2

Proposed new National Archives Preservation Facility and refurbishment of the existing Mitchell facility for the National Archives of Australia at Mitchell, ACT

2.1 The new National Archives Preservation Facility (NAPF) and refurbishment of the existing Mitchell facility are two of three closely integrated projects to ensure that the National Archives of Australia (NAA) can fulfil its legislative mandate to accept transfers of paper and audiovisual archives from Australian government agencies.

2.2 The third project, an upgrade of the existing Chester Hill repository in Sydney, was notified to the Committee as a medium works project on 18 June 2012.

2.3 The new NAPF would provide accommodation for 150 staff, 104 shelf kilometres (skm) of paper archives and 10 skm of audio-visual archives. This will provide space for the consolidation of archives currently held in the Mitchell and Greenway repositories in the ACT.[1]

2.4 The Committee is not reporting on the Mitchell refurbishment at this time as negotiations with the landlord are not due to commence until 2015. The referral of this project was premature and the Committee expects the project to be re-referred at the appropriate juncture.

2.5 Accordingly, this chapter only reports on the proposed new NAPF.

2.6 The proposals were referred to the Committee on 25 May 2012.

2.7 The estimated cost of the NAPF project is $97.9 million.

---

1 National Archives of Australia (NAA), Submission 1, p. 4.

Conduct of the inquiry

2.8 The inquiry was advertised in *The Australian* on 30 May 2012.

2.9 The Committee received one submission and three supplementary submissions from the NAA, and one submission from a private enterprise. A list of submissions can be found at Appendix A.

2.10 The Committee undertook a site inspection, public hearing and an in-camera hearing on the project costs on 9 July 2012 in Canberra. The Committee conducted additional public and in-camera hearings on 2 November 2012 in Canberra.

2.11 The transcripts of the public hearings as well as the submissions to the inquiry are available on the Committee's website.[2]

Need for the works

2.12 The NAA has a legislative responsibility to store archives from Australian government agencies. The ability to carry out this role is dependent on suitable capacity being available to accept and store these archives in optimal temperature and humidity conditions to ensure their long term preservation.[3]

2.13 Currently, there is limited available capacity of existing facilities and the NAA expects these facilities to be full by 2015. There is also a significant backlog of 165 skm of paper archives held by agencies, which is likely to grow at 5.5 skm per year.[4]

2.14 The current ACT facilities at Greenway and Mitchell store 39 skm and 65 skm of archives respectively. The lease on the Greenway facility will not be renewed from March 2017 due to the landlord's development plans.[5] The lease on the Mitchell facility expires June 2017.[6] Discussions with the landlord regarding the refurbishment and next lease will commence in 2015.[7]

2.15 The Committee finds that there is a vital need for additional storage space for the National Archives of Australia.

---

2 <www.aph.gov.au/pwc>
3 NAA, Submission 1, p. 7.
4 NAA, Submission 1, p. 7.
5 NAA, Submission 1, p. 7.
6 NAA, Submission 1, p. 8.
7 Ms C. Watson, NAA, *transcript of evidence*, 9 July 2012, p. 3.

Scope of the works

2.16 The scope of the NAPF work is defined in the Functional Design Brief, to which potential developers will respond. The design will target the following key outcomes:

- innovative Ecologically Sustainable Development (ESD)
- energy efficient building and building services design to focus on minimising energy consumption and running costs of the building
- best possible environment for storage and preservation activities
- plant, equipment, finishes and fixtures chosen for life cycle value and maintainability
- flexible design to allow for future changes in technology and the NAA's methods of operation.[8]

2.17 To achieve this, the following will be mandatory requirements:

- in accordance with the Energy Efficiency in Government Operations Policy the office area of the building will meet or exceed 4.5 star National Australian Built Environment Rating System (NABERS) rating with the completed building to be registered and assessed
- the storage areas will comply with Section J of the NCC relating to energy performance for a Class 8 Building
- consideration of alternate energy sources such as solar, wind, co and tri-generation
- use of a building energy management system and any other relevant provisions to allow energy usage to be controlled, measured, monitored and managed.[9]

2.18 The NAPF will include:

- 74.2 skm of standard size paper archives storage with eight level mobile shelving
- 20.5 skm of classified paper archive storage with eight level mobile shelving

8 NAA, Submission 1, p. 14.

9 NAA, Submission 1, p. 15.

- 9.3 skm of non-standard size paper archives storage with a mix of eight level mobile and fixed shelving
- a range of temperature and humidity conditions, ranging from 17°C to 23°C with 30% to 50% relative humidity (RH) to -10°C to -20° with 30% to 50% RH and 23°C ± 1°C with 50% ± 2% RH with multiple other set parameters in between to ensure optimal storage conditions for different formats of archives
- 10 skm of audio visual archives storage in Freezer, Cold, Cold conditioning and Cool rooms
- digital archives storage including for classified digital archives
- digital preservation management areas including secure space for classified archives
- conservation laboratory and support areas including controlled environment room, analytical laboratory and 'vinegar syndrome' room
- records handling areas including loading dock, quarantine room, hazardous materials treatment room
- office areas designed to comply with the Department of Finance and Deregulation occupancy density requirements
- a multi-purpose room for meetings, presentations
- staff support areas including lunch room, showers and change room with lockers, first aid room, secure external bicycle storage.[10]

2.19 The Committee was disappointed to learn that the scope of the project is limited to a functional design brief. Typically, projects that are referred to the Committee for approval are at a point where a preliminary or sketch design has been prepared and costed. The Committee finds that the proposed scope of works, as outlined in the functional design brief, is suitable to meet the need for this project.

Cost of the works

2.20 The Committee does not find that this project provides value for money for the Commonwealth.

2.21 Project costs will be discussed in the Project Issues section below.

10 NAA, Submission 1, p. 15.

Project issues

Location of NAPF

2.22 Southern Distribution Hub made a submission proposing that the NAPF be built in Goulburn, NSW.[11]

2.23 NAA had initially considered the possibility of locating the NAPF outside the ACT. However, NAA determined that for business, cost and staffing reasons, a site in the ACT was more appropriate.[12]

2.24 NAA called for expressions of interest for ACT sites. Some responses came from sites located just over the border in NSW. These sites were examined against NAA's criteria but ultimately not selected as the preferred site.[13]

Committee comment

2.25 The Committee appreciates submissions from private enterprises. The Committee acknowledges the reasons that NAA requires a site in the ACT and is pleased that NAA considered the possibility of sites outside the ACT.

Options considered / project delivery method

2.26 NAA stated that three methodologies were considered for the delivery of the NAPF, being design-build-own (DBO), pre-commitment lease (PCL) and public-private partnership (PPP).[14]

2.27 NAA stated further that the Australian Government approved the pre-commitment lease model for the delivery of the project.[15]

2.28 When the Committee asked for further details on the options considered for the delivery of the project, NAA stated:

> We presented a number of options. We included design, build and own; a pre-commitment lease; and public-private partnerships against a number of options of types of buildings … There was a

11 Southern Distribution Hub, Submission 2.

12 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 6.

13 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 6.

14 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 3.

15 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 3.

> rigorous process there. Given the fiscal environment at the time, it was considered that a pre-commitment lease was a better outcome for the budget.[16]

2.29 NAA reiterated in the November hearing that:

> All options—[pre-commitment lease, design-build-own] and public-private partnership—were offered to government. They considered those … They considered that the [pre-commitment lease] option was the best outcome, given the [constraints].[17]

2.30 NAA admitted that there was some price difference between the design, build and own option and the pre-commitment lease option, however it was the Australian Government's decision for NAA to go with a pre-commitment lease.[18]

2.31 When asked if the Australian Government had been approached for up-front funding, NAA stated:

> Design-build-own was one of the options. The three options that the government asked us about under the whole-of-government model were: design-build-own, pre-commitment lease and public-private partnership. They looked at all of those models.[19]

Committee comment

2.32 The Committee is most familiar with agencies utilising an integrated fit-out model for their projects, providing the capital up-front with no amortising of costs over a lease period. Of the numerous projects considered by this Committee to this point in the 43rd Parliament, the integrated fit-out model has been essentially the preferred choice of model for the delivery of new building projects. In the integrated fit-out model, the proponent agency works with a developer to integrate a fit-out into the construction of a new building.

2.33 In the 43rd Parliament, the Committee has inquired into and approved integrated fit-out projects for the Australian Taxation Office (four projects), Department of Innovation, Industry, Science and Research, the Attorney-General's Department, and the Department of Human Services. In each case, a new building is being constructed with the agency's fit-out being integrated during construction.

16 Ms C. Watson, NAA, *transcript of evidence*, 9 July 2012, p. 4.
17 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 5.
18 Ms C. Watson, NAA, *transcript of evidence*, 9 July 2012, p. 4.
19 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 3.

2.34 Importantly, in each case the agency has been able to provide the funding for the fit-out up-front, with only lease costs to be paid to the building owner upon completion and occupation.

2.35 The pre-commitment lease model proposed by the NAA still provides for the delivery of an integrated fit-out, however without the capital available up-front, the cost of the fit-out is amortised over a lengthy lease period. The amortising of the fit-out for the NAA's project would see the fit-out costs effectively jumping from $21.3 million to around $52 million.

2.36 This substantial cost blow out could be avoided if the capital for an integrated fit-out was available up-front.

2.37 The Committee understands that NAA is a small agency with little capital backing. However, this project has been in development for a number of years, providing NAA sufficient time to lobby for capital funding for such a significant national project.

2.38 NAA on several occasions stated that it provided three project delivery options to Government for consideration. It appears that the option of an integrated fit-out with up-front capital funding was not one of those options provided, because NAA simply does not have the capital funding or was not prepared to ask for it; the Committee is unable to determine or know which

2.39 Further, there seemed to have been a disconnect of some sort between what the Committee was asking and what NAA was able to answer. The Committee asked NAA about seeking Government funding for the project, and NAA stated that the design-build-own option was considered; that question was not answered or possibly avoided.

2.40 Further, in evidence to the Committee, NAA stated that the pre-commitment lease delivery method is used for all NAA properties.[20] Given how considerably more expensive that model is in this particular proposal, it calls into question the value for money for the Commonwealth of any other new building projects the NAA may consider.

Project costs

2.41 The Committee had difficulty determining the costs of the project.

20 Ms C. Watson, NAA, *transcript of evidence*, 9 July 2012, p. 4.

2.42 The Committee received a confidential supplementary submission detailing the project costs and held an in-camera hearing with NAA in July 2012 on these costs.

2.43 Following that in-camera hearing, the Committee wrote to NAA seeking further clarification on several matters, including costs. NAA provided clarification, which was accepted as a confidential supplementary submission.

2.44 Still not satisfied with the evidence presented by NAA, the Committee held additional public and in-camera hearings in November 2012.

2.45 Following the November in-camera hearing, the Committee again wrote to NAA seeking further clarification on a number of matters. NAA again provided clarification, which was accepted as a confidential supplementary submission.

2.46 Initially, there was no reportable project cost in NAA's public submission. The Committee found it highly unusual for an agency to refer a project for approval without a public cost figure.

2.47 At the July hearing, the Committee asked NAA to confirm the appropriation for this project, particularly given that there was some confusion about the public cost figure for the project. NAA replied:

> We are not being funded on a capital works basis, so we are not getting capital works appropriation. We are, in effect, receiving funding to assist in project management, relocation of staff and records, rent, and operating costs. The actual funding in the budget is: from 2015-16, funding of $500,000, which is for the initial project costs; in 2016-17, funding of $15.7 million, which is to cover rent, operating, relocation and project costs; and in 2017-18, funding of $8.2 million—and there is an escalation factored in on top of that—for ongoing rent and operating costs.
>
> So, if we were taking up a 30-year lease, we would have a lease stream to fund that.[21]

2.48 In response to the Committee seeking further clarification on the project cost of $92.6 million, NAA stated:

> In the total project costs, which are in our submission at 1.1, it is listed as $92.6 million, but that includes construction and our own project costs which the [NAA] is funding from 2012-13 to 2015-16.

21 Ms C. Watson, NAA, *transcript of evidence*, 9 July 2012, p. 3.

> It is a picture of the total project costs, including construction … That $92 million does not include the Mitchell refurbishment.[22]

2.49 At the additional hearing in November, NAA further explained the cost of the project:

> This approval varies from a more traditional leasing and fit-out model. It is not a capital project, which is why it has been a bit more difficult to get to exactly what price we would use in this context. As you would know, with a capital project the construction price, which was the price that was used in the statement of evidence template, would probably be the one that you would use, but in this instance, because it is not a capital project, it has been a bit more difficult to work through which would be the most appropriate one for the committee and the public. The costs were developed on a net present cost basis, and the modelling includes whole-of-life costing comprising project development, finance, property operating, base building, fit-out life cycle and asset replacement with retained risk and escalation costs over 30 years. On this basis, it is the Archives' view that the most appropriate number for the committee's purpose would be that net present cost value for the project. If we remove the Mitchell refurbishment from that, it is estimated to be $97.9 million over 30 years. So it is a net present cost looked at from a whole-of-life cost basis over 30 years.[23]

2.50 When asked to put the project expenditure in simple terms, NAA explained:

> Over the 30 years, that would be the full lease costs and all of the operating costs. That is in the order of $400 million over 30 years.[24]

2.51 NAA further explained what is covered in that cost:

> It includes property operating, the fit-out, amortisation, retained risk—all of those elements.[25]
>
> It includes all the development costs and financing costs, the developer's required internal rate of return, and bid recovery costs as well as all our property operating costs over that period.[26]

---

22 Ms C. Watson, NAA, *transcript of evidence*, 9 July 2012, pp. 3-4.
23 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 1.
24 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 2.
25 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 2.

2.52 When asked for a year-by-year break down, NAA stated:

> 2016-2017 is expected to be $8.8 million … that is the full cost including the fit-out, shelving, property operating costs and statutory charges. The rent component in that first year would be $5.2 million. So that $400 million includes all of the components of rent, fit-out, amortisation, shelving, property, and statutory charges, because it is a lease arrangement not a capital arrangement; most agencies would just give that capital construction cost and you would not see those ongoing whole-of-life costs in those, usually.[27]

2.53 NAA explained that an annual payment is made, subject to any lease agreement:

> Yes, it is an annual amount paid monthly. That is our expectation. However, we do obviously have to negotiate a rental lease with the successful bidder, and we would have to see what they bring to the table, but our intent is that that is the whole cost, yes.[28]

2.54 NAA further discussed the lease and tender arrangements:

> Obviously, because we have to go to market, it may be that the market comes back with a better offer than the assumptions we have made. But, for these purposes, we have gone through a rigorous, two-stage, business process with the whole-of-government modelling, and that modelling has given us the numbers that government could consider to 80 per cent certainty, as with all two-stage business case processes … Obviously, the market, when we go out to tender, may present other prices, but this is a rigorous process.[29]

2.55 NAA reiterated exactly what is incorporated into the project cost:

> … that is the whole-of-life cost. It will be in the lease. We are asking that the successful tenderer come back and deliver a fully integrated model. So they will come back and then through that lease arrangement charge us for the rent, the fit-out and shelving, and we would have property-operating costs and any statutory charges which are a normal part of a lease: share of rates, share of

26 Mr M. Boyle, NAA, *transcript of evidence*, 2 November 2012, p. 2.
27 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 2.
28 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 2.
29 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 2.

> land tax et cetera. That is what makes up that $8.8 million in the first year.[30]

2.56 The Committee asked NAA to outline the project costs, should up-front funding be available for the integrated fit-out. NAA stated that the estimated cost of the fit-out would have been approximately $21.3 million.[31]

2.57 When asked to provide further details on the leased cost of the fit-out, where the costs are amortised over a number of years, NAA stated:

> The fit-out component is $625,000 annually for 15 years and the shelving component is $1.4 million annually over 30 years[32] … It is about $51.9 million.[33]

2.58 NAA explained that paying for the integrated fit-out up-front was not possible:

> The Archives was unable to purchase the fit-out. We would have to have sought additional funding. We do not have a capital base of that amount there.[34]
>
> The Archives does not have money upfront.[35]

2.59 NAA added:

> … the lease arrangement is a smaller payment per annum over the years than if we paid for it up front.[36]

Committee comment

2.60 The Committee was very concerned with the confusing nature of the information presented to it in the submissions to the inquiry. In particular, the costs information was difficult to tease out and interpret.

2.61 The Committee was still struggling to come to terms with some of the information presented, even after two public hearings and two in-camera hearings. Additional hearings and subsequent written questions to the agency should not have been necessary.

30 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 2.
31 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 4.
32 Mr M. Boyle, NAA, *transcript of evidence*, 2 November 2012, p. 4.
33 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 4.
34 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 4.
35 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 5.
36 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 4.

2.62 Although it is not directly in the purview of the Committee to assess agency lease arrangements, the Committee still has an obligation to assess the overall value for money of a project. There has been little discussion or explanation from NAA on whether the lease costs, other than the amortised fit-out components, would be significantly reduced should an integrated fit-out with up-front funding be the chosen project delivery method. This information would better equip the Committee to consider the value for money.

2.63 The Committee therefore cannot find that this project provides value for money for the Commonwealth.

2.64 For the sake of $21.3 million of up-front funding, NAA is now looking to instead spend around $52 million on the NAPF fit-out, and an unknown quantum of additional lease costs.

2.65 The cost of the project could be significantly reduced if a larger up-front contribution was made by the Australian Government.

2.66 The Committee determines that the Australian Government should reconsider the delivery model and funding for the project to provide a superior value for money outcome.

Recommendation 1

The Committee recommends that the Australian Government provide the necessary up-front funding to National Archives of Australia for the integrated fit-out of the proposed National Archives Preservation Facility project, thereby providing value for money for the Commonwealth.

2.67 NAA's statement suggesting that somehow this project provides value for money simply because the annual lease payment is less than the up-front fit-out cost does not satisfy the Committee with regard to value for money.

Final Committee comment

2.68 The Committee acknowledges that NAA has not referred a project to the Committee for many years. Further, NAA stated that it has not delivered a project of this type before.[37] The Committee understands that agencies

37 Ms C. Watson, NAA, *transcript of evidence*, 2 November 2012, p. 2.

such as NAA may not be experienced in the delivery of building and infrastructure projects of this nature, however some people associated with the project, such as consultants, do have the relevant experience.

2.69 Given that NAA has been planning this project for many years, the Committee is disappointed that NAA presented inadequate information in its submissions; there are dozens of past referrals that could have been used as a model or template for delivery of such a project.

2.70 The Committee was also disappointed that the NAA did not fully consider or push for additional funding for the project.

2.71 The Committee finds that NAA has demonstrated a compelling need for this important project. However, the Committee cannot approve the proposed project in its current form. The Committee is of the opinion that NAA has not provided a compelling argument for the pre-commitment lease option for this project.

2.72 The Committee defers making a decision on the Mitchell refurbishment aspect of the referral. This component of the referral is undeveloped, premature, and may not proceed as proposed. The Committee expects the Mitchell refurbishment project to be re-referred at an appropriate time.