

Need, Scope and Cost

The Need

- 2.1 DHA advised the Committee in its submission that an informal survey of staff revealed that ‘a very decent proportion’ prefer to live on-base in modern accommodation. DHA further advised that on-base accommodation has always been in high demand. The problem has been a lack of supply.¹
- 2.2 DHA noted that the Service Agreement between Defence and DHA requires Defence to provide advice on an annual basis of its estimated accommodation needs, including numbers and location.
- 2.3 DHA’s submission stated that the forecast for Defence housing in Canberra as at 30 June 2001 was 1,712 residences for married accompanied staff. DHA also indicated that as a result of planned restructuring and relocations, this figure is expected to rise to 1,744 by 30 June 2002 and remain at that level for the new few years.
- 2.4 As at 30 June 2001, dwellings managed by DHA in Canberra comprised 1,367 properties. DHA meets the remainder of Defence’s needs by using privately arranged short-term leases combined with the payment of a rental allowance.²
- 2.5 The Committee asked DHA to provide information about the number of Defence staff working on-base. Mr Richard Bear, General Manager,

1 Submissions, p. 5.

2 For further details about DHA’s forecast requirements, see Submissions, p. 4.

Development and Sales, DHA, advised that people working on-base comprised 186 with partners and 349 single people.³

- 2.6 The Committee sought clarification as to the feasibility of single people who subsequently get married being able to access housing on-base, given that the project is calculated towards married couples.
- 2.7 Mr Keith Lyon, Managing Director, DHA, replied that once a person moves from the single to the married category they would be entitled to a house. He observed that the proposed 100 on-base houses would be continually occupied and would not become vacant because of expected 'very strong' demand. Mr Lyon also advised that families that cannot be accommodated on-base are accommodated in the general community.
- 2.8 The Committee inquired as to the possibility of housing all Defence staff at RMC Duntroon. Mr Lyon, replied that no planning was envisaged in that regard and emphasised that the agreement with the Army was to allocate housing at RMC Duntroon to those people actually working there. Mr Lyon advised that great numbers of people work for Defence at various locations in Canberra, but primarily on-base housing is for those people involved in training activities.⁴

Options Considered

- 2.9 DHA advised that it considered the following options in order to meet Defence's accommodation requirements:
- direct purchase off-base with a view to retaining or selling properties on a lease-back arrangements;
 - construction off-base with a view to retaining the properties or selling them on a lease-back arrangement;
 - direct leases from the private rental market; or
 - construction on-base.⁵
- 2.10 DHA stated that purchasing already constructed dwellings is an effective option, when available in Canberra. DHA observed that opportunities for off-base dwellings are limited in Canberra because of restricted land supply, particularly in the established suburbs.

3 Submissions, p. 84.

4 Evidence, p. 4.

5 Submissions, p. 5.

- 2.11 With regard construction off-base. DHA advised that recently it had the opportunity to negotiate a land purchase with the ACT Government in order to construct mixed residential dwellings in the established suburb of Stirling.⁶
- 2.12 DHA noted that the option of leasing from the private rental market had to be discounted because of limited opportunities for cost-effective spot purchase and direct leasing. As at May 2001, vacancy rates stood at 2.5% of total housing.
- 2.13 DHA argued in its submission that the provisions of the Services Agreement between DHA and Defence make on-base construction a viable option. This is particularly so in circumstances when Defence requirements are for long-term needs, thereby covering the economic life of the dwellings, and Defence's intention to retain the land.⁷
- 2.14 The course of action chosen by DHA is to replace what has been deemed below standard married quarters and to construct 100 new dwellings on already vacant lots. DHA argued that redevelopment at RMC Duntroon is a cost-effective option and would provide Defence personnel and their families a secure suburban environment within five kilometres of the centre of Canberra.⁸
- 2.15 The Committee asked DHA to provide cost comparisons with houses built on a greenfield site⁹ outside Duntroon, particularly as the Duntroon site requires outlays to upgrade the infrastructure.
- 2.16 Mr Lyon replied that DHA has been involved with developing greenfield sites and is usually responsible for putting in place the required infrastructure. Mr Lyon advised that in some situations significant infrastructure development is necessary. For example, in the case of the DHA housing development at Stirling, which the Committee approved last year, DHA paid for additional infrastructure, because its availability on the site was limited.¹⁰

6 Refer Parliamentary Standing Committee on Public Works Report: *Construction of Mixed Residential Dwellings at Block 87, Section 24, Stirling, ACT*.

7 Submissions, p. 3.

8 Submissions, p. 7.

9 A greenfield site is one that has been newly prepared for construction.

10 Refer Parliamentary Standing Committee on Public Works, Report on the *Construction of Mixed Residential Dwellings at Block 87, Section 24, Stirling, ACT*.

- 2.17 DHA provided the following comparative table to demonstrate their argument that constructing on-base dwellings at Duntroon was a more cost-effective option:¹¹

Option	Total Project Cost	Average House Cost
Construct On-Base	\$22,489,000	\$224,890
Construct Off-Base - Inner Suburb	\$32,870,067	\$328,701
Purchase Off-Base - Inner Suburb	\$32,136,400	\$321,364
Construct Off-Base – Outer Suburb	\$25,370,067	\$253,701
Purchase Off-Base – Outer Suburb	\$25,161,400	\$251,614

- 2.18 DHA argued that the lower cost for on-base construction is primarily due to the absence of land acquisition costs. DHA advised that the project included an infrastructure cost of \$3,761,700 million, approximately \$37,617 per dwelling.¹²
- 2.19 The Committee sought the information provided above at the public hearing. The Committee will continue to view critically all future on-base developments and expects DHA to provide detailed submissions of its proposed developments to the Committee before the public hearing.
- 2.20 In addition, the Committee expects that future submissions from DHA would include surveys indicating the views of personnel and their families in relation to on-base living. In its Tenth Report of 2000 relating to the development of 90 Apartments in Darwin, the Committee had sought a similar survey to be conducted and provided to the Committee.

Recommendation 1

- 2.21 **The Committee recommends that future submissions from the Defence Housing Authority include:**
- **surveys of the views of personnel and their families about the desirability or otherwise of living on-base;**
 - **a cost comparison of on-base accommodation with similar accommodation off-base; and**
 - **an analysis of the projected future viability of the base, including its accommodation requirements.**

¹¹ Submissions, p. 85

¹² Submissions, p. 85

Scope and Description of Proposal

- 2.22 The scope of the proposal involves redeveloping the residential area bound by Gymkhana Road, Calculus Lane and Vowles Road in order to provide the 100 new residences. The new dwellings will be constructed on 28 vacant lots from which 28 ‘inferior housing’ have been removed and the further 31 sub-standard houses were marked for removal.¹³
- 2.23 DHA noted that all the dwellings will have attached double garages and paved and covered outdoor pergola areas of 18 square metres. DHA intends to construct the 100 dwellings in four sub-stages as the following indicates:
- Sub-stage A1
 - ⇒ 3 x Type 1: single storey 4 bedroom detached houses of 170 square metres;
 - ⇒ 8 x Type 1A: single storey 3 bedroom courtyard houses of 170 square metres;
 - ⇒ 6 x Type 2A: single storey 3 bedroom courtyard houses of 145 square metres;
 - ⇒ 4 x Type 3: two storey 3 bedroom townhouses of 135 square metres;
 - ⇒ 5 x Type 3 two storey 3 bedroom terraced townhouses of 135 square metres;
 - Sub-Stage A2
 - ⇒ 4 x Type 1A: single storey 3 bedroom courtyard houses of 170 square metres;
 - ⇒ 12 x Type 2A: single storey 3 bedroom courtyard houses of 145 square metres;
 - ⇒ 2 x Type 5: single storey 4 bedroom detached houses of 200 square metres;
 - Sub-Stage A3
 - ⇒ 7 x Type 1A: single storey 3 bedroom courtyard houses of 170 square metres;
 - ⇒ 1 x Type 2: single storey 3 bedroom detached houses of 145 square metres;
 - ⇒ 20 x Type 2A: single storey 3 bedroom courtyard houses of 145 square metres;

⇒ 2 x Type 3: two storey 3 bedroom townhouses of 135 square metres;

■ Sub-Stage A4

⇒ 1 x Type 1: single storey 4 bedroom detached house of 170 square metres;

⇒ 16 x Type 1A: single storey 3 bedroom courtyard houses of 170 square metres;

⇒ 7 x Type 2A: single storey 3 bedroom courtyard houses of 145 square metres; and

⇒ 2 x Type 3: two storey 3 bedroom townhouses of 135 square metres.

2.24 The following table shows a summary of dwelling types:¹⁴

House	No.	Area	Bedrooms
Type 1	4	170m ²	4
Type 1A	35	170m ²	3
Type 2 & 2A	46	145m ²	3
Type 3	13	135m ²	3
Type 5	2	200m ²	4

2.25 The Committee asked DHA to explain why it was building four-bedroom houses when there were no prospects of future commercial value for such large dwellings.

2.26 Mr Lyon replied that DHA was looking ahead to the next 25 years, not necessarily because families may be larger but in order to maintain appropriate community standards.¹⁵

2.27 The Committee asked the estimated difference between the cost of a three-bedroom house and a four-bedroom house. Mr Lyon said the approximate difference was in the range of \$5,000 to \$10,000 per house.¹⁶

2.28 The Committee was also advised that the current trend in the Army was for both partners to either have professional qualifications or undertake studies towards that end. Houses therefore should reflect areas that could be dedicated or converted to study rooms for each partner. In addition,

¹⁴ Submissions pp.31-32, p. 84.

¹⁵ Evidence, p. 14.

¹⁶ Evidence, p. 15.

with training at schools increasingly demanding access to computers, children would also require study areas.¹⁷

Infrastructure Work

- 2.29 As part of the redevelopment, DHA proposes to undertake improvements to hydraulic, electrical, gas and telephone services as well as water pollution control. Site works will include asphalt coating to existing roads, new road pavement with an island at the junction of Gymkhana and Plant Roads, road signage and improvements to existing road pavement after installation of new in ground services.¹⁸
- 2.30 DHA noted that over the last 20 years there have been three reviews of existing hydraulic services at Duntroon. The findings have indicated that:
- the general condition of the sewerage system is very poor, with many sewer lines blocked, silted, cracked or collapsed;
 - the existing water mains are adequate to cope with existing demands, but are well beyond their normal design life; and
 - the stormwater drainage network is in a poor state of repair with many of the drain lines requiring substantial root cutting and jet cleaning.
- 2.31 DHA has factored into the cost estimates the full replacement of sewerage and stormwater systems and new copper water services to individual house sites.¹⁹

Demolition of Old Houses

- 2.32 The Committee asked whether the revenue gained from the proposed sale and removal of 31 'sub-standard houses' had been offset in the estimated cost of the project. Mr Bear replied that the revenue is 'not directly' reflected in the costing and that the quantity surveyor had not taken into account the offset benefit of selling the existing properties.²⁰

17 Evidence pp.15-16.

18 Submissions, p. 9.

19 Submissions, pp. 9-10

20 Evidence, pp. 7-8.

2.33 In a subsequent reply to the Committee, Mr Bear advised that:

It is intended that the demolition and removal of the substandard housing (36 in all) will be included in the tender for the construction of the new housing. Available advice indicates that those houses that can be removed and relocated can be expected to realise, on average, \$5000.²¹

2.34 In additional information to the Committee Mr Bear noted that:

The estimated cost of the project, as determined by a consultant Quantity Surveyor is \$23 million. This estimate is the net of the value that can be expected to be realised on sale of the sub-standard housing. The actual cost of the project and thereby the actual value or otherwise of the substandard housing to be removed will not be finally determined until the construction tender process is undertaken.²²

2.35 The Committee noted that the 31 houses proposed for removal were in demand and asked DHA to advise why they are being removed. Mr Lyon replied that they are considered sub-standard.²³

2.36 Brigadier McNarn, added that people were not happy about living in the old houses and that created a level of dissatisfaction. Brigadier McNarn noted, however, that some families had chosen to live in these sub-standard dwellings in order to maintain the family in the one place. Brigadier Maurice McNarn, Commandant, Royal Military College of Australia, stated that one of the problems of retaining good officers in the Army was due to the pressure on their families and the conditions in which they lived.²⁴

Cost of Project

2.37 The estimated cost of the project is \$23 million. The cost includes GST, construction, civil works, headworks charges and contingency and professional fees. DHA noted that the final costs would be determined through a competitive tendering process. DHA also advised that a

21 Submissions, p. 84.

22 Further information to the Committee, e-mail dated 5 September 2001, Committee File 2.2

23 Evidence, p. 7.

24 Evidence, p. 7.

financial analysis confirmed that the proposed project was possible within a budget of \$23 million, or an average of \$230 000 per house.²⁵

- 2.38 DHA's submission indicated that an experienced quantity surveyor, J M Still and Associates prepared construction estimates based on preliminary architectural concepts 'and the conceptual master plan' covering the scope of the works. The submission also advised that the proposal would be contracted out on a fixed price basis to one or more tenderers.²⁶
- 2.39 The Committee expressed its concern about the high cost off each dwelling at an average of \$230 000 per dwelling, particularly when the area had established infrastructure, such as roads, pavements, sewerage and water.
- 2.40 Mr Bear reiterated advice supplied in DHA's submission and noted in paragraphs 2.29-2.31 above, that the present infrastructure required considerable upgrade.²⁷
- 2.41 The Committee asked DHA to confirm whether 5% contingency cost was the usual cost levied, particularly as the Committee was aware that this percentage varied from project to project.
- 2.42 Mr Lyon explained that the contingency cost was assessed on a case by case basis. For the RMC Duntroon project it has been estimated at 5%. Mr Lyon further advised that no escalation costs had been factored into the estimated cost of the project because they expect to deliver it on time at a fixed price contract.²⁸
- 2.43 The Committee asked DHA to differentiate between 'Associated Infrastructure Works' and 'Shared Infrastructure Works', which had been costed separately in DHA's confidential costs analysis.
- 2.44 Mr Bear explained that 'Associated Infrastructure Works' related directly to the house itself. For example, trees, paving, in-ground electrical services to the house, the telephone and data trenching. 'Shared Infrastructure Works' involved bulk earthworks, road works, gas reticulation, street lighting, tree protection, and remedial and new landscaping. Mr Bear suggested that these two elements could be differentiated between the house and the base.

25 Submissions, p. 11.

26 Submissions, pp. 11.

27 Evidence, p. 6.

28 Evidence, p. 18.

- 2.45 Mr Bear also explained that ‘Shared Infrastructure’ landscaping is associated with the street and that the ‘Contextual Elements’ is within the building site.²⁹

Cost Recovery

- 2.46 The Committee asked DHA to comment about any liability in the event that staff housing was no longer required at RMC Duntroon. Mr Lyon replied that under a joint agreement between Defence and DHA, Defence would be liable to pay DHA for any remaining balance of the capital that had not already been recovered. Mr Lyon observed that while RMC Duntroon remained a military base, the houses could not be sold on the open market and would not have a disposable value as those in the community.
- 2.47 In reply to further questions from the Committee about cost recovery by DHA. Mr Lyon replied that DHA had capital tied up in the project and that in the case of RMC Duntroon, the agreed period is 25 years. After that time, DHA would have recovered its capital outlay. In the event that Defence’s requirements change before the 25-year expiry date, Defence would be liable to pay any outstanding capital.³⁰

Goods and Services Tax

- 2.48 The Committee noted at the public hearing that the cost of each stage of the development included the 10% GST. The Committee asked DHA whether the GST would be recoverable.
- 2.49 Mr Bear, replied that DHA was not planning to sell the houses but to rent them to Defence. At the public hearing, Mr Bear indicated that while DHA was unable to obtain credit for the GST, Defence might be able to recover it.³¹
- 2.50 In subsequent advice to the Committee, Mr Bear advised that the Services Agreement between DHA and Defence, require GST to be levied in accordance with GST legislation. This specifically defines houses supplied for residential rent as an ‘input tax supply’. That means no GST credit is claimable. Therefore, GST paid by DHA to suppliers is recoverable only through the annuity rent paid by Defence.³²

29 Evidence, p. 16.

30 Evidence, pp. 4-5

31 Evidence, p. 2.

32 Submissions pp. 84-85.

- 2.51 The Committee noted Evidence provided by Brigadier Garry Kelly, Director General Capital Infrastructure, Infrastructure Division, Department of Defence in relation to the RAAF Base Townsville Stage 2 redevelopment project in which he advised, that GST would be included in invoices but paid separately within Defence.³³
- 2.52 Mr Bear commented that he understood that the GST had not been included in the Townsville redevelopment project because its purpose was for transit and operational purposes and not for residential rent.³⁴

Financing

- 2.53 DHA stated in its submission that as the project involved on-base construction, there were no prospects of sale, either direct or, through DHA's Sale and Lease Back Program. DHA also noted that a Government Business Enterprise (GBE), there would be no cost to the Budget. DHA advised that it proposed to source funding from rental revenue paid by Defence in accordance with the Services Agreement between the two organisations. Other sources of funds would be derived from the sale of surplus housing stock, the sale and lease back scheme, application of surplus operating capital, or from debt financing.³⁵
- 2.54 At the public hearing, Mr Lyon explained that there was no direct capital charge in the Defence budget. He said that Defence, together with its staff, contribute toward the rent, they will pay for the houses over the life of the project.³⁶ DHA subsequently advised that:
- The entire capital cost of the project will be funded by DHA. The Department of Defence will pay to DHA an annual rental that will recover the capital outlay over the life of the houses. The next present value of the tenant contribution is \$6.6 million. The balance will be paid by the Department of Defence.³⁷
- 2.55 The Committee asked DHA to identify the location of their surplus housing stock. Mr Bear replied that DHA has a requirement for 1,700 (rounded-off) houses in the ACT and current stock under DHA management is currently 1,400 (rounded-off).³⁸ However, some houses

33 RAAF Base Townsville Redevelopment Stage 2, Evidence, p. 8.

34 Submissions, pp. 84-85.

35 Submissions, p. 13.

36 Evidence, pp. 9-10.

37 Further information from Mr Richard Bear dated 5 September 2001, Committee file 2.2.

38 Further information from Mr Richard Bear dated 5 September 2001, Committee File 2.2.

were not in appropriate areas because requirements had changed or they may have reached their economic life.³⁹

2.56 The Committee noted that inappropriate location of Defence personnel housing did not constitute a surplus of housing.

2.57 Mr Bear explained that he was referring to houses not located on-base. Therefore, some would be sold in order to offset the cost of building at RMC Duntroon. Mr Bear further explained that he was referring to the overall capital funding of DHA which included the sale of some of its housing stock across Australia.⁴⁰

2.58 In reply to further questions from the Committee about the location of surplus DHA housing stock. Mr Lyon replied that approximately 500 vacant houses are located across Australia. Mr Lyon noted that some surplus houses are at the RAAF Base at Tindal near Katherine in the Northern Territory and a small number of surplus houses were located in Katherine.⁴¹ Mr Lyon added that 'substandard surplus housing' also existed at Puckapunyal barracks in Victoria.⁴²

2.59 The Committee asked DHA for further elaboration about its surplus stock at the Tindal Base. Mr Lyon replied that since the dwellings were built at Tindal in the early 1980s the requirement for on-base accommodation had decreased due to the requirement of fewer people as a result of improved technology.⁴³

2.60 The Committee expressed its concern about the appropriateness of building on-base given the Tindal experience where houses had become surplus to requirements but which had no commercial value.

2.61 Brigadier McNarn commented that in relation to RMC Duntroon there was a shortage of on-base housing which was the preferred place of residence for most people. Brigadier McNarn added that there had always been a waiting list for accommodation at Duntroon. He also noted that because of the centralisation of all Officer training at RMC Duntroon, surplus housing would never be an issue.⁴⁴

2.62 The Committee noted that similar arguments were probably put about the requirements for on-base accommodation at Tindal.

39 Evidence, p. 11.

40 Evidence, p. 12.

41 Submissions, p. 12.

42 Evidence, p. 14.

43 Evidence, p. 12.

44 Evidence, p. 13.

- 2.63 Brigadier McNarn replied that the argument for centralisation of all officer training at Duntroon and the resultant need for extra accommodation remained valid. Brigadier McNarn observed that he:

... distinguished quite clearly between Fairbairn and Harman and the RMC in terms of future usage, investment and why the base functioned like it did – both its history and where it was likely to go in the future...⁴⁵

- 2.64 Mr Lyon added his support to Brigadier McNarn's analysis of the specific case of RMC Duntroon.⁴⁶

Project Delivery

- 2.65 Subject to approval by the Committee and the DHA Board, the construction program will commence in November 2001. As indicated earlier, DHA proposes to undertake the project in four stages. DHA anticipates that approximately 82 of the 100 dwellings would be completed by December 2002 and the remainder by March 2003.⁴⁷

Effect on Local Market

- 2.66 The Committee asked DHA to clarify points in its submission that the construction of 100 additional dwellings would produce a net gain of 69 dwellings and that this is unlikely to affect either the sale or rental markets for residential accommodation in Canberra.⁴⁸
- 2.67 Mr Bear replied that the difference between the 69 and the 100 are the houses currently on site and occupied and the substandard houses marked for removal. Therefore, the net figure was actually 70. Mr Bear argued that 70 houses are unlikely to have an adverse impact on rents or the availability of properties in Canberra.⁴⁹

⁴⁵ Evidence, p. 13.

⁴⁶ Evidence, p. 14.

⁴⁷ Submissions, p. 11.

⁴⁸ Submissions, p. 14.

⁴⁹ Evidence, p. 17.

- 2.68 The Committee noted in paragraph 2.19 above, DHA's submission referred to 31 houses marked for demolition or removal yet Mr Bear had mentioned in evidence that there were in fact 36 houses in all. DHA subsequently advised that 5 houses were associated with a separate redevelopment between Wells and Gymkhana Roads.⁵⁰

⁵⁰ Further information to the Committee provided by the Defence Housing Authority dated 12 September, Committee File 2.2