

Fit-out of leased premises for the Administrative Appeals Tribunal at 83 Clarence Street, Sydney, NSW

- 3.1 The Administrative Appeals Tribunal (the AAT) seeks approval from the Committee to fit-out new leased premises at 83 Clarence Street, Sydney, NSW.
- 3.2 As part of the 2014 federal budget, the Government announced the expansion of the Administrative Appeals Tribunal (AAT) to include the Migration Review Tribunal (MRT), the Refugee Review Tribunal (RRT) and the Social Security Appeals Tribunal (SSAT). The amalgamation became effective on 1 July 2015.¹
- 3.3 A Migration and Refugee Division and a Social Security and Child Support Division have been created within the AAT to perform work previously undertaken by the MRT-RRT and SSAT.²
- 3.4 The main objective of the amalgamation is to provide savings to Government through streamlining administrative processes and consolidating property holdings.³
- 3.5 Consequently, the primary objective of the project is to place the staff, members and operations of the AAT, MRT-RRT and SSAT in a single location.⁴
- 3.6 When referred to the Committee, the estimated cost of the project was \$21.7 million, excluding GST. However, at the public hearing, the AAT told the Committee that due to changes explained later in this chapter, this figure has been revised to \$21.1 million.

1 AAT, submission 1, p. 1.

2 AAT, submission 1, p. 1.

3 AAT, submission 1, p. 1.

4 AAT, submission 1, p. 2.

3.7 The project was referred to the Committee on 17 June 2015.

Conduct of the inquiry

3.8 Following referral, the inquiry was publicised on the Committee's website and via media release.

3.9 The Committee received one submission and two supplementary submissions from the AAT. A list of submissions can be found at Appendix A.

3.10 The Committee received a briefing from the AAT and conducted public and in-camera hearings in Sydney on 24 August 2015. A transcript of the public hearing and the public submissions to the inquiry are available on the Committee's website.⁵

Need for the works

3.11 The combined AAT is currently located in separate commercial buildings in the Sydney Central Business District (CBD).

- the AAT has been located over three levels at 55 Market Street with a net lettable area (NLA) of 3203m²;
- the former MRT-RRT is located over four full levels and two part levels at 83 Clarence Street with an NLA of 5435m²; and
- the former SSAT is located on a single level at 580 George Street, with the NLA being 1296m².⁶

3.12 The AAT and SSAT have lease end-dates around early 2016. The MRT-RRT has the ability to terminate an existing lease early.⁷

3.13 Collocation of the now amalgamated entities will allow for the greatest possible rationalisation of resources, particularly in the sharing of public facilities such as hearing rooms across jurisdictions.⁸

3.14 The Committee is satisfied that the need for the work exists.

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

6 AAT submission 1, p. 4.

7 AAT submission 1, p. 4.

8 AAT submission 1, p. 2.

Options considered

- 3.15 In September 2014 the MRT-RRT, on behalf of the amalgamating tribunals, engaged Project Control Group Pty Ltd (PCG) to seek expressions of interest from the market for the provision of office accommodation in the Sydney CBD.⁹
- 3.16 A list of necessary requirements was identified, with input from all stakeholders. These requirements were drawn from an audit of the existing facilities of each tribunal, the future plans and caseload projections of each tribunal and the desire to maximise flexibility to account for future changes.¹⁰
- 3.17 Additionally, consideration was also given to market research and Commonwealth policies such as the *Commonwealth Property Management Guidelines* and the *Flexible and Efficient Workplace Design Guidance*.¹¹
- 3.18 From the 13 submissions received, five properties were approached for formal lease proposals. Further consultation resulted in three of these properties being excluded from further consideration. The two remaining options were 83 Clarence Street, the former MRT-RRT's existing site and 55 Market Street, the AAT's existing site.¹²
- 3.19 The evaluation methodology of the lease proposals of the remaining two buildings considered:
- a qualitative assessment of technical and non-technical aspects of the buildings (e.g. building service standards and amenities, efficiencies of floor plates etc.). This process was assisted by the engagement of building services engineers who performed technical due diligence on the buildings;
 - a best value for money assessment taking into consideration both qualitative and financial aspects of points below; and
 - a comparative assessment of the financial terms of each proposal on a Net Present Value (NPV) basis. The comparison was undertaken using the commercial and financial terms which had been negotiated between the tribunals and each building. The financial assessment contained the following items:
 - base rental (before abatements);

9 AAT submission 1, p. 5.

10 AAT submission 1, p. 5.

11 AAT submission 1, p. 5.

12 AAT submission 1, p. 6.

- commercial incentive including incentive remaining after funding fit-out which can be applied as rental abatement;
 - effective rental after abatements;
 - rental escalations as per lease proposals and other operating expenses increasing at 3% p.a.;
 - outgoings;
 - cleaning (tenancy and common area);
 - parking;
 - fit-out project costs (including design, project management, relocation and construction costs);
 - make good (where required); and
 - property consultancy and legal fees.¹³
- 3.20 Following the assessment of proposals, 83 Clarence Street was considered the best value for money.¹⁴
- 3.21 This property is slightly more expensive than 55 Market Street with regard to NPV; however it provides a considerably higher standard of building amenity and services. Additionally, it does not pose any delay in terms of availability as the alternative option does.¹⁵
- 3.22 The Committee found that the AAT has considered multiple options to deliver the project and has selected the most suitable option.

Scope of the works

- 3.23 The amalgamated AAT proposes to lease 9,548m² at 83 Clarence Street, Sydney for ten years, with a five year extend option. Proposed works will include refurbishing the existing MRT-RRT fit-out in this space and fitting out newly-leased space.¹⁶
- 3.24 The works include:
- base building: integration of services into the base building, including electrical, mechanical, communications, security, fire and hydraulic services;
 - supplementary air conditioning in those rooms with higher than normal cooling and ventilation requirements including hearing and conference rooms, larger meeting rooms, training rooms and the central communications/server room and hubs;

13 AAT submission 1, p. 7.

14 AAT submission 1, p. 7.

15 AAT submission 1, pp. 7-8.

16 AAT submission 1, p. 15.

- installation of energy efficient T5 lighting;
- data cabling throughout the tenant areas including phone and network outlets at each work point. The cabling infrastructure will be designed to cater for future capabilities. These works may also include the installation of WiFi subject to security considerations;
- supplementation of the base building fire services where required as a result of the fit-out works to ensure compliance with relevant codes. This may include additional exit lights, fire detection and sprinkler supplementation as necessary. Highly sensitive fire detection equipment and fire suppression systems will be required to be installed in the communications/server room;
- office accommodation including construction of hearing and conference rooms, reception areas, secure corridors behind hearing rooms, a security alarm and access control system, general office fit-out and open plan work area;
- standardised office sizes of:
 - 12m² (most EL2 officers and full time Members);
 - 18m² single office (SES Band 1 and full time Senior Members);
 - 18m² two person share office (part time Members);
 - 24m² (Registrar and Deputy Presidents); and
 - 36m² (President's chambers);
- generic open plan workstations;
- standardised hearing room sizes of:
 - 32m² (8-10 people);
 - 48m² (25 people);
 - 50m² (20 people);
 - 75m² formal room (30 people); and
 - 90m² (for complex matters with multiple legal representatives)
- flexibly designed standardised conference room sizes of:
 - 24m² (8-10 people including videoconferencing facilities); and
 - 36m² (12-14 people);
- standardised interview room sizes of:
 - 12m² (4 people);
 - 18m² (6 people); and
 - 24m² (10 people);

- breakout spaces, quiet rooms, casual and formal meeting spaces;
 - communications/server rooms built to specialist specifications;
 - storage facilities/compactuses;
 - training rooms;
 - first aid room;
 - kitchens;
 - library/information hub facilities; and
 - a secure storage room which is required to conform to ASIO T4 requirements, to hold classified material for the Security Division.¹⁷
- 3.25 The fit-out design will provide the amalgamated AAT with considerable flexibility to cater for possible jurisdictional and work practice changes.¹⁸
- 3.26 At the public hearing, representatives of the AAT stated:
- The overall reduction in space is around 400 square metres, reducing from around 9,900 square metres to around 9,500 square metres. It is noted that this includes provision for accommodating the Immigration Assessment Authority and growth in National Disability Insurance Scheme cases as that scheme expands. The number of cases that the AAT will deal with nationally is expected to move from around 40,000 in 2015-16 to 50,000 in subsequent years.¹⁹
- 3.27 The Committee asked if the fit-out would meet operational needs into the future and the AAT responded:
- We have made our best endeavours to provide accommodation that will last for 10 to 15 years, on the basis of what we know now about workload and activity over that period.²⁰

Special requirements

- 3.28 The fit-out is considered to be standard with the exception of the hearing rooms which will be located on either three or four floors. Requirements associated with the hearing rooms increase the cost per square metre for these areas.²¹

17 AAT submission 1, pp. 15-16.

18 AAT submission 1, pp. 16-17.

19 Mr Rhys Jones, AAT, transcript of evidence, 24 August 2015, p. 1.

20 Mr Rhys Jones, AAT, transcript of evidence, 24 August 2015, p. 5.

21 AAT submission 1, p. 27.

3.29 At the public hearing the AAT explained that:

The cost of fitting out the hearing room floors is much greater on a per square metre basis than of fitting out the office floors, owing to the specialised furniture, mechanical security and acoustic requirements of the hearing rooms.²²

3.30 The Committee asked about opportunities to conduct tribunal hearings via videoconference. The AAT responded:

We are making reasonably extensive arrangements for videoconferencing to be available. The tribunals use it reasonably extensively already, so that has been a key requirement in terms of the design of hearing rooms. There will be a number of hearing rooms that are fitted out with the capability of videoconferencing to do both conferences and hearings. There is also a fair amount of work that may just simply be done by telephone, in terms of telephone conferences – even taking evidence by telephone, if people are overseas and things like that. That is part of what we are building: to encompass that a reasonable amount of activity will occur by videoconference.²³

3.31 Additionally, the fit-out includes an unusually high proportion of offices to workstations when compared with the practices of other agencies. The AAT explained to the Committee that this is because all full-time tribunal members will be provided with office space and therefore, the AAT will not meet the Government density requirement of 14m² per occupied work point. Instead, the AAT expects to achieve a ratio of 15.4m² per occupied work point.²⁴

3.32 The AAT advised that it had received endorsement from the Secretary of the Department of Finance for the density requirement through the Department of Finance lease approval process:

In terms of the lease endorsement process, we have been working with the Department of Finance on that and all of that detail has been included in the information that we have provided to the Department of Finance. Ultimately we have had a lease endorsement from the Secretary of the Department of Finance in relation to what we are proposing in Sydney.²⁵

22 Mr Rhys Jones, AAT, transcript of evidence, 24 August 2015, p. 2.

23 Mr Rhys Jones, AAT, transcript of evidence, 24 August 2015, p. 5.

24 Mr Rhys Jones, AAT, transcript of evidence, 24 August 2015, pp. 2, 4.

25 Mr Rhys Jones, AAT, transcript of evidence, 24 August 2015, p. 4.

- 3.33 Subject to Parliamentary approval of the project, work is expected to commence in September 2015 and be completed by March 2016.²⁶
- 3.34 The Committee finds that the proposed scope of works is suitable for the works to meet its purpose.

Cost of the works

- 3.35 The estimated cost of the project was \$21.7 million, excluding GST at the time of referral to the Committee. However, at the public hearing, representatives from the AAT advised of a change in the estimated project cost:

I note that in our original submission we advised that the estimated project cost was \$1,800 a square metre with an escalation allowance of \$100 per square metre [totalling \$18.2 million]. Since then, we have progressed with the design, including hearing room specifications, and have been advised that an estimate of \$2,210 per square metre is more realistic. This change was outlined in a supplementary confidential submission to the committee on 31 July. As a result of this change, the overall cost of the project is \$21,108,668, including relocation and a risk escalation allowance of \$100 per square metre. There is also \$2 million of lessors' works which the AAT is proposing to undertake in lieu of the lessor undertaking those works.

- 3.36 The AAT confirmed that co-locating all sections of the recently amalgamated AAT would save approximately \$7.2 million in operating costs over forward estimates.²⁷
- 3.37 Additionally, the AAT discussed the competitive leasing arrangements, which include a lease incentives which will cover much of the proposed fit-out cost:

All of the deals that we were offered came with some form of incentive. There was a rate for the rent that was indexed over the years by four per cent or thereabouts. But on top of that what we were being offered across a range of buildings was a sizeable incentive which would enable us to pretty much fund the fit-out cost in new accommodation.²⁸

- 3.38 The AAT provided further detail on the project costs in the confidential submission and during the in-camera hearing.

26 AAT submission 1, p. 28.

27 Mr Rhys Jones, AAT, transcript of evidence, 24 August 2015, p. 2.

28 Mr Rhys Jones, AAT, transcript of evidence, 24 August 2015, p. 3.

- 3.39 The Committee considers that the cost estimates for the project have been adequately assessed by the AAT and the Committee is satisfied that the proposed expenditure is cost effective. As the project will not be revenue generating the Committee makes no comment in relation to this matter.

Committee comments

- 3.40 The Committee commends the AAT for negotiating favourable leasing outcomes.
- 3.41 The Committee did not identify any issues of concern with the AAT's proposal and is satisfied that the project has merit in terms of need, scope and cost.
- 3.42 Proponent agencies must notify the Committee of any changes to the project scope, time, cost, function or design. The Committee also requires that a post-implementation report be provided within three months of completion of the project. A report template can be found on the Committee's website.
- 3.43 Having regard to its role and responsibilities contained in the *Public Works Committee Act 1969*, the Committee is of the view that this project signifies value for money for the Commonwealth and constitutes a project which is fit for purpose, having regard to the established need.

Recommendation 2

- 3.44 **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: Fit-out of leased premises for the Administrative Appeals Tribunal at 83 Clarence Street, Sydney, NSW.**

