LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Caroline Le Couteur MLA (Chair), Brendan Smyth MLA (Deputy Chair), John Hargreaves MLA

Inquiry into Auditor-General's Report No. 6 of 2009: Government Office Accommodation Public hearing—Friday 12 November 2010 Supplementary questions

Supplementary questions forwarded by the Committee to the Minister for Land and Property Services following on from the public hearing of 12 November 2010 are set out below. The responses received from the Minister in relation to these questions are attached.

[Please note: the Committee's clarification with regard to supplementary question no. 4 under the New Government Office Proposal section]

Green leasing

(1) What is the cost of implementing the green leasing policy in the ACT?

(2) How much money and energy will be saved by implementing the green leasing policy?

(3) Is the NABERS rating tool[1] being used for the application of the green leasing policy targeted at buildings which are 2000m2 and larger?

ACT existing office buildings

(1) Which buildings does the Government intend to sell as a result of the new building?

(2) What is the value of these buildings?

(3) What would be the cost of refurbishing the existing Government owned buildings to bring them up to 4.5 stars?

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[1] NABERS is a performance-based rating system for existing buildings refer: http://www.nabers.com.au/

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(4) What strategies are being created for the use or conversion of vacated office buildings?

New Government Office proposal

(1) The Committee is aware that the Government has undertaken a detailed economic analysis of the proposal for a whole of government office building including comparing it with alternative options.[2] The Committee requests that it be provided with a copy of the economic analysis.

(2) At the public hearing, the responsible Minister indicated that the decision by the Government with regard to the new government office project proceeding was imminent. In evidence the Chief Minister stated:

> The final decision most certainly has not been made. But certainly the government has, the cabinet has, successively given approval for the project to continue to advance to the next stage along a continuum of decision points. I do not want to commit to a particular cabinet point, but the point is imminent.[3]

How imminent is the Cabinet decision on the new government office building?

(3) In evidence, the Chief Executive of the Department of Land and Property Services informed the Committee that:

> Once the decision is made we will be working with the property sector as well. I think there are a number of things that are occurring with property owners at the present time. We are looking at how some of those buildings may be able to be re-used for conversions. There are a couple of strategies in place. Once that decision is made, we can actually work with them a little closer.[4]

The Committee is interested to know what level of consultation has taken place with key stakeholders in the office market with regard to the government office proposal, and if yes, how have the views of these groups been factored into the current proposal?

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[2] Refer: Department of Land and Property Services website http://www.laps.act.gov.au/projects_and_initiatives/government_office

[3] Chief Minister, Proof *Transcript of evidence*, 12 November 2010, p. 9.

[4] Mr David Dawes, Proof *Transcript of evidence*, 12 November 2010, p. 13.

[Please note - clarification—In relation to supplementary question No. 4 (as below) under the New Government Office Proposal—the Committee clarifies that the Property Council of Australia stated:

> With the increase in vacancy rates, it is now timely for the ACT Government to adopt a range of policies to assist in the adaptive reuse or conversion of redundant office stock, including changes to planning laws and remissions on stamp duty. Careful consideration will also need to be given to the application of the Change of Use charge to allow economic redevelopment to occur.[5]

It is the Committee's emphasis that a new government office accommodation building may further impact on the vacancy rate for Canberra's office market.]

(4) Given the vacancy rate for Canberra's office market, and the subsequent impact a new government office accommodation building may further have on the market, the Property Council of Australia has suggested that:

> …it is now timely for the ACT Government to adopt a range of policies to assist in the adaptive reuse or conversion of redundant office stock, including changes to planning laws and remissions on stamp duty. Careful consideration will also need to be given to the application of the Change of Use charge to allow economic redevelopment to occur.[6]

Further, with regard to responding to increasing vacancy rates, in particular the conversion or adaptive reuse of older office stock and strategies to support economic redevelopment, in evidence, the Chief Executive of the Department of Land and Property Services stated:

> Once the decision is made we will be working with the property sector as well. I think there are a number of things that are occurring with property owners at the present time. We are looking at how some of those buildings may be able to be re-used for conversions. There are a couple of strategies in place. Once that decision is made, we can actually work with them a little closer.[7]

Can you please provide further detail on the nature of these strategies?

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5 Refer: http://www.propertyoz.com.au/act/Article/NewsDetail.aspx?p=16&id=3413

6 Refer: http://www.propertyoz.com.au/act/Article/NewsDetail.aspx?p=16&id=3413

7 Mr David Dawes, Proof *Transcript of evidence*, 12 November 2010, p. 13.

Jon Stanhope MLA
CHIEF MINISTER

MINISTER FOR TRANSPORT MINISTER FOR TERRITORY AND MUNICIPAL SERVICES
MINISTER FOR BUSINESS AND ECONOMIC DEVELOPMENT MINISTER FOR LAND AND PROPERTY SERVICES
MINISTER FOR ABORIGINAL AND TORRES STRAIT ISLANDER AFFAIRS
MINISTER FOR THE ARTS AND HERITAGE

MEMBER FOR GINNINDERRA

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Enclosure

Ms Caroline Le Couteur MLA
Chair, Standing Committee on Public Accounts
Legislative Assembly for the ACT
GPO Box 1020
Canberra ACT 2601

Dear ~~Ms Le Couteur~~ Caroline

I refer to your letter dated 7 December 2010 regarding supplementary questions raised by the Standing Committee on Public Accounts on 12 November 2010, as part of the Committee's inquiry into the Auditor-General's Report No. 6 of 2009: Government Office Accommodation.

A response to the supplementary questions raised by the Committee is attached.

Yours sincerely

Jon Stanhope MLA
Minister for Land and Property Services

20 JAN 2011

Authorised for publication
1.2.11

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GREEN LEASING

(1) What is the cost of implementing the green leasing policy in the ACT?

The National Green Leasing Policy Steering Committee commissioned a report from Davis Langdon which estimated the cost of implementing the Policy for each jurisdiction. The Report estimated that the combined cost to implement and administer the National Green Leasing Policy by the ACT Government will be approximately $218,000 over ten years.

In relation to the Commonwealth's costs incurred, the Committee has estimated the Commonwealth's aggregate cost across its entire portfolio. It is therefore not possible to identify a combined cost for the ACT Government and the Commonwealth's operations in the Territory.

(2) How much money and energy will be saved by implementing the green leasing policy?

The energy and financial savings that will be realised through the National Green Leasing Policy are dependent on a range of variables including future energy prices. However, the Committee suggests that the potential savings to the ACT Government (including both building owners and tenants) over ten years could be as high as $4.9m and 22,500MWh.

(3) Is the NABERS rating tool being used for the application of the green leasing policy targeted at buildings which are 2,000m2 and larger?

Yes, the ACT Government is seeking to achieve NABERS ratings of 4.5 stars or better on all new and renewed green subleases which are 2000m2 or larger.

ACT EXISTING OFFICE BUILDINGS

(1) Which buildings does the Government intend to sell as a result of the new building?

The ACT Government Office Project will involve a move of staff from five ACT Government owned properties to the new Building. The five buildings affected by the ACT Government Office Project are:

	Premises	Area Net Lettable Area
a	1 Moore Street, City	14,000m2
b	Dickson Motor Registry, Dickson	2,100m2
c	Dame Pattie Menzies House, Dickson	7,000 m2
d	Callam Offices, Woden	5,400m2
e	Macarthur House, Lyneham	7,500m2

(2) What is the value of these buildings?

The five properties have been independently valued (November 2010) at $99.6m.

(3) What would be the cost of refurbishing the existing Government owned buildings to bring them up to 4.5 Star NABERS?

With the exception of Callam Offices, no detailed assessment has been undertaken on the cost of upgrading government owned buildings to a 4.5 Star NABERS energy rating.

The detailed audit of Callam Offices identified a cost of $42m to upgrade to current building and environmental standards.

This noted, a preliminary 'desktop' assessment was undertaken in February 2009 on the cost of upgrading the five government owned buildings to a 4.5 Star NABERS energy rating. This assessment indicated that there was no sound business case for upgrading the existing properties (i.e. the operational savings achieved over a 25 year period did not justify the property upgrade costs to meet current environmental standards). In contrast, the operational savings and co-location benefits associated with the new building would see the capital costs recouped over a 15 year period.

(4) What strategies are being created for the use or conversion of vacated office buildings?

It is the ACT Government's current intention to sell the government owned buildings that become vacant should the new government office building be constructed. An asset disposal strategy has been developed to ensure that the properties are released to the market incrementally over the next few years.

More generally, the ACT Government is determined that redundant office space is not left vacant and is put to its best use. This may be achieved through reuse, adaptation for other purposes such as residential, or demolition and rebuilding.

To assist with forming specific strategies, LaPS will work with industry groups such as the Property Council, the Property Institute, and will involve all other relevant Government agencies such as ACT Treasury, ACTPLA, and DECCEW to develop specific strategies on these matters. In addition the Government is pleased to receive proposals from industry and others in the community about adaptive reuse or redevelopment. The Government recognises that as needs arise it may need to provide incentives and assistance to facilitate changes to buildings. It will of course need to ensure that the community is getting value for any incentive that it provides.

NEW GOVERNMENT OFFICE PROPOSAL

(1) The Committee is aware that the Government has undertaken a detailed economic analysis of the proposal for a whole of government office building including comparing it with alternative options. The Committee requests that it be provided with a copy of the economic analysis.

The ACT Government is currently considering the issue of the new whole of government office building and the economic analysis of the project is an intrinsic element of this consideration.

The ACT Government will be pleased to provide the information to the Committee regarding its anaylsis - including the economic analysis - of the proposal once the process has been completed.

(2) At the public hearing, the responsible Minister indicated that the decision by Government with regard to the new government office project proceeding was imminent. In evidence the Chief Minister stated:

> ***"The final decision most certainly has not been made. But certainly the government has, the cabinet has, successively given approval for the project to***

continue to advance to the next stage along a continuum of decision points. I do not want to commit to a particular cabinet point, but the point is imminent."

How imminent is the Cabinet decision on the new government office building?

It is anticipated that a final decision on the project will be made in early 2011.

(3) In evidence, the Chief Executive of the Department of Land and Property Services informed the Committee that:

> ***"Once the decision is made we will be working with the property sector as well. I think there are a number of things that are occurring with property owners at the present time. We are looking at how some of those buildings may be able to be reused for conversions. There are a couple of strategies in place. Once that decision is made, we can actually work with them a little closer."***

The Committee is interested to know what level of consultation has taken place with key stakeholders in the office market with regard to the government office proposal, and if yes, how have the views of these groups been factored into the current proposal?

The concept of bringing many of the administrative functions of government together in a single building to improve service delivery and the operational effectiveness of government has been under consideration for several years.

During this period the ACT Government has received numerous representations from the property sector and the relevant minister or departmental chief executive has briefed the property industry on the status of the project at various industry forums. Government's preference to co-locate administrative functions of the bureaucracy has been made quite clear to property owners and developers

To assist with the decision making, the ACT Government sought private sector input through a publicly advertised Market Sounding Brief. Over eighty people attended the briefing and twenty three written submissions were received. All of the submissions expressed a high level of interest for the private sector to be involved in the project, and the views expressed in the submissions have assisted the decision making process.

(4) Given the vacancy rate for Canberra's office market, and the subsequent impact a new government office accommodation building may further have on the market, the Property Council of Australia has suggested that:

> ***"....it is now timely for the ACT Government to adopt a range of policies to assist in the adaptive reuse or conversion of redundant office stock, including changes to planning laws and remissions on stamp duty. Careful consideration will also need to be given to the application of the Change of Use charge to allow economic redevelopment to occur."***

In assessing the feasibility for the new government office, advice on the affect on the current status of the rental market was provided by property consultant CBRE. They advise that Canberra office accommodation vacancy rates have doubled over the past year and now stands at 16%. This is mainly a result of new speculative stock on stream at the Airport, Barton and West Civic with no pre-committed tenant. This stock was constructed on the premise that the Commonwealth uptake would continue to be strong, but this has not been the case.

It is expected that the impact of the new government office building will be relatively minor as the amount of affected office space is quite low when considered against the annual take up rate.

Please note: the Committee's clarification with regard to its question # 4 - New Government Office proposal - earlier in this document.

Most of the space vacated for the new government office building is C Grade, and does not meet Government's criteria for new office accommodation.

Government will be working with the Industry Committee to establish policies relating to changes to planning laws and other legislative requirements.

Further, with regard to responding to increasing vacancy rates, in particular the conversion or adaptive reuse of older office stock and strategies to support economic redevelopment, in evidence, the Chief Executive of the Department of Land and Property Services stated:

> ***"Once the decision is made we will be working with the property sector as well. I think there are a number of things that are occurring with property owners at the present time. We are looking at how some of those buildings may be able to be reused for conversions. There are a couple of strategies in place. Once that decision is made, we can actually work with them a little closer."***

Can you please provide further detail on the nature of these strategies?

It is in the best interests of government to ensure that redundant office space is not left vacant and is put to its best use. This may be achieved through reuse, adaptation for other purposes or demolition and rebuilding. For each of the government owned properties, the ACT Government would look at potential changes to the purpose clauses to optimise the development potential of the affected site.

To assist with forming specific strategies, LaPS will work with industry groups such as the Property Council, the Property Institute, and will involve all other relevant Government agencies such as ACT Treasury, ACTPLA, and DECCEW to develop specific strategies on these matters. In addition the Government is pleased to receive proposals from industry and others in the community about adaptive reuse or redevelopment. The Government recognises that as needs arise it may need to provide incentives and assistance to facilitate changes to buildings. It will of course need to ensure that the community is getting value for any incentive that it provides.