. That is what we expected we would be able to deliver the project for … It was only once we went to the market that we realised that we had grossly underestimated some of the factors that were in play in the north-eastern Tasmanian construction market. Those factors impacted on the price of the tenders that we received as part of that tender process. It meant that the tenders received were significantly higher than our estimates before we went out to the market. I could not legally accept any of the tenders because I did not have budget coverage to be able to do it …
>
> Ultimately, we took the project back to our defence estates committee … That committee considers proposals and determines whether they have the appropriate priority within the wider defence portfolio to proceed. This project was agreed by that committee that it did have a priority at $12.6 million and so it should proceed.
>
> Now that we are talking about a higher sum of money to be able to deliver this project, we needed to go back to that committee and have them confirm that the project was still worth proceeding, that it was a justifiable and defensible expenditure in the national interest to proceed with this project at the revised project cost … [10]

5.33 The Committee suggested that the market conditions for this project were foreseeable. Defence admitted:

> … we might have better understood the market but for whatever reason we did not. We did get it wrong and we are willing to admit that. We believe that we have it right now … [11]

5.34 The Committee is disappointed that Defence misjudged the cost estimates for the initial project proposal to such a considerable degree, causing extensive delays to a project that is absolutely essential for Defence and for

10 Brig. D. Naumann, Department of Defence, transcript of evidence, 27 July 2011, pp. 8-9.

11 Brig. D. Naumann, Department of Defence, transcript of evidence, 27 July 2011, p. 9.

the Scottsdale community. The Committee trusts that Defence will be able to judge market conditions more accurately for future project proposals, particularly those in regional areas.

Committee comment

5.35 The Committee is pleased that Defence is committed to remaining in Scottsdale and that Defence has the support of the Scottsdale community. The Committee was impressed with measures of support for this project, particularly noting the attendance of many Scottsdale residents at the Committee's public hearing, and through submissions and evidence from Dorset Council, Mr Geoff Lyons MP, and former Senator for Tasmania, Mr Guy Barnett.

5.36 Overall, the Committee is satisfied that this project has merit in terms of need, scope and cost.

5.37 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 7

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 Specific Nutritional Capability Project for Defence Science and Technology Organisation at Scottsdale, Tasmania.

Ms Janelle Saffin MP

Chair

18 August 2011