

Planning and Costs

Master Planning Considerations

- 3.1 According to Defence's submission, the Base's Facilities Master Plan was approved in May 1998 and takes into account the following planning aspects:
- functional requirements;
 - airfield planning criteria;
 - aircraft operational requirements (including civil use);
 - obstruction clearance requirements;
 - aircraft noise;
 - explosive ordnance facilities and activities;
 - security and defence of the Base; and
 - environmental considerations.
- 3.2 Defence noted that the siting of the proposed works is in accord with the current zoning and Master Plan¹ as amended to reflect the decision to locate the Dangerous Goods Compound to the Fuel Farm No 1 site.²
- 3.3 The Committee sought elaboration regarding the development of the Master Plan.

1 Submissions Volume 1, pp. 11-12.

2 Submissions Volume 1, pp. 11-12. See also Chapter 2, paragraph 2.32 which noted that the Dangerous Goods Compound would be located on the Fuel Farm No 1 site.

- 3.4 Brigadier Kelly explained that the Master Plan was developed progressively and approved in 1998. The Master Plan formed the basis for the Stage 1 and Stage 2 proposals and would be the basis for the Stage 3 proposal. Brigadier Kelly indicated that some minor changes had occurred to the Master Plan during the development and the delivery phases of a project. He said, however, that these were not significant.
- 3.5 Brigadier Kelly explained that the Master Plan is a flexible instrument in terms of detailed siting of facilities. Its purpose is to provide a framework for detailed planning. Brigadier Kelly observed that changes to the Master Plan are discussed with local authorities as well as internally at the Base.³
- 3.6 Mr Moss indicated that extensive consultations were undertaken with a range of people when the Master Plan was being developed in 1998. For example, there were consultations with the Townsville City Council and the Queensland Main Roads Department about to the new Base entrance. Further consultations were undertaken as part of the Stage 2 proposals in order to confirm the optimum location for the main entrance.
- 3.7 Mr Moss observed that a 25-year planning horizon has been adopted. The Master Plan is therefore an umbrella document that incorporates significant flexibility to ensure that development planning can continue under that broad umbrella. Mr Moss noted that in the last few years, there had been a number of changes. For example, the East Timor situation changed the philosophy of the Master Plan. This forced a review, which was undertaken as part of the Stage 2 redevelopment.⁴

Effect on Local Community

- 3.8 The Committee asked Defence to comment on the possible use of local contractors and whether preference would be given by Leightons [the managing contractor for Stage 1] to employing local workers and trades people.
- 3.9 Brigadier Kelly replied that Leightons had been specifically asked in relation to North Queensland to group trade packages to make them suitable for competitive tendering by local companies. In the Stage 1 redevelopment, 90% involvement by local North Queensland companies was achieved. Brigadier Kelly observed that he anticipated local involvement in Stage 2 would also be high.

3 Evidence, p. 3.

4 Evidence, p. 4.

- 3.10 Brigadier Kelly also noted that Leightons have worked ‘extremely well’ with local indigenous landowners to include them in the planning as well as offering opportunities for employment.⁵

Cost of Proposal

- 3.11 The referral motion moved by the Parliamentary Secretary to the Minister for Finance and Administration noted that the estimated ‘out-turn cost’ of the proposed works was \$72.5 million.⁶ The out-turn cost means that all professional fees, contingencies and escalation costs are included. The submission from Defence stated that the ‘capped budget’ for the project is \$72.5 million. The capped cost also includes all professional fees, contingencies and escalation costs.
- 3.12 The estimated cost of the project is \$83 million. Defence advised in their submission that there would be opportunities for rationalisation in order for the project to be delivered within the cost cap of \$72.5 million.⁷
- 3.13 At the public hearing Brigadier Kelly confirmed that the ‘capped budget’ for the project was \$72.5 million and the ‘current estimate for scheduled work’ was \$83 million. Brigadier Kelly reiterated advice provided in Defence’s submission that opportunities existed for ‘some rationalisation and sharing’ and these would be exploited in order to maximise the scope of the project within the cost cap of \$72.5 million.⁸ Brigadier Kelly further stated that GST would be included in invoices but paid separately within Defence.⁹
- 3.14 The Committee asked Brigadier Kelly to explain how it was proposed to undertake work estimated at \$83 million within a \$72.5 million capped budget.
- 3.15 Brigadier Kelly advised that the scope for Stage 2 had been agreed upon approximately 12 months ago. At that time the estimate was \$70 million. This figure was subsequently revised to \$72.5 million. The estimate for that scope increased to \$83 million.¹⁰
- 3.16 Brigadier Kelly said that Defence hoped to achieve savings through ‘value management of the user requirements ... and the managing contractor’s

5 Evidence, p. 8.

6 House of Representatives Hansard, 24.5.2001, p. 27057

7 Submissions Volume 1, p. 28.

8 Evidence, p. 2.

9 Evidence, p. 8.

10 Evidence, p. 8.

skills and capabilities to deliver smarter ways of doing business'. Brigadier Kelly was confident that even if savings were not achieved, and depending on the Defence budget, the potential existed to access additional money from the capital facilities budget if required to complete the work.

- 3.17 The Committee would be advised if extra funds were sought from the Defence budget and the remainder of the work within the scope of the proposal were undertaken. Brigadier Kelly was of the view that this strategy would avoid the requirement to submit another proposal to the Committee for the component of outstanding works.
- 3.18 Brigadier Kelly suggested that the potential existed for possible savings in design costs, if the bids were competitive. That may also reduce the level of design fees that have been shown in the confidential costs. However, Brigadier Kelly said that could not be guaranteed.¹¹

Decontamination Costs

- 3.19 The Committee asked whether decontamination requirements had been identified on the site and whether these had been factored into the cost estimates.
- 3.20 Brigadier Kelly noted that the contingency cost¹² when determined took into account decontamination. He added that the removal of asbestos would also come under the decontamination heading.¹³
- 3.21 Mr Mollison advised that no decontamination requirements had been identified, but the existing dangerous goods store is a potential site for chemical decontamination. Mr Mollison further indicated that it was anticipated that Fuel Farm No. 1, the anticipated location for the dangerous goods compound¹⁴ would have spillage or leakage or penetration of hydrocarbons into the soil.
- 3.22 Mr Mollison added that at this stage, however, no tests have been undertaken nor had decontamination been factored into the costs. Mr Mollison explained that where earthworks were involved on each one of the sites, these would be totally removed. A saving would occur if the soil was found not to be contaminated and did not require removal.

11 Evidence, p. 9.

12 The contingency cost has been put at 9 per cent.

13 Evidence, p. 21.

14 Refer Chapter 2, paragraph 2.37.

- 3.23 Mr Mollison advised that he could not foresee any circumstance in which decontamination would encroach into the contingency costs because of decontamination of the area.¹⁵

Cost Comparisons with RAAF Base Edinburgh

- 3.24 The Committee asked Brigadier Kelly how it was proposed to achieve savings when the design costs at 9% were higher than the costs for Stage 1 Redevelopment of RAAF Base Edinburgh which were estimated at 6.5% in late 2000.
- 3.25 In response to the Committee, Brigadier Kelly advised that the lower design cost at Edinburgh were due to the simpler design and therefore much lower design cost of the Warehouse. This was \$7.4 million and the Engineering Services \$8 million. Brigadier Kelly argued that, in comparison, the Townsville scope comprised elements of greater complexity. For example, the Central Emergency Power Station, Air Movements Facility and the Combined Mess. All of these would require specialist design.¹⁶
- 3.26 The Committee raised further concerns about the general escalation of professional costs between the RAAF Base Edinburgh Redevelopment Stage 1 project approved by the Committee in October 2000 and the proposal before the Committee. These related to contingency allowance, management allowance and managing contractor fees.

Contingency Allowance

- 3.27 Defence advised that the contingency for the Townsville project at 9% (rounded) was higher than Edinburgh at 7.6% for the following reasons:
- the Townsville project had a greater proportion of demolition work;
 - the scope of the Edinburgh project was better defined; and
 - the uncertainty of the Townsville tender market given, the construction of the \$170 million Lavarack Baracks Stage 3 project at the same time.

15 Evidence, p. 21.

16 Further information from Brigadier Kelly dated 8 August 2001.

Escalation Management Allowance

- 3.28 An amount of only 2% was identified for RAAF Base Edinburgh compared to 5.5% for Townsville. Defence advised that this was a nominal allowance in order to:
- contain the Edinburgh project within the total cost cap of \$39.887 million; and
 - the Edinburgh project was based on 86% of its expenditure being achieved by the end of its second year. Townsville, on the other hand, would have achieved only 38% of its expenditure by that same period.

Managing Contractor Fees

- 3.29 The allowance for managing the Edinburgh project was set at 10% of the estimated cost. In the case of the Townsville project, the figure is 10.6%. Defence does not consider this difference to be significant.
- 3.30 Defence drew the Committee's attention to the Lavarack Barracks Stage 3 project, currently under consideration which has allocated a managing contractor allowance of 10.5% of the estimated cost. Defence observed that the managing contractor fee varies between 8% and 12% depending on the competitiveness of the market and the complexity of the project.¹⁷

Scoping and Costing Staged Projects

- 3.31 The Committee was concerned about the method of scoping and costing staged Defence projects. The Committee also expressed concern about the movement of proposed facilities, even if identified as priority works, between the various development stages, in order not to exceed the budget cap.
- 3.32 For example, in the Committee's Report on the Stage 1 redevelopment, the estimated cost of that proposal when referred in the House was estimated at \$70.1 million with a further \$16.96 million for the capital equipment element.¹⁸ Defence subsequently submitted to the Committee an estimated cost for the project at \$95 million, with some further indexation of the Light Tactical Aircraft funded elements. Defence confirmed at that time, that the approved budget was \$87.05. Defence foreshadowed in 1999 that

17 Further information from Brigadier Kelly dated 8 August 2001, p.2.

18 PWC Sixth Report of 1999, p. 1.

budgetary restraints may result in some lower priority elements being moved to a subsequent stage.¹⁹

- 3.33 During the public hearing, the Committee was informed that the different costings reflected a strategy that Defence was following. In effect, Defence would move lower priority items between the different stages in order to achieve savings. Defence subsequently deferred the following facilities:
- two Light Tactical Aircraft parking bays and aprons worth \$475,000;²⁰ (cancelled or deferred for 10 years);
 - the depot level maintenance hangar worth \$4.3 million (part of the Light Tactical Aircraft facilities); and
 - northern Ordnance Loading Apron above-ground structures worth \$2.5 million.
- 3.34 The following facilities were deferred from Stage 1 to Stage 2:
- air movements facilities (which include air cargo hangar);
 - physical fitness facility (including swimming pool);
 - ground defence facility and 27 Squadron facilities; (included in the Base Training and Support Complex);
 - new Base Headquarters (included in combined Headquarters complex);
 - Base entrance (including Security Police);
 - Air Training Corps facilities (to occupy present gymnasium).²¹
- 3.35 Defence further advised that that five items identified in the Stage 1 would be delivered in a future development. These were:
- a multi purpose playing field;
 - a photographic section;
 - a chapel and community services facility;
 - a Base radio facility; and
 - the Combat Survival Training School facility.²²
- 3.36 The Committee expressed concern that during the Stage 1 briefings they were not informed about Defence's budget strategies. Brigadier Kelly

19 PWC Sixth Report of 1999, pp. 24-25.

20 Brigadier Kelly, Evidence, p. 14.

21 Further information dated 22 August 2001.

22 Further information dated 22 August 2001.

replied that the probability of the cost estimate exceeding the budget was foreshadowed.²³

- 3.37 The Committee recognises that in a staged development, priorities may change and some elements of the project may be deferred to another stage. However, in this inquiry it is not readily apparent to the Committee why the deferral of the Ordnance Loading Apron to Stage 2 and the cancellation or possible deferral for 10 years of the Light Tactical Aircraft facilities were priority elements of the Stage 1 proposal.
- 3.38 The Committee would not wish to be in a situation of having to second guess Defence's intentions. It would assist the Committee if at the time of referral of each redevelopment stage, Defence detailed the elements proposed in the other associated stages, including estimated costs. Costs should include contingency and escalation costs and professional fees.
- 3.39 The costs provided to the Committee should make readily apparent where cost savings in one redevelopment stage are likely to have an affect on other stages. Defence needs to ensure greater transparency in its provision of cost data to the Committee.

Recommendation

Recommendation 1

- 3.40 **With a view to minimising the possibility of any confusion in future staged development proposals, the Committee recommends that Defence provide in its statement of evidence for each stage an overview of the entire redevelopment. This should include the specific cost for each element of the development, such as demolition, service works for sewerage or power, contingency and escalation costs and professional fees. The Committee needs to be able to determine the relationship between individual stages of the broad development and its scope.**