



Legislative Council Standing Committee on Estimates and Financial Operations

2018-19 Budget Estimates Hearings - Questions prior to hearings

Department of Finance

The Committee asked:

- 1) For each project identified in your asset investment program in Budget Paper No. 2, was it subject to cost-benefit analysis and, if so, what was its ratio?

Answer:

- i) In relation to the following Government Office Accommodation items listed in the Department's Asset Investment Program:
 - Decentralisation of Office Accommodation to Joondalup
 - Lease Incentive Funded – Office Fit-outs
 - Master Planning Strategy – Government Office Accommodation
 - New Public Sector Offices for Fremantle
 - 151 Royal Street – Office Fit-out
 - Gordon Stephenson House – Office Fit-out
 - St Georges Cathedral Heritage Precinct – Office Fit-out
 - Karratha Government Office Co-location Project (the Quarter)
 - Relocation of Department of Commerce Project

The process for justifying and delivering an office accommodation relocation project differs considerably to that for a new construction project, particularly given it does not require a significant capital investment by government in the majority of cases. The overarching objective when procuring an office fit-out is often to reduce the financial impact on the State over the forward estimates period and avoid and/or minimise (to the greatest extent possible) the costs that would otherwise be incurred under a status quo scenario.

As a result, the Department of Finance has developed substantial experience in developing value-for-money analyses which forms the basis for all major office accommodation funding decisions by government. It takes a portfolio-based view in this determination, striking the appropriate balance between government policy objectives, agency needs and minimising the long-term costs to the taxpayer.

Relocation and consolidation proposals are the subject of rigorous and transparent planning, evaluation and decision-making processes within government. This includes undertaking comprehensive net present value/cost modelling, which takes into consideration market conditions and (known and assumed) contractual obligations, and compares status quo with any other alternative options (including the impact on the State net debt).

Public / Internet

13/06/18

Each proposal includes an options analysis and detailed financial costings, using a methodology approved by the Department of Treasury and the Western Australian Treasury Corporation. An example of this process was recently examined during the Special Inquiry into Government Programs and Projects, which found that the project in question, The Quarter co-location in Karratha, delivered value-for-money.

Similar processes were undertaken prior to creation of the business cases submitted for the Government's consideration for the following fit-out projects listed in the Department's Asset Investment Program:

- *Decentralisation of Office Accommodation to Joondalup*
The business case for this project approved by the Government in November 2015 projected net avoided costs of \$6.1 million relative to the status quo over the term of the lease. Subsequent lease negotiations increased the projected net avoided costs to \$23 million. It is expected that \$16.3 million of the cost of the fit-out to accommodate approximately 800 public servants will be offset through landlord-funded lease incentives.
- *Master Planning Strategy – Government Office Accommodation*
The master planning program of works was introduced in 2010, with the primary objective of reducing the cost of office accommodation through consolidation, co-location and decentralisation. This effectively involved a whole-of-government approach to the consideration of government office accommodation, with about 80,000 sqm of moves through 2010-12 generating considerable savings. Expenditure under the Master Planning Strategy was approved by the Government based on a comprehensive business case, and the program is mostly finalised. The capital expense has largely been incurred for office accommodation fit-outs at buildings such as Gordon Stephenson House, Albert Facey House, Dumas House and the Optima Centre.
- *New Public Sector Offices for Fremantle*
The business case for this project, which was approved by the Government in July 2016, projected net avoided costs of \$53 million compared to the status quo over the term of the lease. Recent proposed changes to the tenant mix for the new accommodation in Fremantle will enable government to achieve greater efficiencies by amalgamating the majority of Department of Communities' head office staff in Fremantle. It is estimated that \$33.5 million of the office fit-out costs will be offset by landlord-funded lease incentives.
- *Lease Incentive Funded – Office Fit-Outs*
This item records the total expense for office accommodation fit-outs that are funded through landlord lease incentives across the Minister for Works managed portfolio, which are capitalised as part of the Budget process. Lease incentives result from negotiations the Department of Finance undertakes with landlords to achieve the best outcome for the State. The lease incentive minimises the expenditure impact on the State by providing an external revenue source.

iii) Government Office Accommodation Reform

- Capital funding for a Common-Use Asset Management System was provisionally allocated as a result of the Government approving the Government Office Accommodation Reform business case, which will deliver net savings of \$127.6 million through further office accommodation reforms.
- This funding is contingent on a business case for the system being approved by the Directors General ICT Council and will be subject to the Expenditure Review Committee approving its release.
- The Government Office Accommodation Reform business case also included capital funding of \$3 million for the reconfiguration of the Department of Finance's office space in the Optima Centre, which will deliver significant ongoing savings through consolidation of Department of Finance staff. This reconfiguration will also serve as a working example to other agencies of the savings that can be achieved through a more flexible activity based working workspace design.

iv) Software Development – Revenue Systems Consolidation and Enhancement (RSP)

- The submission for the RSP was for capital funding of \$33.386 million. It had an increased revenue impact in the administered fund of \$61.250 million to 2018-19, with ongoing revenue of \$17.5 million per annum. The capital funding has since been both reduced (due to efficiency measures) and increased, with new revenue initiatives being included to give a current estimated total capital cost of \$34.158 million.
- If the original cost of the project and its expected revenue return is taken into account, the ratio would have been a \$1.84 return per dollar invested over the forward estimates period. This does not take into consideration the revenue increase continuing after the forward estimates period, leading to a greater return on investment in the years following the original calculation.
- In addition, the business case did not quantify the benefit of the RSP in upgrading the underlying software of the State's revenue system, which supports the collection of almost \$7 billion annually. Without the RSP, the system would be unsupported with increased risk of failure, which would jeopardise the timely collection of revenue. This is difficult to quantify, but is the greatest benefit of the program.

v) Vehicle Acquisitions

This program was not subject to a cost-benefit analysis as it relates to the annual vehicle replacement program for the passenger and light commercial vehicle fleet managed by the Department of Finance's Government Procurement.

vi) Procurement Systems Replacement

- This program is not subject to a cost-benefit analysis as it relates to upgrades and enhancements required to TendersWA – the whole-of-government tendering system – to ensure it remains functional and provides whole-of-government reporting. Each change component is subject to an internal assessment prior to the commencement of work.
- In the longer term, the future of TendersWA and the identification of any suitable replacement system will be subject to a cost-benefit analysis.

vii) ServiceNet Replacement

This program is not subject to a cost-benefit analysis as it relates to the replacement of ageing infrastructure on an 'as needs' basis to continue to provide Internet services to approximately 80 government entities. This service will be provided by the vendors under the GovNext ICT Common Use Arrangement in future years and ServiceNet will be decommissioned.

viii) ICT Replacement program

This program is not subject to a cost-benefit analysis as it relates to the ongoing replacement of multi-function devices, printers and minor computer equipment on an 'as needs' basis.

2) What are some of the implications for your agency from the Commonwealth Budget released on 8 May 2018?

Answer:

- The 2018 Commonwealth Budget provided for several large infrastructure projects in Western Australia, including increased public hospital funding between 2020-21 and 2024-25. It is understood a portion of this allocation could be directed to capital improvements at a number of hospitals in Western Australia, including the Osborne Park and Royal Perth Hospitals. It is possible the Department of Finance may have a level of involvement in these projects should they proceed. To date, no indication or confirmation of individual projects has been received.
- The Commonwealth Budget also flagged increased funding for schools. The funding details are not known to the Department of Finance, so it is not possible to determine whether any funding will be used for capital works to Department of Education facilities within Western Australia.

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Hon Peter Collier MLC asked:

- 1) How many Aboriginal people were employed by the agency/department on 1 July 2017 and 30 April 2018?

Answer:

1 July 2017 – five
30 April 2018 – five

- 2) How many Aboriginal people employed by the agency/department were Level 8 and above (including Senior Executive Service positions) on 1 July 2017 and 30 April 2018?

Answer:

1 July 2017 – nil
30 April 2018 – nil

