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HEARING—WILLIAM MCCORMACK PLACE (STAGE 2)

TRANSCRIPT OF PROCEEDINGS

FRIDAY, 31 OCTOBER 2008

Cairns

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Committee met at 11 am

BYRNE, Mr Kevin Michael, Executive Director, Capital Globe Pty Ltd

KELLY, Mr Paul Andrew, Project Manager, Central Park Cairns Pty Ltd

WOOD, Mr Gregory Sutherland, Former Chairman, Northern Development Industry Association

CHAIR: Good morning. I declare this hearing into the William McCormack Place Stage 2 project open. Thank you for your interest and for your attendance here today. The committee has advised the public of the inquiry by advertising in the print media and also by writing directly to a number of individuals, organisations and government departments. The terms of reference for the inquiry are to examine and report on William McCormack Place Stage 2, with particular reference to (a) the purpose of the work; (b) the necessity for, and the advisability of, the work; (c) the suitability of the work for its purpose; (d) the cost, recurrent costs, revenue and value for money of the work; (e) the impact of the work on the community, economy and environment; (f) procurement methods for the work; (g) the balance of public and private sector involvement in the work; and (h) the performance of the constructing authority and the consultants and contractors for the work.

Before proceeding further I would like to introduce the members of the committee present here today: Hon. Kev Lingard, the member for Beaudesert and deputy chair; Mr Stuart Copeland, the member for Cunningham; Mr Ray Hopper, the member for Darling Downs; Mr Jason O'Brien, the member for Cook; Mr Phil Weightman, the member for Cleveland; and Mr Wayne Wendt, the member for Ipswich West. I am Barbara Stone, the member for Springwood, and I am the chair of the committee.

The Public Works Committee is a committee of the Queensland parliament and as such represents the parliament. It is an all-party committee which adopts a non-partisan approach to its inquiries. Although the committee is not swearing in witnesses, I remind all witnesses that these hearings are a formal process of the parliament and as such any person intentionally misleading the committee is committing a serious offence. I also remind witnesses that Hansard will be making a transcript of the proceedings and I therefore ask you to please identify yourself when you first speak and to speak clearly and at a reasonable pace. I would ask you to speak into the microphones when you are making any statements.

It is important to note that the committee's role is one of scrutinising the government's Capital Works Program and services to ascertain whether the Queensland public is getting value for the money being spent. The committee does not have the power to stop or approve projects or programs. The findings of the committee will be the subject of a report to the parliament. The committee may make recommendations about the issues it deals with. A copy of the report will be forwarded to all witnesses.

I would now like to call the first witnesses. For the record, if you could please state your name and the capacity in which you appear before the committee. I was going to suggest that maybe each of you would like to speak for a couple of minutes and make an opening statement. So we will start with you, Kevin.

Mr Byrne: Thank you very much. My name is Kevin Byrne. My current appointment is Executive Director of Capital Globe, which are the proponents of another development in the vicinity. I would like to thank you for the opportunity of appearing in front of this committee. I would like to clarify, if I may, a statement in terms of the submission that I made. It is on the second page and it relates to (d) the cost, recurrent costs, revenue and value for money for the work. I did say there—and I was only taking this from press releases—that the cost of the building was \$79 million. I have had that clarified and I have spoken to the architect. I understand the cost of the building is about \$46 million to \$47 million or thereabouts and the rest of the \$79 million is made up in fit-out. So I would like to clarify that position. It was an honest mistake when I sent it in.

If I can deal with these in terms of the way it is presented and the way you clarified, if you like. The purpose of the work: I do not have a quibble about the purpose of work. We need that sort of additional accommodation in the city. (b) The necessity for and the advisability of the work. There is a need for it, but in terms of the advisability for the state to do the work, or the need for the state to do the work, we obviously have an issue with that and that is an issue that has been widely circulated, if you like, or widely espoused in the community of Cairns. That is that where we have a private sector that has the proven ability to capably do this sort of work, given the current economic circumstance that we find ourselves in, we believe that the most prudent way to go would have been to have the private sector build this building and the state government use their funds for other uses. I guess I could be accused of having an interest in Cairns

this—and I admit that interest first up, because we have a development approval for a similar style of building. I will not go into the details that are contained in my submission and I am more than happy to answer questions in that regard.

The cost, recurrent costs and value for money for the work: I would be splitting hairs, I guess, but obviously with the cost of the William McCormack Place Stage 2, that is the Laing O'Rourke building, the cost per square metre is considerably more than the cost per square metre that we would have of bringing the building that you see there on line. The impacts of work on the community and the economy and the environment: I have very similar comments to what I said in paragraph (b) on the need for this work. I think there was a missed opportunity here. The private sector could have built this building and the \$79 million or thereabouts could have gone to another project in the Cairns regional community. That is the real issue as far as the community of Cairns is concerned. That is the real issue as far as Advance Cairns, the Chamber of Commerce and everybody else is concerned. We could have got two bangs for the bucks here; instead, we are getting one bang for the buck.

I do not have any comments about procurement or the balance—private-public sector or anything else—in the reasons for this inquiry. I think, basically, our debate is that this could have been done by the private sector. It is not. It is being done now, and I would just like to conclude my opening remarks by saying that it is a shame we did not have this inquiry earlier, before contracts were let, before a spade was put in the dirt and before we substantially developed earthworks on the site. I think this has come too late. This should have occurred about eight months ago. Thank you.

Mr Wood: Thank you very much for the opportunity. My name is Greg Wood. I am actually the former Chairman of the Northern Development Industry Association and represent the development community in general. The development community had some concerns about this particular development. To place that in some context, I would like to confirm that the same development industry supported the first stage of William McCormack Place, because at that time in the economy there was very little activity from the private sector and there was a need for some stimulus in the market.

Since then, of course, forward planning is always lagging, and we appreciate and certainly understand that the planning for this development would go back some years. At the time that it was probably conceived, there may have been an attitude that there was not a lot of activity or development in Cairns, which to some part was possibly true. In the last few years we have seen substantial development in Cairns and the private sector has risen to the occasion and provided buildings that are suitable for both state and Commonwealth occupation, including the opportunity to deal with green ratings and all that that implies. I make that point, because I think the committee needs to understand the additional cost and burden that is put onto developers in this day and age with complying with green ratings. Those costs are very substantial. We have had as a result a good supply of first-rate buildings put into the market and possibly the analysis that you have would indicate that there was an undersupply where the industry generally considers there was an oversupply.

Once this building is complete, there are concerns in the development industry about the nature of the building and what impact it may have on emptying out other products within the CBD and possibly having an adverse effect on effective rental rates and yields. It is my understanding, from what we have been told, that it is the intention of the state government to completely occupy the building, which is over 9,000 square metres in a city that has approximately 120,000 square metres of space at the present time. I need to clarify that, because that is the number of square metres available, but if we drill down to A-grade accommodation, which is all we are really talking about here, we are dealing with only 40,000 square metres of available space within the city. If we are dealing with that number, the percentage this building represents to the overall amount of available space is quite significant. It is understandable, because we have had steady growth from approximately 2000 onwards after a decade of virtually zero growth, that the development community is concerned that if other buildings then become vacant, the effective rate per square metre could fall and yields and values of buildings fall accordingly. So it may have an adverse effect in the marketplace.

One of the side concerns to that is some obligation that we think the government needs to give to the community as to what the effective rate per square metre of the building will be. By that, I mean when William McCormack Place Stage 1 was put up we had correspondence from the government to tell us what the face rent would be to make sure that the valuation community and the finance community had an understanding of what those figures would be, and we would ask you to do the same in this particular instance.

The development community obviously has some issues with the numbers that have been put to this. We do not have access and we do not know what your building costs really are; we can only go by what is in the print media. But the bottom line appears to be a figure of around \$80 million, be it all encompassing for fit-out and construction. That particular number, as it relates to a square metreage basis on net lettable area, is approximately double what other buildings have been produced for and sold for, including land, fit-out and tenancy contributions. So we have some disparity between what this building really is and what the market is proposing it to be. So as part of the issue here, some knowledge to the marketplace about where the costings are going and what they actually relate to, I think, would satisfy a lot of the development community—that perhaps they are, or are not, getting value for money in this particular instance.

We also just generally have some concerns in relation to where buildings perhaps could have been retrofitted or looked at in a different way and we did not then create an oversupply in the market. The conclusion of the development industry generally is that we may have an artificial downgrading of rates per square metre in that there will be competition for space, which is a natural part of the market, but artificially influenced by an oversupply in one line. So if there is some clarification to that, we would certainly appreciate that knowledge.

CHAIR: Thank you. Mr Kelly.

Mr Kelly: Thank you for the opportunity to appear. My name is Paul Kelly and I represent Central Park Cairns Pty Ltd. Central Park Cairns owns a development site of approximately three hectares which adjoins the second stage of William McCormack Place. From our point of view, our concerns are similar to what Kevin alluded to earlier. The two stages are the actual cost of the development and the need for the development. From our point of view, we are currently building a commercial building on the site which is on the corner of Spence and Bunda streets in the middle of town. That building at the moment is being submitted for a five green-star rating. It is being built specifically to accommodate both state and federal government briefs and it is due for completion in December. There is still over 2,000 metres of available space in that building. Similarly, on the rest of the site we have approvals with council at the moment for another 3,500-square metre building of a similar standard.

So to reiterate, I suppose what Kevin is saying is that we believe that the private sector has more than enough sites and impetus to build what the government requirement is without the government having to spend this sort of money on a building. In addition, and I have alluded to it in my report, is the cost. The delivery of the building that we have is something like 40 per cent of the cost stated in there for the state's building. As I said, it meets all the requirements of both state and federal government briefs. So the cost is an issue for us. I suppose, translating that into a rental position, with the rents that we are achieving on our building, if the government is to achieve those rents, it is certainly not an economic outcome for the government from that building.

CHAIR: Okay. Thank you. Mr Wood, can you just explain to me a little bit about the Northern Development Industry Association—the actual purpose of the group to start with?

Mr Wood: I have to declare that NDIA—the Northern Development Industry Association—is not physically an organisation that is functioning anymore. It has been absorbed by the UDIA as the national body and this, to be honest, is one of my last responsibilities as that organisation is now defunct. But it does and did represent the development community at a local level and, for want of a better way of describing that, at a Spence Street level rather than at a George Street level.

CHAIR: You were saying before that there are buildings that suit the purpose. We just heard from Mr Kelly about his new five-star rating building. Are there any other green-star rated buildings in Cairns, or any other buildings you can tell us about that would have fitted that purpose?

Mr Wood: Any building that is on the drawing board moving forward will be compliant with the green-star rating because the government, whether it is state or Commonwealth, will not move into a building without those sorts of requirements. We have been given building briefs by both the state and Commonwealth governments which all developers will adhere to moving forward. Obviously, you have older stock in the city which is not suitable, and we all accept that. However, most of the good quality buildings can be retrofitted for green ratings moving forward. Private enterprise is taking that on off its own bat to make sure that things do comply.

Where we have an issue is that this much space going into the marketplace at one time simply curtails the ability of private enterprise to develop anything further. It has a compounding effect, as I alluded to before, that if 9,000 square metres of space is created then those floors have to be filled. We admit that there would be some departments that would fill that void but there must be other areas that are moving around the city. What we probably would like the knowledge of is what departments are actually moving in there to see the ripple effect on other buildings.

Mr LINGARD: Mr Kelly, I note your comments in your introduction. Your submission claims that you are delivering your project for less than 40 per cent of the proposed cost of the William McCormack Stage 2 building. Can you give us a total estimated cost of the office block? Can you tell us what the cost is per square metre? Does the cost include a fit-out of the premises?

Mr Kelly: In terms of net lettable for the overall building, including car parking, we are delivering it for a construction cost of 2½ thousand dollars a metre. Including consultants and everything else it will be \$3,000 a metre.

Mr LINGARD: Are you prepared to provide the committee with detailed costings or is that considered commercial-in-confidence?

Mr Kelly: I will check with the directors of the company whether they are happy to disclose that information. I will certainly refer that back to them.

Mr LINGARD: I refer to Mr Byrne's comments in his introduction that there do seem to be conflicting reports about the cost of Cairns Global Tower project. Your submission says the budget is \$45 million. Reports from the Property Council and the *Cairns Post* put it at \$78 million to \$80 million. I know you made comments about that in your introduction. Can you clarify this matter for the committee? What is the budget for the Cairns Global Tower project? Is it for construction only or does it include fit-out of the buildings?

Mr Byrne: Mr Lingard, I am prepared to provide that now. I have a quote from a company called Built which are very good estimators with extensive experience around Australia, and particularly in Queensland. I can provide that for the committee records. That is only for the building construction. It does not include fit-out.

Mr LINGARD: Is the fit-out cost available?

Mr Byrne: I would need to check. It depends on who the tenant is and what sort of fit-out they require and the extent of the leases. Really it is a guessing game. We could put a ballpark figure on that, if you so desire. We prefer to deal basically with the raw cost of the building per square metre. The fit-out really is an additional item that we cannot necessarily control, but we are prepared to have a stab at it if you like.

CHAIR: Mr Wood, I think in your submission you said that the state government indicated that it would not compete with private enterprise. When was that said and who said it? Was that in print or what form?

Mr Wood: That is the understanding that we have always had from the state government and whatever minister we were dealing with—that is, that they would not compete with private enterprise where it can be satisfied without the need for government to provide the facility. That is a blanket statement. I have heard it from many ministers, chapter and verse. I would have to look up my notes about those sorts of conversations. But it has always been a given from the developer's point of view—and I do not think that is exclusive to Cairns—that where private enterprise can develop something and satisfy the state and there is no additional need they would be happy for that type of thing to happen, particularly when you have a situation, as you do in Cairns, where you have a high proportion of government occupancy, be that state or Commonwealth.

Mr O'BRIEN: Mr Byrne, I am just trying to drill down on these figures. You did mention in your opening remarks that you are prepared to concede that we are not comparing apples with apples in terms of the \$75 million or \$80 million that you thought we were paying for 9,500 square metres and the \$45 million you are paying for 11,500 square metres. So it is now correct that you concede we are paying \$46 million for 9,500 square metres not fitted out and you are paying \$45 million for 11,500 square metres?

Mr Byrne: We have just had an additional 500 in a further DA. We are sitting now at \$46,772,000 for 12,000 square metres. That is the cost for it built—as compared to a verbal advice I received from Carlo Amerio, the designer of William McCormack Place Stage 2, after conversations that he had with an estimator that they will come in at about \$45 million to \$46 million for the 9½ thousand square metres.

Mr O'BRIEN: Mr Wood has asked us to provide detail costings of that project. Are you prepared to do the same thing?

Mr Byrne: Yes, it is here.

Mr O'BRIEN: It is in detail and it is tabled.

Mr Byrne: That is without fit-out.

Mr O'BRIEN: How do you make the claim that you achieve a five green-star rating?

Mr Byrne: Global Tower will have a similar rating. The state and federal governments have made it quite clear—and they are substantial tenants in a place like Cairns—that you need to achieve those sorts of ratings. Those ratings are endorsed by UDIA. Global Tower is similarly rated.

Mr O'BRIEN: Given that it is in fact the use of the building that sometimes determines whether you achieve your five green-star rating and that as private operators you have less control over the way the building is operated and used, how can you be certain that you will achieve that rating as opposed to government, which will operate and control the way a building is used? How can you be as certain as we are?

Mr Byrne: If you follow that line of argument to its natural conclusion—that the only ones that can run these sorts of buildings are government agencies—we would have to test that. We cannot be absolutely certain. If you have a whole bunch of government agencies in a building it does not automatically follow that it is going to be a more green outcome than a bunch of other tenants in a similarly green rated building. It relates to how you treat water, electricity, effluent and all those sorts of other issues. I do not think it would have any relevance as to who is sitting behind the desk in the office.

Mr O'BRIEN: Can you please give us some details on how you will achieve that rating?

Mr Byrne: The details would be with the building design. I cannot give you the detail on that because I am not an expert on that. We would go to contract with similar covenants on the contract to deliver that outcome.

Mr O'BRIEN: Thank you. Mr Wood, the question of the option of retrofitting existing government owned properties to a green-star rating was raised in your submission. What impact would the retrofitting of existing owned properties to that standard have on the Cairns market?

Mr Wood: I think it is inevitable that most building owners of quality buildings, regardless of their age, will have to look at retrofitting buildings to green standards. Whether we as the development industry like it or not, and whether government likes it or not, everybody is being herded towards green rated buildings. The mechanism to rate a building is separate, as you would be aware. The mechanism is dictated by those bodies.

Everybody is trying to get to the highest standard, be that private enterprise or government, and it should be applauded. The responsibility of landlords of older buildings is to achieve the same sorts of ratings. I guess I should explain that moving forward, because I did touch on it earlier, the additional cost to comply with these sorts of ratings should be noted. It drills down to how things are delivered to buildings, what packaging is with them, how it is disposed of on site—all the carbon credit areas. It is a newish field for everybody to deal with. Because of that, it is expensive to tackle and everybody does it with the best of intentions, both government and private enterprise. I think that is going to be streamlined in the future.

As we stand in the market today, it is not a very clear science. I regret that, but that is something that none of us has the ability to control at the present time. Without trying to labour that point, I make the point that everybody is doing whatever they can to achieve green-star ratings. I would give you the overtone that in Cairns particularly it is impossible to get the highest rating available because it also includes public transport and heating which are not available in this market. When we talk about 'five star', we are really talking about the top of the tree that we are allowed to produce or can physically produce, be it private enterprise or government.

Mr O'BRIEN: Mr Byrne, what premium do you think you have paid to get your development to a five green-star rating?

Mr Byrne: I cannot quantify that. We are dealing with Cann Architects in Sydney and providing them with the information that government tenancies require and whatever information we have in relation to what that green five-star rating is, given the fact that we are also in Cairns. That is the only guarantee I can give you, Mr O'Brien.

Mr COPELAND: Mr Wood, just following up on your statement about the premium that is required for building to a green-star standard, do you have an estimate or an guesstimate about what that premium is on what the industry would regard as a standard development cost on a per-square-metre basis?

Mr Wood: Regretfully I do not, because the standard is a moving target and it is changing for everybody. Until there is an established mechanism for it, which is still really developing as we speak, I do not think anybody can. To give you an idea of where it starts—and I alluded to this before—it is even about how things are delivered, what trucks are used, the packaging. There can be a couple of hundred thousand dollars in additional costs just for the delivery and removal of packaging for tiles and carpet and all of the things you need to get into a building. The costs are quite substantial.

Mr COPELAND: In the NDIA submission there was concern expressed about the issue of car parking in the CBD. Would you like to expand on that?

Mr Wood: One of the things we are not aware of is what car-parking requirements this particular building has. The issue of car parking is twofold. We were hoping that we would be able to get some information from you that the car-parking requirement is as legislated under the Cairns regional plan. We assumed that would be case but we would like to know.

We also feel that there is a particular problem with car parking in the city at the present time. It really is related to local government and not state government—and I appreciate that fact—but it comes back to the overall premise of: if we as a community are spending \$80 million for this particular project, is it correctly directed? Would some other community facility at whatever level be a better option for the city given that private enterprise is willing to take up the baton for producing this type of product?

Mr COPELAND: In the submission it also says that the NDIA believes there has been poor consultation about the proposed development.

Mr Wood: Yes.

Mr COPELAND: What consultation would you have liked to have seen and did you, as an industry, seek out that consultation with the government?

Mr Wood: In this particular case we were not aware of any consultation to this project at all. As an industry body we certainly were not aware that this was even on the radar and it came after the event rather than prior to the event. We were concerned that there was not proper consultation—

Mr COPELAND: So just on that, the first you heard about it was when the announcement was made that there was going to be a building built?

Mr Wood: Yes. The answer to that is, yes, and we were a little surprised. In the previous example I have stated that we were fully supporting stage 1 as a development community and actually did a lot of research in tandem with government to prove that was required at the time. You may have had independent research done; we are not aware of it. Obviously that is something that we would be interested to know. We felt, as a development community, or the members felt as a development community that the issue was not given fair and open public scrutiny and that whatever information may have been put forward for it could have had too much age on it and did not take into account current circumstances.

Mr COPELAND: Just to clarify the situation of the market in Cairns for the committee, could you advise the committee: we have received information that the current vacancy rates for A-grade properties are around one per cent and in recent years rentals have increased to 30 to 40 per cent. Could you give us just a bit of a snapshot of what the market is like in Cairns?

Mr Wood: That snapshot is absolutely correct. I think we need to go back in history a little bit to explain the market here. We came out of a building boom in the late eighties. From that point through the nineties we had a very, very dormant market where virtually nothing happening at all, hence the recommendation that William McCormack Place Stage 1 was a very necessary item in the marketplace. We have only really had effective growth in Cairns from about 2000 onwards, which has given the development community here some time to recover after a decade or more of zero growth. In that time we have backfilled buildings that, to be honest, were put up in the late eighties as part of that boom. We had a struggling economy here and we had quite substantial vacancy rates. They went to about seven and a half per cent and were a little stronger for one period, but we had low effective rentals. It made it impossible for a developer to economically put a building into the marketplace. We soaked up that demand and then we had the opportunity and the energy for new developments to be created.

As a result of that demand being soaked up, effective rents certainly did increase and, as we stand here today, we do have a vacancy rate in the market of one per cent. That is quite clear. I have no dispute with that whatsoever. We have also seen effective rentals increase around about \$100 a square metre, which fits the figures that you are talking about. Our concern really is that, moving forward from that point, we do not have a retrograde step and slip back into an area where we do have vacancies, which this building could produce in terms of other stock around the city and what is currently being developed, and that we have downward pressure on effective rentals and, therefore, eroding values in current product.

CHAIR: Mr Wendt?

Mr WENDT: Thank you. In fact following on from that, Mr Wood, and I will walk through your submissions as I have through all of them, just in relation to market rentals: the new William McCormack Place I notice here. You just talked about vacancy rates and so forth.

Mr Wood: Yes.

Mr WENDT: What is the anticipated vacancy and rental costs across the rest of the city then? Are you suspecting that if we open a new building, in fact it will jump to 20 per cent as opposed to one per cent?

Mr Wood: I am not sure. I can only give you the basic estimate, but, as we hear today, the HS Vision Group has indicated that they have approximately 2,000 square metres available. There is a refitting of a building at 111 Grafton Street which adds an extra 5,000 square metres into the market currently—

Mr WENDT: Is that A grade?

Mr Wood: That one is probably B grade, to be honest.

Mr O'BRIEN: Is that the old Telstra?

Mr Wood: Yes, it is. It does not have the capacity of floor loadings to give it an A-grade rating, but do not confuse that with green ratings, please. There is a new building under construction at 139 Grafton Street which will add another 2,500 square metres into the market. If we are looking at the quantum of space, in round numbers that is going to be something close to 12,000 square metres currently available. The building in question will put another 9,500 square metres into the market, which is approximately 20,000 square metres. We appreciate government departments will be taking up some of that slack, but we are concerned about where the balance of those tenants may be coming from.

I have no knowledge that this is correct, but by way of example, to give you a feel for what could happen, it is speculated that the Main Roads Department may move out of the Corporate Tower and be one of the major tenants for this building. If that is correct it would instantly create a 4,000-square metre vacancy in that building. That building is approximately 15,000 square metres of net lettable area and that would give it a substantially higher vacancy rate.

Mr WENDT: Did you say 4,000 square metres?

Mr Wood: Correct, in round numbers. That gives rise to the circumstance where a building owner could start to get very nervous about what their occupancy is and what their return on investment is, and perhaps start discounting their rates to meet the market, which then might be an artificial market rather than the real market.

Mr WENDT: What is a reasonable vacancy rate for A-grade office accommodation? What would you consider?

Mr Wood: One per cent is a very healthy situation. There is no doubt about that and it promotes growth and that is what we want to see. I would think that a vacancy rate around two or three per cent would be quite acceptable. If we start to go from five to 10 per cent, it becomes a very nervous situation.

Mr WENDT: Thank you very much.

CHAIR: Mr Hopper, do you have any questions or are you right?

Mr HOPPER: Not on this one.

Mr WEIGHTMAN: Just a quick one: Mr Byrne, just in relation to the five green-star rating. I am not too sure whether any of you can answer this. For private enterprise, the design phase is part of the five green-star rating. Has that been incorporated in the figures for the cost of the building?

Mr Byrne: Yes, it has, Mr Weightman. The document that I have, and I have other copies of it here, incorporates those costs. So we are comparing apples with apples if we are talking about—

Mr WEIGHTMAN: Yes, that is what I am trying to make sure of.

Mr Byrne: If we are talking about the green credentials of William McCormack Place Stage 2 and the green credentials of Capital Globe Tower, they are the same. It is apples with apples. Those costs are comparable.

Mr WEIGHTMAN: Thank you, Mr Byrne.

CHAIR: Do you have a few more questions?

Mr O'BRIEN: Yes. Mr Wood, you talked about Main Roads or there being a balance of vacancy in the building, and your concern that the government might let it out to the private sector. Where do you get that information from?

Mr Wood: I admit that that is totally speculative. That is what I started out by saying. I was really throwing that in to try to give an example of what can happen to a building if something like that happened. It reverts to what I was asking the chairman earlier: if the development community could have some insight into what the real costs of the building are and who the tenants are, then we may have some satisfaction at that level.

Mr O'BRIEN: The Department of Public Works has made a submission to this committee.

Mr Wood: Yes.

Mr O'BRIEN: I would refer you to that.

CHAIR: It is not open at the moment.

Mr O'BRIEN: It is not open?

CHAIR: I will tell you more about that. It will be later, yes.

Mr O'BRIEN: It will be and you will get that report at some point in time.

Mr Wood: We would certainly appreciate that and thank you for it.

Mr Byrne: Madam Chair, I think the real issue here is that this is not Brisbane; it is Cairns and this is a major project. There was not any consultation with the industry before a decision was made. It came as part of an election cycle promise. We have gone ahead and done the building, but the impact in this community is pretty substantial and we are just lacking that information. We need to know who is moving into this thing. We need to know how many car parks there will be, et cetera et cetera.

CHAIR: We are now finished with the questions and this session for the moment. We will have time to ask some of the questions today. There may not be time for others. What will happen is those that we do not get time to ask today we will follow up for you. In a couple of weeks you will receive a copy of the transcript to check your quotes and so forth. After that, it goes online for the public to read anyway. You will get a lot of information coming within the next few weeks. Thank you very much for appearing here today.

Mr Byrne: Thank you for the opportunity.

Mr Wood: Thank you for the opportunity.

CHAIR: We will do the swap over.

FLYNN, Mr Terry, Director, Portfolio Group, Queensland Government Accommodation Office

LYON REID, Ms Karen, Executive Director, Portfolio Group, Queensland Government Accommodation Office

MESSENGER, Mr Graham, Manager, Major Projects, Queensland Government Accommodation Office

SMITH, Mr Max, Deputy Director-General, Works, Department of Public Works

CHAIR: Welcome and thank you. We will get straight into it. When you speak, please identify yourself and your position. I will hand over to whoever would like to make a statement.

Mr SMITH: Max Smith is my name. I am the Deputy Director-General, Department of Public Works. I will make an opening statement. A number of questions were asked by the previous group. I think most of those we can address as part of the process, if that is okay.

When the doors of William McCormack Place opened in 2002, the Department of Public Works was proud of what it had delivered to the people of Cairns on behalf of the Queensland government. Winning both national and international awards, achieving a first in being awarded a five-star AGBR rating, William McCormack Place set the performance benchmark for sustainable government office accommodation throughout Queensland. In 2010 when William McCormack Place Stage 2 opens its doors to the public, this department will be equally proud of its achievements, setting new standards in sustainability and space planning efficiency. The project team is enthusiastically pursuing five-star ratings for both the building as a whole and for the interior fit-out under the building council's green-star rating scheme. A five-star rating is considered Australia's best practice and is no mean feat in the humidity of Cairns.

To the department, this project makes sense. It allowed the government to take a lead role in sustainability, consolidate the government's service delivery to the community, maximise use of its landholding in Hartley Street and provide a modern, healthy and engaging work environment for public servants. It will also allow for the creation of a human service hub within the complex, designed to improve the delivery of government services to Cairns. It has done so in a cost-effective manner. Throughout the project's development phase, the department used comparative private sector estimates to undertake the economic modelling and set project budgets. The advantage in achieving a green-star and AGBR ratings will be a reduction in energy costs through the life of the building. Our modelling has indicated that greenhouse emissions for the new building will be significantly lower than conventional office buildings.

The decision to proceed with the development was not made without consideration for the local property market. Government services are being expanded in line with the anticipated growth of the Cairns region. Many of these expanded services will be developed from A-grade green office accommodation within a precinct that will foster efficiency in public sector delivery and provide an identity for government. Our financial modelling has shown that it makes economic sense for the government to own such a building, providing an asset for the people of Queensland for the long term of Cairns.

The accommodation that various departments will be vacating are small, scattered leases in B- and C-grade properties more suited to start-up businesses and branch offices in a growing economy. The department has not closed its door to the leasing market in Cairns. Since initial planning for the project commenced in 2006, close to 10,000 square metres of new government leases or commitments to leases have been negotiated in Cairns—about equal to the additional floor space that will be provided in William McCormack Stage 2. This includes commitments to leasing Cairns's newest private sector buildings, Citi Central and the Cairns Corporate Tower.

We anticipate that the state government will not be vacating any A-grade office space nor any significant contiguous B-, C- or D-grade space in Cairns. The new building will be fully tenanted by state government agencies. We estimate that the government will occupy approximately 19,000 square metres of owned office accommodation for administrative purposes on completion of William McCormack Stage 2 in 2010. The government will also lease in excess of 35,000 square metres in the Cairns property market by 2010 for administrative and operational functions. So we continue to partner with the private sector when it comes to accommodation, with around two-thirds of our space—that is, both operational and administrative space—being leased.

The project is being undertaken under a two-stage managing contractor form of contract under a guaranteed construction sum by contractors Laing O'Rourke, formerly Barclay Mowlem. The builder, Laing O'Rourke, was engaged following an extensive expression-of-interest process undertaken in 2007. The department is comfortable with letting the project to Laing O'Rourke knowing that the formal contract will ensure competition is maintained at a subcontractor level and that the experience and relationships established through the first project through Barclay Mowlem in 2002 will have tangible and intangible benefits in 2008.

In addition, the two-stage process of appointing the managing contractor, firstly, as a building consultant and, finally, as a contractor reduced the risk to government in the event of an acceptable GCS Cairns

not being negotiated. The department followed all appropriate procedures to ensure that the requirements of the state purchasing policy were met. The department is more than satisfied that the procurement methods selected will yet again deliver a quality, value-for-money outcome for Queensland.

This department is looking forward to opening the doors to this landmark building in 2010, to displaying its green-star certificates on this foyer, to providing leading-edge accommodation to government agencies that will call it home, and to more centralised government services to the people of Cairns. That is the formal address. Chair, I could probably answer some of the questions. Is that fair enough?

CHAIR: That is fine.

Mr Smith: Firstly, I can talk about the issue of cost, and that was one of the comparatives there. I believe Mr Byrne in particular gave a fairly good snapshot of the comparison between the two buildings. That is, I think there was an amount of \$46 million for 12,000 square metres and the amount of about \$46 million for 9,600 square metres. Whilst we could run around at the margins and we are happy to provide a more detailed break-up, those figures are about right. There is probably a few million dollars one way or the other, but it shows there is probably a relative comparison between the two buildings. Remember, the figures we are quoting here in actual fact are contract prices that we actually have with the contractors willing to build for that price, so they are not estimates. One in actual fact is a contract price; the other one is still an estimate. So there is always that difference between the two.

In terms of the departments that are moving in, I think we have already noted them in our submission. We are happy to provide that information separately anyway to Advance Cairns if you wish.

CHAIR: We will be talking about the submission at our next meeting in parliament. There are a few things we need to discuss before we resolve to put it out into publication.

Mr O'BRIEN: But I would expect that that submission will become a public submission at some stage?

CHAIR: It will.

Mr Smith: It is for your committee, but we would expect that it would be.

CHAIR: There is some commercial-in-confidence.

Mr Smith: We have got nothing to hide; that is the whole point.

Mr WENDT: To be honest, that is one of the major criticisms. It is going to be 50 per cent government. Where is the other 50 per cent? But I can see in your submission that is not the case.

Mr Smith: We have filled up. If we look at it, what happened is that back in 2006, when the business case was developed for this particular project, there was a projection of an extra demand within Cairns of about 10,000 square metres. That is about the order. That was in 2006. By 2008, we have already occupied an extra 9,600 or 9,700 square metres in Cairns in those A-grade leased properties. So the demand that we projected has in actual fact already been soaked up by the private sector.

What is in actual fact happening is that the people who are filling in the new A-grade building that we are building are effectively coming out of B- and C-grade accommodation into the building. So there is not a disturbance, in some respects, on the A-grade property; it is more to do with the disturbance, if you do not mind me saying, in the B- and C-grade market. You can see what is happening there. I do not think anybody would continue to promote the public sector working in accommodation that is really not fit for purpose anymore. That is the process in all this now.

The other concern that Advance Cairns has is that we are disturbing the rental market. The process with our organisation is that the business case is developed obviously on the capital cost and your income, because we do take out a loan just like every other developer, except it is through QTC in this case. So our projections for rent in this particular project were in the order, in today's prices, of about \$400 a square metre. To our knowledge and from speaking to Mr Wood, that figure is effectively the market rate for Cairns at the present time. That is reflected in some of the rents that we were engaging in. So there is no difference in actual fact in terms of the expected rent that we will be charging in our building vis-a-vis what is out in the marketplace.

There is a very good reason for that as well. If we were charging our agencies or our clients any more than the market rent then we would find out about it pretty quickly—they would not be very happy. You really have a self-regulating society within there, so market equals market whether it is in a Queensland government building or a private sector building. As I said, those figures at the moment are in the order of about \$400 a square metre.

In terms of the information they were after in the first instance, I think we have covered a bit of the cost. As for the rental market, I am happy to have further dialogue with Advance Cairns in terms of the projections. The construction of William McCormack Place was always going to happen. It was not an if; it was a when. You saw the block of land this morning. What you have is effectively a piece of land owned by the state of Queensland which we were always going to develop in two stages, so we are actually in the second stage of a two-stage development.

As I said before, I think people would freely admit that in 2006 there was not that accommodation available. You can see in our submission to the committee that there were a number of options that we looked at. There was the owned option, which is the one we chose, and you will see in the submission to Cairns

the committee that there was one where we did look at a precommitment lease, which is effectively what the previous speakers were talking about. The NPV for the two of them are in the submission, so we did go through the rigour. As I said, we used the figure which is the market, which is about \$400 a square metre for rent, and you now know our capital figures. So the numbers stack up, in our minds. Chair, do you want me to keep going or do you want to ask questions?

CHAIR: Keep going with the answers.

Mr Smith: Another issue from one of the submissions is why we did not build a performing arts complex with the money. That was in one of the submissions that came to us, because we obviously have had a fair bit of dialogue. There are two asset classes. Our department runs as a property manager on behalf of government, so we get our money from QTC for that asset class but we then have to pay back the loans—no different to a developer. If the \$80 million, with due respect, goes into another asset class, such as social infrastructure, whether it be a hospital or a school, then no return actually comes back for that \$80 million. In the asset class that we are talking about, it is in the asset management business so it is actually an asset for government which quite freely is in the marketplace. So it is not a decision. That \$80 million is two different \$80 millions, so I just wanted to make that point clear. Consultation was brought up as another issue. I am not sure about that.

CHAIR: Yes, consultation was brought up.

Mr Flynn: There has been quite a bit of consultation with local industry groups, such as Knight Frank Brisbane and Herron Todd White, who did some assessments in the local market—that is local offices, too.

CHAIR: So they are from Brisbane but have a local office in Cairns? Did I hear you say 'Brisbane'?

Mr Flynn: Knight Frank, yes.

Mr COPELAND: That would have just been surveying the marketplace rather than consultation about the project?

Mr Flynn: Exactly, yes, but they were aware of the project. It was part of the consultation.

Mr WENDT: So it is a fair criticism for them to say that the first they heard about it was when it was in the paper. Is that what you are saying?

Mr Flynn: I am not sure whether they heard about it in the paper.

Mr Smith: What I would suggest is that the marketplace would have known by the nature of the way the marketplace works but, yes, you would be correct that, if there was any criticism, perhaps we did not go out there consulting with the community because in actual fact the community would have been the same group that knew. I am not making excuses, but I do not think it is any surprise. It is more that it would appear we do not have enough evidence to suggest that we went out in a formal sense to consult with the community.

CHAIR: You said that because the land was so big it was always proposed you would build on it, so when you did stage 1 was there any consultation around the whole development rather than just stage 1? Does anyone know the answer to that question? Was anyone involved around the stage 1?

Mr Smith: We would have to take that on notice. I have not got that here. One would suspect that, and there was support from the private sector at the time we built stage 1. I think there is a lot of commonality in all of this—that is, there was the support there, the market has changed. To answer your question, I would have to take that on notice and see.

CHAIR: All right. So can you actually take on notice the whole consultation question and go back and have a look at what other things may have been done that you are not aware of?

Mr Smith: Yes, I think that is important.

Mr O'BRIEN: Stage 1 has always been stage 1, hasn't it?

Mr Smith: Correct.

Mr O'BRIEN: And it has always been called 'stage 1', so the industry could have made the assumption then that there would be a stage 2 and could have made submissions to government at any time in the last six years about a proposed stage 2?

Mr Smith: They could have, and given that they said they supported it up until a couple of years ago, you are right.

Mr O'BRIEN: So when their attitude changed, they perhaps could have made a submission.

CHAIR: The next thing is car parking. You are still on to it, aren't you, Jason?

Mr Messenger: The number of car parks in the building is fewer than I guess is required under the local planning, and there are a number of reasons for that. Firstly, it is difficult ground to put a car park on. The acid sulfate soils and of course the high water table really preclude you from successfully building basement car parks. So the more car parks you have, the higher the mass of the building ends up being. That was an initial concern.

There is also the issue that we do not actually require for government use any more car parks than are in the building. There is a reluctance to provide public car parking in a government building because Cairns

there are all sorts of security issues in control of people who park in there. So we limited the number of car parks to approximately 194. I cannot tell you offhand what the town plan actually required.

Mr COPELAND: Could you take that on notice and provide us with what the difference will be between what the town plan requires and what is actually proposed?

Mr Messenger: Yes. From memory, I think the town plan is one to 50 square metres and I think we may be one to 75 square metres net rentable. We can reply on that.

Mr WENDT: It says here—and this is from Greg Wood—that one car park for every 50 metres is something in the Cairns general plan, which gives you 192, and you said you have 194.

Mr Messenger: One thing I must clarify is that, when we built stage 1, the car parking for stage 1 occupied the stage 2 site, so in fact we have to provide the car parking now in the stage 2 building for the whole 15,000 square metres.

Mr WENDT: So it is 194 for 15,000, as opposed to—

Mr Messenger: Yes, and that is where we get the one to 75.

Mr WENDT: You are 80 car parks short or something?

Mr Messenger: Yes, that would be right. We did look at initially providing that number of car parks, but it pushed the building up probably another two levels. I am not an expert on the town planning, but I think there were some restrictions under the town planning requirements as to the total height of the building, the effective height. I could not be sure of what that is, but I know it was a consideration at the time. Also, those car parks could not be provided in the ground; they had to be provided above ground.

Mr COPELAND: When you take that on notice and get us those exact figures, could you also provide the argument against going up another two levels?

Mr Messenger: Yes. While the site has ministerial designation under the Integrated Planning Act, we still try to limit the heights of things if we can.

Mr WENDT: My understanding is that in the current building, No. 1, you are actually using the space of No. 2 for car parking, and when you are building No. 2 you are actually going to put in some levels of car parking for the first couple of floors. Is that what you are saying?

Mr Messenger: Yes.

Mr WENDT: So there will no parking outside of that area?

Mr Messenger: No, there is ground and two levels of car parking.

Mr WENDT: There are nine storeys, I think, so there will be six storeys of offices and three storeys of car parking?

Mr Messenger: No. The car parking is hidden behind the office tower. The first two levels of the office tower are quite small lettable areas. They share the car park level. Then once you are above that second level, it steps out to the typical office floors.

Mr WENDT: I understand. Thank you.

Mr O'BRIEN: Have you taken any other measures in terms of the way you think this building is going to operate to try to mitigate the car-parking problem? It is a problem now in that area of town.

Mr Messenger: Yes, it is a bit of an issue and we were limited by what we could do on site. My understanding was that at the time we started the planning for the building the performing arts complex in fact was still going to go ahead—

Mr O'BRIEN: Well, it is not whether it is going to go ahead or not. There is no funding committed to it. I think we funded a feasibility study.

Mr Messenger: That was apparently going to include some public car parking there, but, as you say, it is not relevant anymore because it is not there. There is a part for the car parking on site, and we are providing four or five visitor car parks on site to try to provide some drop-off points and things like that. We are not able to provide any other.

Mr O'BRIEN: Does the building include showers and things like that to encourage people to ride bikes, use public transport and what have you?

Mr Messenger: Yes, there are extensive new facilities. The stage 1 building already incorporates cycle parking and facilities, and we are including more in stage 2 now to cover that. I think we are providing another 60 or 70 bicycle parks. We are providing additional showers and change facilities in the basement area. That is part of the green-star development as well. Green-star encourages that. In fact, green-star I guess was the other driver for the car park. Green-star actually encourages restricted car parking and smaller car parks. So that was the other driver.

Mr COPELAND: Given that green-star does encourage restricted car parking, have you achieved some of your points by having restricted car parking? Yet it is in a location where you do not have, as we discussed earlier, public transport and those other ways of getting to work.

Mr Messenger: I guess that is the case. There probably is a point or two—I could not tell you how many—that we have achieved because of the number of car parks and because it is fewer than the town planning requirements. So that is the case.

Mr O'BRIEN: That is not to say that there is no public transport. Can you tell me the distance between the development and the main bus terminal in Cairns? It would be only 400 metres, wouldn't it?

Mr Messenger: I am not sure. I could not tell you.

Mr O'BRIEN: Is the distance from public transport part of the green-star rating as well?

Mr Messenger: Yes, but we were not able to achieve any points for those transport links. We were hoping to have a bus stop close to the building that we could use, but it was not enough for us to gain any transport points. In actual fact it is very difficult to gain the transport points unless you are basically sitting on top of a railway station. The distances are very tight.

CHAIR: Forget the points. Is there public transport close by? I am hearing that there is no public transport and the member for Cook, as a local member, is telling me that there is public transport. So is there public transport?

Mr O'BRIEN: And we announced more and better public transport this week!

CHAIR: So there are bus services from the suburbs? Is that what you are saying?

Mr Messenger: Yes. This was done during the design phase some time ago.

CHAIR: I want to know myself. Forget green-star. You are sitting there in the back going, 'What are they talking about?' Forget that. Is there public transport for people to get to work?

Mr Smith: Yes, from both sides. It is a centrally located site. So for people coming from the south, people coming from the north and people coming from a central location, there are buses fairly regularly.

CHAIR: Thank you.

Mr LINGARD: Do you know what the premium is for that component?

Mr Messenger: It is very difficult to determine just exactly what it is.

Mr Smith: Mr Lingard, we had a bit of discussion this morning about that. I suppose one response to it is that the consultants themselves, if I could use the expression, are working harder these days to design buildings by nature, the ante has been upped. I was advised that the process in actual fact of putting in the submissions for green-star, which is the documentation that you require just to submit to the assessors, can be in the order of I think you were saying that it was about—there is a cost there.

Mr Messenger: It is difficult. There was around \$1 million I think in there for the green-star submission. It is a substantial investment. We are not clear yet until we see all the trade package costs that come in, because there is a component of that in each of those costs that is all about the documentation that subcontractors have to supply and things like that. So we are not really sure of the full extent of that cost at this stage.

Mr Smith: But certainly the submission and the assessment thereof and the cost of that is over and above what you would normally do. So we are happy to table that cost. As I said before, there is an expectation that that is just the way we all do business. I think it is bit hard. In all of our professions we have got to the stage that whatever happens in life it just gets harder and harder, and this is now one of those ones where it is now an expectation.

Mr WENDT: Phil and I were just speaking before and said that we have been all around Australia talking about these issues. Generally between five and 10 per cent is the figure that is quoted that you pay as a premium. But, as we mentioned this morning, it is becoming more and more the general accepted practice, so therefore it is reducing all the time.

Mr Messenger: My understanding is that when Council House 2 building in Melbourne was developed it was about a 25 per cent premium for green-star. It has steadily dropped from that. We would expect that for any further green-star developments that we would do—because you learn and all of the consultants learn from every one—the costs would be steadily coming down.

Mr LINGARD: It is always amazing to talk to people informally about their green-star ratings and see the smile on their face about how they had to juggle things finally to get to a certain rating. My question is: is how you obtained your green-star rating available to the public—your submissions and final answers? Is it available to other people exactly what your submission was to get a green-star rating?

Mr Messenger: I guess it would be hard to say. The industry tends to be fairly open about green-star. When you attend forums people are open in their discussions about how to do it. Every single building, though, is absolutely unique and every single building is different in the way it is designed and the way it is built to meet green-star. There is not a set process for it. I guess we do not have a specific green-star component of the building because it just gets absorbed into the whole design process. But the consultants involved in stage 2 of this building are private sector consultants, so they are taking that knowledge that they have now learnt from this project of ours and they are free to apply that to any other consultancy work that they do. So that will help the developers in this area to produce green-star buildings.

Mr Flynn: It was quite a process undertaking a two-day workshop early in the project for all the consultants to get together. We are not sure—we can check—under the certification process with the Australian Green Building Council, just how much of that we can release from a contractual perspective.

Mr WEIGHTMAN: Would it be available in relation to the assessments of your various stages of your project?

Mr Messenger: Yes. The actual assessment document is now being carried out by Laing O'Rourke. Under their contract they are responsible now to achieve the green-star rating. So the assessment document is their document now under the contract because they have the responsibility for delivering that.

Mr Smith: I think one of the reasons we have both is that this green-star itself is fairly qualitative, and I think that was the reason for the comment, Mr Copeland. That is why we put it in the ABGR as well, because it is very quantitative. You can talk as much as you like but at the end of the day you have to measure it. That is why we have both of them in place to do that. Any certificates that have come with those assessments we are happy to table at any stage. But they would be still be going through the process of assessment at the present time.

Mr Messenger: And I do not think there would be any issue with releasing I guess the process and the green-star submission once it has been finalised and we have our rating. As I say, you would not be able to pick that up and just arbitrarily apply it to another project because there is a lot in the background.

Mr COPELAND: With stage 1, what in that building has not worked? Obviously there has been a fair bit of innovation given the location and everything else. Are there things that have not worked as well as you would have liked or not at all in stage 1 that is not being applied to stage 2 in the design?

Mr Messenger: No, I do not think there is. If you have a look at the stage 1 building now, it is still an excellent building. It is four years old now. We have not had any major issues with it. The ABGR rating that we get is an annual rating and, in fact, it has improved each year. There could be a little climatic change in that—not change, but climate has an effect on the amount of energy that you use, of course. But the building is holding its rating. It is not sort of slowly drifting out of the range that you want it in. As I say, in fact it has improved over the first couple of years. The big advantage of the design as we achieved in stage 1 and we are applying to stage 2 is in its simplicity. Simplicity makes for easy and simple maintenance, and it is all part of that life cycle costing. In fact, one big advantage of building a sustainable building is that they do tend actually to get fairly simple. There is more emphasis on the passive design, on getting the shading and all of that right. Once you have that right, the machinery and the air-conditioning systems actually get quite small. So there has been really nothing in that building that we have set out to change. In fact, the systems that are going into stage 2 are similar systems but just newer technology. The heat recovery system is the latest technology of the equipment that is in stage 1.

Mr LINGARD: What are some of the examples of where you have tried to integrate some of the services and systems of both buildings?

Mr Messenger: The air-conditioning system and the electrical system are the two main issues. The air-conditioning system in stage 2 will actually supply the air-conditioning chilled air for stage 1 as well. The idea of that was that it enables us to tap into the additional efficiency that we are getting for the new building. It will be an improved efficiency on the first building, so we are able to actually tap into that. We did not have to provide more machinery than we needed, because the existing plant and equipment in stage 1 will now be stand-by equipment to serve both buildings.

Mr LINGARD: Is there a summary of the costs of this work?

Mr Messenger: No, we have not looked at, I guess, the cost of building it. We have built it as a stand-alone. We have not looked at that and then looked at the difference. We did not do that. The cost of integrating the stage 1 and stage 2 works is contained within the current costings—the \$79.5 million. So that does include all of the work that is necessary to amalgamate the two.

CHAIR: I want to go back to the costing again. As a taxpayer sitting out there, I want to know the difference between—I do not know if you can do this—going in and retrofitting a building or some office space and paying rent compared to the government owning the asset and building from scratch. Can you give me any figures or give me any explanation that I as a taxpayer am getting value for money by doing one and not the other?

Mr LINGARD: Including in that the payback period and the return on the investment.

Mr Smith: I will start by saying that, regardless of whether it is the taxpayer or a developer, we are in the same business. When we make judgements in terms of whether we should own or lease, it is the same deal. So when we did the business case, as I said before, we took into account our expected rental revenue, which we just declared before, and we take into account our expected capital costs and recurrent costs. So we are doing the same analysis as anybody else. I will just give you an example. If all of those metrics and the rental for that building had been higher than what we got in the private sector, we would not have built this building, and that is the question you are asking. So we do that all of the time.

Mr Messenger: We have to achieve.

Mr Smith: Yes, we have to achieve, remembering that in terms of the agencies themselves we are continuing on their behalf to lease in the private sector. So if we are building a building on behalf of government and we are charging rents higher than the private sector, then it becomes very visible. You really have a market force all of the time to make sure that you do in actual fact get value for money as a taxpayer, because everything is equated back to the market at the time.

CHAIR: But to go in and retrofit the offices that are moving and bring them up to standard and pay rent to a private person compared to building this, are there any comparisons there?

Mr Flynn: We did that assessment. No. 1, as we heard today, the vacancy rate was less than one per cent. The building has to be vacant before we can actually refurbish it and we could not find any available vacant lease space. Also, the ones that we currently occupy do not comply as in DDA, and it is not just the environmental stuff. But the floor plates are very small and they are very inefficient as a result. So there were other factors in our decision following the process.

Mr COPELAND: Just following up on that, we were talking earlier—it flows on from the chair's question as well—that the market rate of rental in Cairns that you have been working on is about \$400 per square metre. The existing offices that you are renting you have said are B-, C- and sometimes even D-grade properties. What would be the difference in the rental costs for those buildings? Obviously we do not want public servants to be working in substandard buildings, but there is going to be an additional cost to those agencies for moving in to the new building. Have you quantified what that cost to those agencies will be over the existing rentals that they are paying?

Mr Smith: Yes, we have. Did you want those tabled?

Mr COPELAND: I think that would be a bit easier.

Mr Smith: You are correct, Mr Copeland. There is an extra cost for agencies living in a B-grade building or a C-grade building to move into an A-grade building, and that would be quite natural whether it be the public sector or the private sector. So you are right. We have those figures.

Mr Messenger: One thing that should be looked at with that is that often with those B- and C-grade spaces you cannot make them very efficient because quite often they are small and because of the layouts. One of the efficiencies that we gain from going into the new building is that we are able to get more people into the same amount of space which lowers the total accommodation cost, and also the energy efficiency of the building of course lowers the recurrent electricity cost for a start, which is a major accommodation cost for agencies. So the savings in electricity cost quite often offset the additional rent that you might pay as well. It does not fully, of course, but it all comes into the equation.

Mr Smith: We will provide that. I think that is very important, because we are making the same decisions all of the time. With due respect, we are all responsible for the public purse in making those decisions. But there is that element about efficiency that certainly is factored in there that we all make judgements on.

Mr WENDT: I have just one question that I wanted to ask quickly in relation to your submission. You mentioned that your project budget was considered to be commercial-in-confidence. Can I ask for a detailed copy of that project budget to be provided to the committee? We will treat it as commercial-in-confidence.

Mr Smith: The reason we said that in the first instance is that we still will never be able to declare below that construction cost because that is actually a contract between us and Laing O'Rourke in this particular case and that is commercial-in-confidence because it is their books, effectively. So I cannot go below the construction cost, but I can certainly provide all of it. So what you will get from us is a contract between Laing O'Rourke and the state of Queensland which is in the order of, with everything added up, about \$68.5 million. With regard to the difference between \$68.5 million and \$79.5 million, we can provide that no problem. But the difficulty is that the \$68 million underneath that is the contractor's price.

Mr WENDT: That is what we are after. Robert can liaise with you for that.

Mr WEIGHTMAN: Max, with regard to your business case for the government office building here, on page 13 and 14 it was listed as commercial-in-confidence as well. Is there a possibility that we can actually obtain a copy of that, bearing in mind it is commercial-in-confidence?

Mr Smith: I would have to take that on notice, the reason being that effectively a range of issues related to interest rates and projections on market do not actually sit with this department. QTC works with us. Can I tell you that there is no attempt on our part to actually hide anything, but I think there are parts in there that are commercial-in-confidence. One of the greatest concerns of the group who spoke earlier is that there is a whole series of misinformation out there, if I can use that expression. I think the more information we can provide, the less uncertainty. So we have already made the offer separately to provide the information on our metrics in terms of they know our capital costs now and they know what market rents we have plugged in and everyone has an idea of what interest rates are floating around. So I am taking it on notice, but it is in our best interests, quite frankly, to provide as much information as possible.

Mr Flynn: One of the concerns we have with providing lease information is not so much what we are leaving but what we are actually staying in. We want to be able to renegotiate leases we retain. Knowing that we are staying in those buildings, it sort of makes it somewhat difficult to take those negotiations.

Mr WEIGHTMAN: The only other thing I would like to know about is: what is an appropriate balance between owned and leased government office accommodation in Cairns? Based upon page 9 of your submission, the Queensland government occupies 27,700 square metres of space of which 56 per cent of the office portfolio is leased and 44 per cent of accommodation is government owned buildings. Going back to the question, what is the appropriate balance between owned and leased, bearing in mind that there will be a 19 per cent increase to approximately 33,000 with this new building?

Mr Smith: If we looked in simple terms, it is about fifty-fifty if we take the total occupation space around the state of Queensland—that is, in a general sense. The way we operate is that we tried to keep that not only on the whole of portfolio but also in individual cities. So you will get a situation where in Cairns I think there is actually more private sector than there is public sector at the present time—and we do not intend to change that, incidentally. So the direct answer is that, whilst it is not cast in stone anywhere, it is about fifty-fifty in the total portfolio.

Mr WEIGHTMAN: And the building of this as a government owned building will maintain that?

Mr Flynn: It will be about a third of our total own business by 2010. It includes both commercial office space and operational space in that footprint for government in Cairns.

Mr Smith: So it is higher in the private sector in Cairns than it is related to the rest of Queensland.

Mr COPELAND: In terms of what you said earlier when you were evaluating whether to go owned or leased property, did you do the payback period for both if you had done that? If so, can you provide the committee with that information—owned versus leased?

Mr Messenger: I think that is in there.

Mr Smith: It is. It is on page 14.

Mr Messenger: And that is on a 20-year period.

Mr COPELAND: Thanks.

Ms Lyon Reid: There is basically \$8 million difference NPV over that 20-year period.

Mr COPELAND: Over the 20-year period?

Ms Lyon Reid: Yes.

CHAIR: Thank you for your attendance at today's public hearing. I believe that the committee has gathered some valuable information that will assist in its inquiry. I would like to formally place on record the committee's appreciation of the assistance of all those involved in the inquiry and for what has been provided.

Mr O'BRIEN: I move—

That, pursuant to section 50(2) (a) of the Parliament of Queensland Act, the committee authorise the publication of the evidence given here before it today.

CHAIR: I now declare the hearing closed.

Committee adjourned at 12.30 pm