



RESERVE BANK OF AUSTRALIA

# 65MP Options Analysis

Parliamentary Standing Committee  
on Public Works

3 April 2024

# 65MP

building our future



# Agenda

1. Project Background
2. What Has Changed?
3. Options Analysis
4. Impact of Changes
5. Next Steps

# Project Background

# The 'Need'

The last base building upgrade of 65 Martin Place occurred in the early 1990's, some 30 years ago. Failing infrastructure and non-compliances was the basis for the project, approved by the PWC in 2020.



We will plan and deliver the upgrade of the HO building to **current compliance and building performance standards**

and at the same time **create a new contemporary, connected and flexible workspace** that helps attract and retain the best staff.

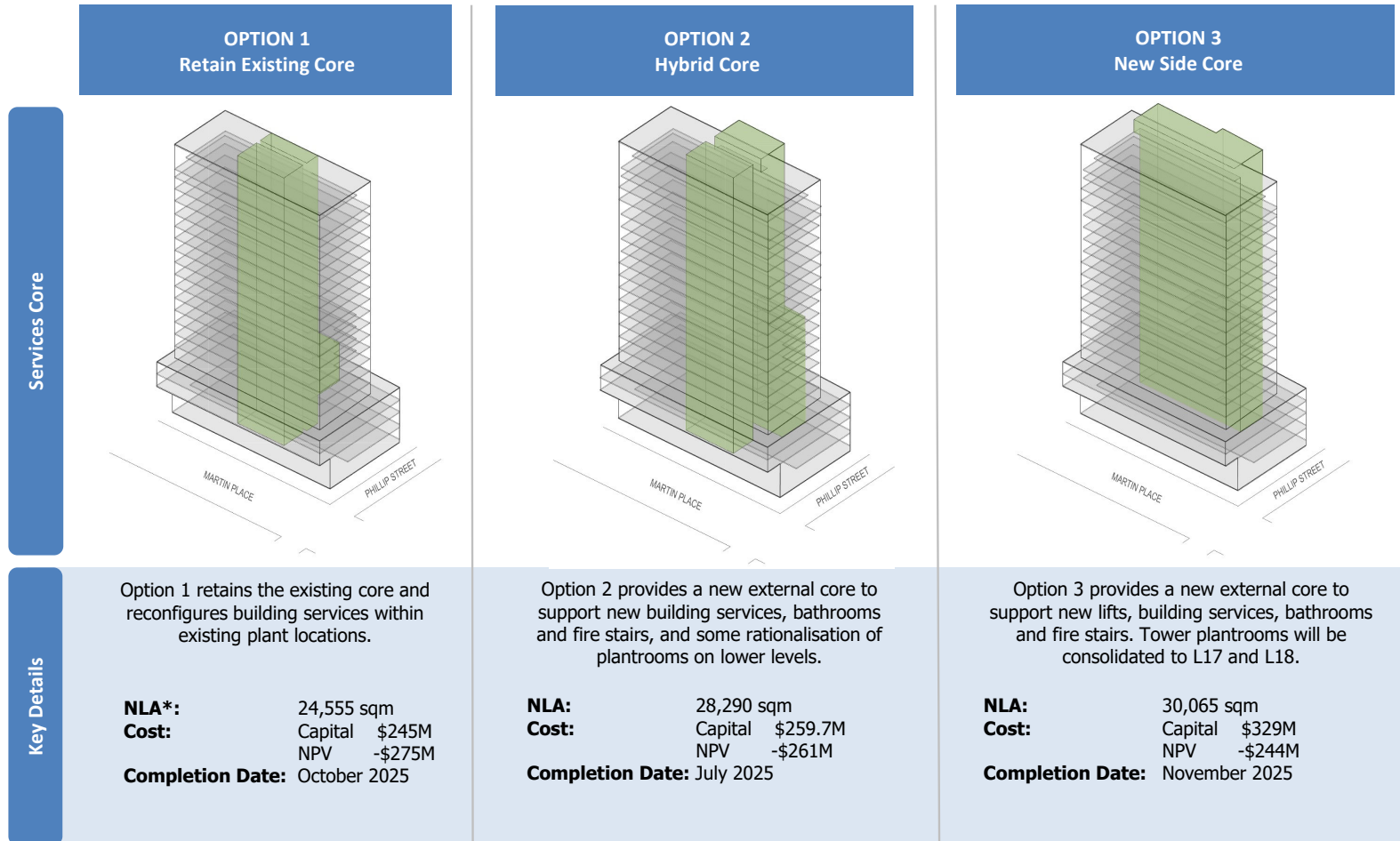


# The original plan

## Objectives

- 1 Complete an upgrade of the HO building to provide a **safe, secure and compliant building** comparable to Grade A commercial standard and with a 30-year performance horizon.
- 2 Deliver a consistent and **contemporary workspace design** to meet the Bank's business needs and enable staff work effectiveness.
- 3 **Ensure effective utilisation** of the 65 Martin Place asset in base building plantroom space and workspace.
- 4 **Implement sustainability and wellbeing principles** to manage the Bank's environmental impact and create a healthy work environment for staff. (Certified GreenStar, NABERS and WELL Building Standard ratings).

# Original options considered



# Original recommendation

#	Principle	Option 1 Existing Core	Option 2 Hybrid Core	Option 3 New Side Core
1	Compliance and Resilience	Yellow	Green	Green
2	Financial	Yellow	Green	Green
3	Productivity & Wellbeing	Red	Green	Green
4	Ease of Implementation	Red	Yellow	Red
5	Security	Green	Green	Green
6	Architectural Heritage	Green	Green	Yellow
7	Sustainability	Green	Green	Green
8	Flexibility	Red	Yellow	Green

**Recommended**

# Project governance

1. Steering Committee
2. Executive Committee
3. Risk Management Committee
4. Board Audit Committee
5. Department Representative Group
6. Employee Experience Group
7. Independent Risk Assurance Review - Annual
8. Project Advisers / Team
  - i. Leading Australian design and engineering firms – including
  - ii. Project Management – (experience in Commonwealth Government projects)
  - iii. Cost and Time management –
  - iv. Legal and Probity Advice –
  - v. Internal RBA team of experienced and qualified project managers, designers, engineers, change managers, finance and procurement professionals.

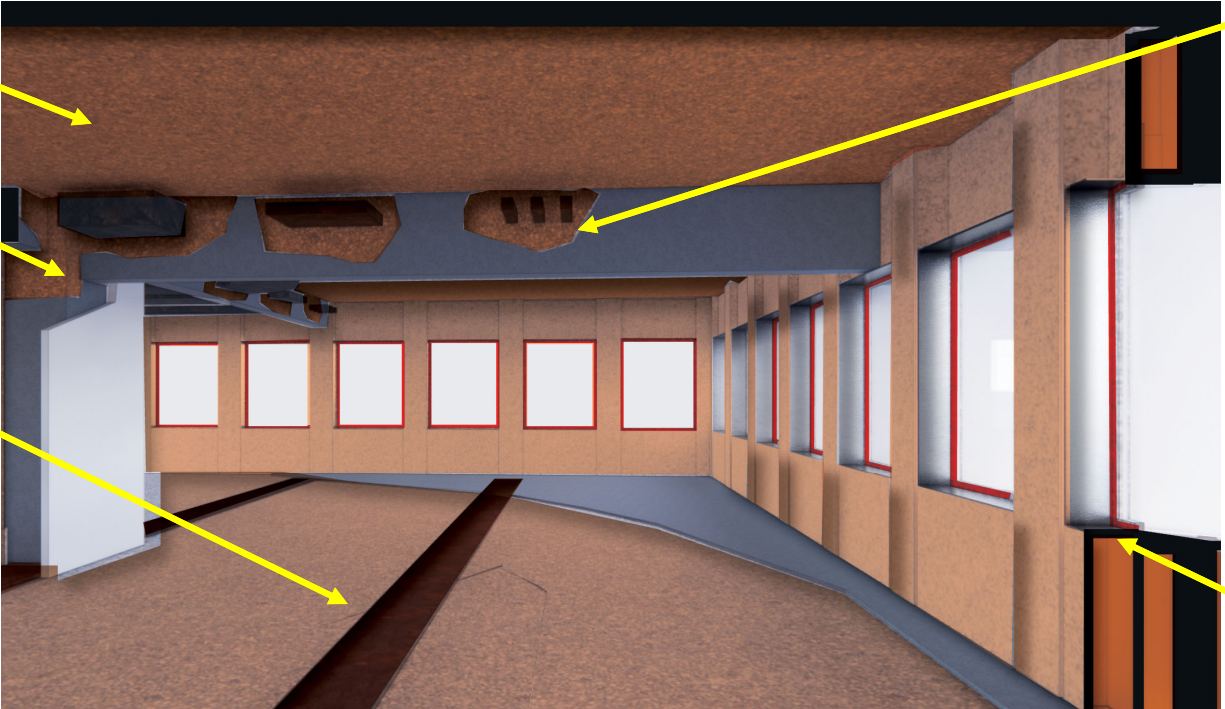


What has changed?

# What has changed?

- Significant asbestos has been uncovered through demolition and exposure of previously inaccessible areas. Project Occupational Hygienist has now found the building to be 4-5 times worse than a typical aged building.
- Non-compliant structural components including main passenger lift shafts and fire stairs.
- To ensure safety, the Bank has relocated all staff to temporary premises.

# Asbestos in all structural elements on all floors



*Underside of concrete slab*

*Services risers*

*Under floor topping slab and used for levelling and filling holes*

*Beams, columns and over spray on soffit*

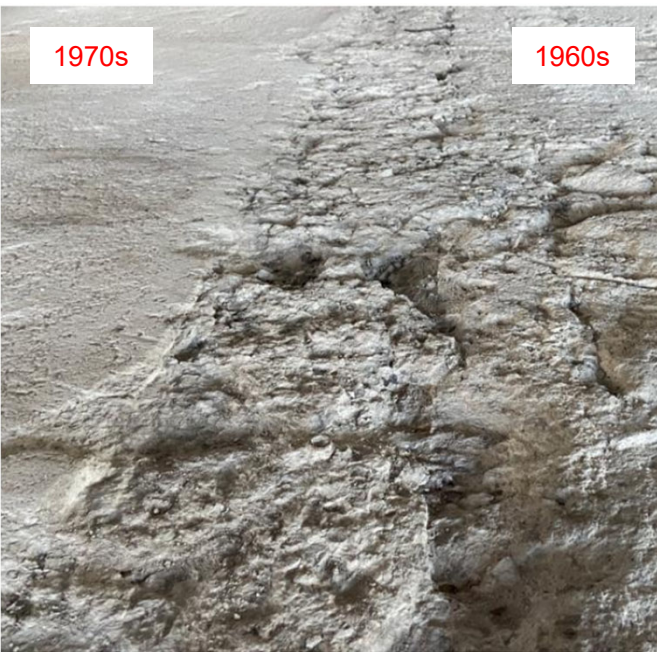


*Façade - window frames brackets and spandrel panels*

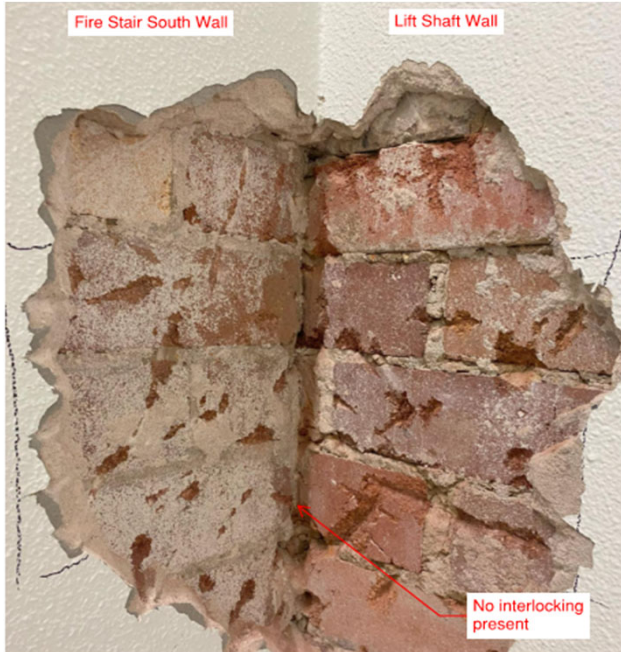


# Sub-standard structural elements compound the remediation

Structural slab varying concrete quality

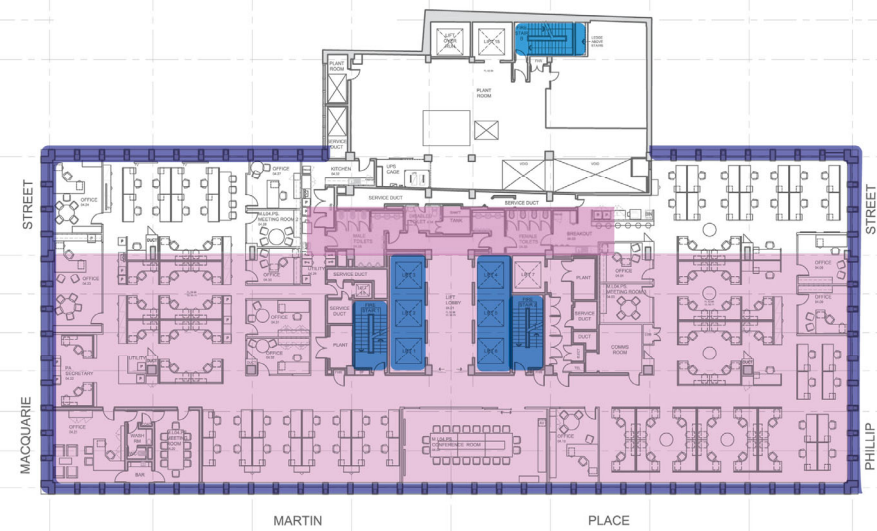


Unreinforced single skin brickwork to lift core and fire stair walls



## Deficiencies

- Structural slab
- Lift core and fire stairs walls are unreinforced and non-compliant for fire resistance
- Degraded façade structural elements, limiting service life



# Other considerations add to the complexity

## 1. **Heritage Value** – Australian Commonwealth Heritage List for:

- i. Design – Modernist, connection to the public, sculptures, furniture, artwork and ceramics
- ii. Purpose-built for RBA and continued RBA presence

## 2. **Critical Operations** – the Bank provides critical functions to the Australian financial and currency systems.

- i. Data Centre – Supports Australia's financial system
- ii. Banknote Operations and strongrooms – Contingency storage and operations
- iii. National Archives – 200 years of Australian banking archives to meet National Archives Act obligations.

# Key considerations

1. **Health & Safety** – Protect the health and safety of staff and maintenance contractors
2. **Operations** – Ensure the resilience of the Bank's critical functions
3. **Staff engagement** – Manage staff expectations to reduce anxiety and business disruption.
4. **Construction** – Improve construction productivity to mitigate the already extensive time and cost delays.
5. **Contractual** – Determine how best to move forward from a commercial perspective which ensures compliance with Commonwealth Procurement Rules.
6. **Time and Cost** – Manage the future delivery to minimise further time and cost implications.

# Options Analysis

# Initial options focussed on building remediation



**Option - A**

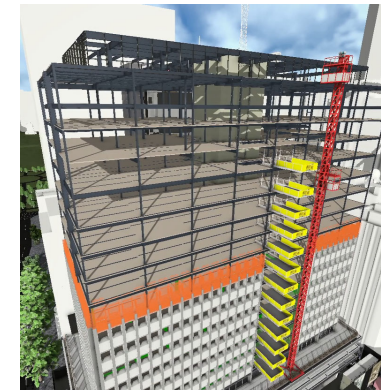
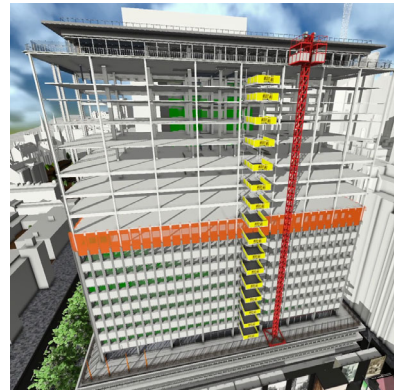
Minimum Remediation + Retain Façade

**Option - B**

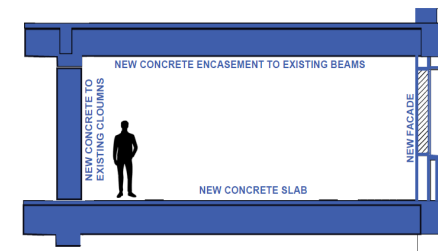
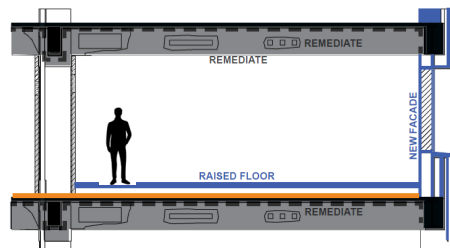
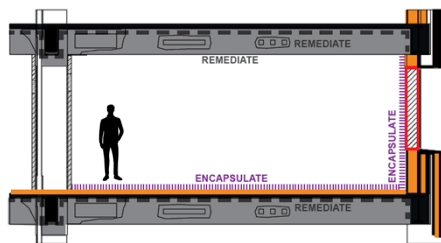
Remediate Concrete Structure + New Façade



**Option - C**

New Concrete structure + New Façade



Level of asbestos removal or encapsulated for each option



 Asbestos remaining  
 New structure - Asbestos free

\$	\$774M	\$1,021M	\$1,090M
Time	38 months	46 months	58 months

- Additional costs are the result of asbestos removal plus the re-instatement of structural elements post removal.
- All costs provided by \_\_\_\_\_ or \_\_\_\_\_ (the Bank's Quantity Surveyor), and peer reviewed by \_\_\_\_\_ separate independent Quantity Surveyor engaged by the Bank).
- Costs include Professional Service Providers and RBA staff costs.

(a)



# Further analysis explored sale options...

**Option 0** – Original 65MP (hypothetical only)

**Option 1** – Continue 65MP (per previous Option C)

**Option 2** – Sell and lease back

**Option 3** – Sell and lease elsewhere in Sydney CBD

**Option 4** – Sell and buy elsewhere in Sydney CBD

# Option 1 Continue 65MP - is the most cost effective

## Whole of life 30-year cost

#	Cost Element	Option 0	Option 1	Option 2	Option 3	Option 4
		Original 65MP	Continue 65MP	Sell and lease back 65MP	Sell and lease in CBD	Sell and buy in CBD
1	Site acquisition costs (sale revenue)			-147.16	-147.16	639.46
2	Initial capital costs - PWC	257.77	870.90	32.8	32.8	32.8
	Initial capital works - IT	30.99	30.99	30.99	30.99	30.99
3	Future capital works	179.16	47.93	101.30	222.04	251.90
4	Operating Costs – Leasing	38.82	100.58	1,128.65	1,210.61	88.42
5	Operating Costs	176.52	238.84	304.63	311.99	369.75
6	MPM (Capital Replacement)	72.32	72.32	0.00	0.00	79.4
7	Operating Cost (Data Centre)	114.99	114.99	114.99	114.99	114.99
8	RMR (Repairs and Maintenance)	35.27	35.27	0.00	0.00	38.73
9	Income	-52.34	-183.21	0.00	0.00	-251.91
	<b>Total Cost over 30 years</b>	<b>853.48</b>	<b>1,328.61</b>	<b>1,566.19</b>	<b>1,776.25</b>	<b>1,394.52</b>
	<b>Asset Value (estimated in 2029)</b>	<b>-150.00</b>	<b>-1,100.00</b>	<b>0.00</b>	<b>-10.00</b>	<b>-1,110.00</b>

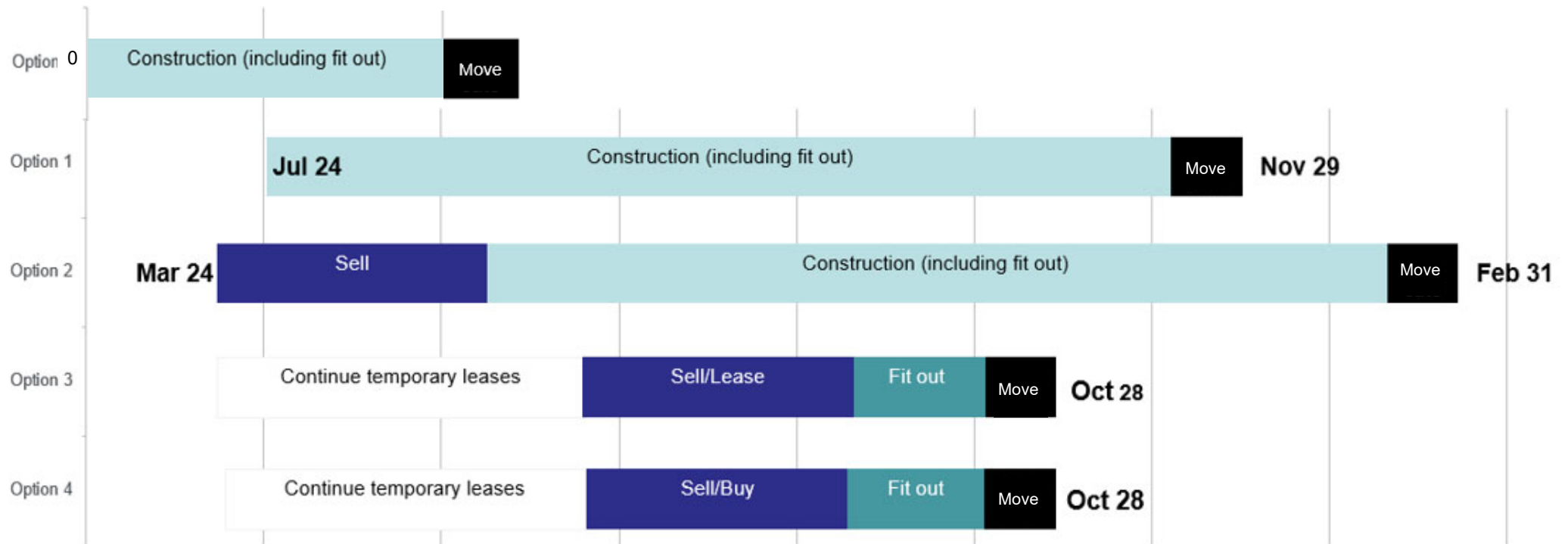
Represents expanded scope and mid life fit out costs (option 1), existing head contractor termination costs (options 2,3&4), building and basement improvement + two fit-outs (options 0&2) and a new banknote site, building improvements + two fit-outs (options 3&4)

Represents Leasing costs for 30 years (option 2&3), and increased operating costs including an external banknote site (options 3&4).

Represents the opportunity to generate revenue from surplus space.

- Option 0 is purely for comparison purposes and represents the original 65MP project assuming the asbestos and latent condition issues were not discovered. While not a genuine option, it is helpful as a 'base case' from which to compare the differential to the more extensive options now being considered.
- Department of Finance has peer reviewed the analysis and confirmed the 5% discount rate as the appropriate rate for this type of government project. Sensitivity analysis shows Option 1 remains the most cost effective at 6% discount rate before shifting to Option 2 at 7%.

# There are time advantages in selling the building



# Option 1 is the most favourable across the criteria

Criteria	Option 1	Option 2	Option 3	Option 4
<b>PRIMARY</b>				
Compliance & Resilience	Green	Green	Green	Green
Financial Responsibility	Orange	Orange	Red	Orange
Ease of Implementation	Orange	Red	Orange	Red
<b>SECONDARY</b>				
Productivity & Wellbeing	Green	Green	Green	Green
Security	Green	Green	Orange	Orange
Architectural Heritage	Green	Orange	Red	Red
Sustainability	Green	Green	Green	Green
Flexibility	Green	Orange	Green	Orange

- Option 1 is the most cost effective over the 30 year whole of life followed by Option 4.
- Option 4 carries a lot of uncertainty with the need to purchase an appropriate available building.
- Option 3 and 4 also have uncertainty of heritage issues which carry significant time risk.

- Option 1 requires additional capital funding of \$823.3m over six years, including additional \$83.6m in contingency, and an additional operating cost of \$108.8m over six years comprising temporary lease, staff project resourcing and relocation costs

# Impact of Changes

# Impact of Changes

Item	Impact	Comments
Scope	Medium	Additional Scope is a result of the latent conditions, and although the works are extensive it is not a material change to the intended end state.
Cost	High	Additional cost of \$823.3M. New total costs of \$1,089.9M
Delivery timeframe	High	Extends delivery time by 4 years to November 2029.
Design and Function	Low	No change to the “function” and minimal changes to the “design”.

# Next Steps





## 65MP PWC Briefing – Options Analysis – 3 April 2024

### Notes accompanying slides (note not all slides have notes):

#### Slide 2:

In terms of the agenda,

- I'll provide a quick background of where we started
- Our Governance arrangement
- Then - What has changed .... And you have seen some of this just now...
- and we want to spend most time on our options analysis

#### Slide 4

- The need – the building has not been upgraded since the early 1990's so 30 years.
- Primary reason for the work was the need to bring the building up to current day compliance
- and then create a new contemporary workspace to connect and attract and retain staff.

#### Slide 5

*The original objectives of the project covered building, workspace, utilisation and sustainability goals. These goals remain relevant for the future expanded scope of works.*

Our four objectives remain relevant to the future project.

- Emphasise safety and compliance.
- Current workspace has evolved over 20 years. Inconsistent and not functional for new ways of working.
- Effective utilisation to rationalise plantroom spaces and share workspace. Potential lease surplus space (as we have done in the past)

#### Slide 6

*The original project compared options varying in terms of the location of the central core services and lifts.*

- The first option attempted to re-use the existing core location – this proved problematic especially attempting to stay in the building and keep it operational
- Option 2 used a new external core to house the new services, plus firestairs and bathrooms.
- Option 3 – looked at an entire new side core at the rear of the building.

#### Slide 7

Option 2 – Hybrid Core was assessed as the most appropriate way forward based on the criteria. This was approved by the Parliamentary Standing Committee on Public Works in March 2020.

Assessment against the 8 criteria.

- Option 2 was recommended and ultimately approved by the PWC.
- Option 1 – deemed too risky to implement and resulted in a compromised final outcome.
- Option 3 – also high risk while data centre remained in the building. But did give us the best outcome.

**Slide 8**

*The scale of the project demands a comprehensive governance arrangement to provide direction, meet project objectives and protect the Bank's interests.*

We have always had a strong governance structure as the project was always large and complex. We are reviewing the governance based on the increased size to ensure it is fit for the expanded works.

**Slide 10**

*Despite a major asbestos removal project in the 1990's and recent reports describing the building as having minimal amounts of asbestos...*

- During first 12 months of construction, detailed investigations have uncovered significant asbestos and other latent conditions driving the need for significant project change.
- Acknowledged as a project risk, the remaining known asbestos was understood to be manageable within the project scope.

**Slide 11**

Friable asbestos...not the good kind...

- Structurally, asbestos is within the beams supporting floors, sprayed on the concrete soffits (underside of ceilings), between layers of concrete within work floor slabs, throughout the façade and within services risers. While encapsulated in some instances, most is not encapsulated and requires removal.
- Friable asbestos has been discovered in the ceiling space of most levels forcing these spaces to be exclusion zones and preventing maintenance without hazardous material precautions.

**Slide 12**

*Surveys of the existing structure have found important structural elements do not meet requirements for seismic and fire resistance.*

The approach to address the asbestos is exacerbated by some structural deficiencies in the slabs and lift shafts and fire stairs non-compliance against current fire and structural ratings.

The 1960's structural floor slabs are not of high quality.

To bring these components to current code requires significant demolition and re-build.

So we can't necessarily just remove the topping slab as we are left with a very poor slab.

**Slide 13**

*And not only that....The nature of the building adds further complexity to determine the most appropriate way forward.*

*This includes the building's heritage value and the Bank's critical operations within the basement levels.*

*So we have our challenges*

#### **Slide 14**

With all of these complexities while we have a running project we really needed to take a step back and re-assess the way forward...

1. Health & Safety risk – first and foremost ....

#### **Slide 16**

*Initial options focussed on the remediation of the building.*

*If we look at the pictures under the photos – extent of asbestos removal versus encapsulation*

- Option A – do the minimum – keeping the façade, concrete and lift shaft (even though non-compliant)
- Option B – keep the concrete but remove façade and lift shaft
- Option C – full asbestos removal – new structure and façade – strip back to a steel frame, in basements the asbestos to be remediated.

The uplift in cost is completely a consequence of the asbestos contamination through the building. The removal of the asbestos is costly then additional scope is required to re-instate.

All costs provided by        or        and validated by        and peer reviewed by

*However, as all options have substantial cost and time impacts this prompted the Bank to assess alternate options including sale*

#### **Slide 17**

So we looked at a 30 year whole of life cost analysis of 4 options.

We included a hypothetical analysis of what would be the 30 year costs if we didn't find the asbestos.

Option 0 – Original 65MP (not a genuine option)

- This is hypothetical and assumes asbestos is not found. For comparison purposes only.
- The costs have been moved forward to present day but essentially the costs of the original project.

Option 1 – Continue 65MP (per previous Option D)

- Substantially demolish the 65MP building back to a steel frame to remove asbestos and address latent conditions.
- Retain ground floor heritage foyer and remediate the asbestos in the basement levels.
- Design and re-construct new concrete, structure and façade and fit out the workspace to the Bank's requirements.
- Data Centre permanently exits HO.

- Any excess floors are sublet, creating a revenue stream.

Option 2 – Sell and lease back:

- 65MP is sold to a developer and the Bank contracts to be a long-term tenant (circa 50-year lease commitment).
- The sale price reflects the costs to remove asbestos, address compliance issues and redevelop the property to the Bank's specifications, with rental costs to be negotiated and agreed as part of the terms of sale.
- The Bank leases only the space it needs.
- Data Centre permanently exits HO.

Option 3 – Sell and lease elsewhere:

- 65MP is sold to a developer.
- The sale price reflects costs to redevelop the property to maximise yield.
- The Bank leases the space it needs in the Sydney CBD on standard commercial terms.
- Data Centre permanently exits HO.

Option 4 – Sell and buy elsewhere:

- 65MP is sold to a developer.
- The sale price reflects costs to redevelop the property to maximise yield.
- The Bank purchases a suitable building in the Sydney CBD
- Any excess space is sublet, creating a revenue stream.
- Data Centre permanently exits HO.

### **Slide 18**

*Option 1 is the most cost effective over the long-term using a 5% discount rate\*. Option 1 and 4 have the highest initial investment to renovate or purchase a building as well as significant asset value at over \$1B*

### **Slide 19**

*In terms of time.... Option 2 (sale and lease back) has the longest duration and has additional time risk due to heritage and potential protracted negotiations to secure a buyer of 65MP given complexity and constraints of this approach. Option 3 and 4 are timed to coincide with the end of the Chifley lease while Option 1 is based on minimal delay in contracting a builder to deliver the works under a new agreement*

### **Slide 20**

*Assessment across the original project criteria identifies Option 1 as the most favourable and most cost effective, with higher risk associated with the "Sell" options (Options 2, 3 and 4), in particular due to heritage constraints and potential time delays*

### **Financial Responsibility**

- Option 1 is the least cost over the 30 year life plus retains an asset of significant value.
- Option 4 is the second lowest cost however brings other risks including ownership of an unknown building.
- Sensitivity analysis confirms Option 1 remains the most cost effective option up to a 6% discount factor.

### **Ease of Implementation**

- Time - There are unquantifiable time risks with the three sale options particularly due to the complexity and uncertainty associated with the heritage limitations, associated authority approvals and contract negotiations to achieve a successful sale.
- There are geographic and policy risk concerns related to a potential single point of failure and the uncertain banknote distribution environment.

- A new external data centre is assumed to be established via the Core Modernisation project in all options. However significant on-premise technology and supporting infrastructure will continue to be required under all options.

### **Architectural Heritage**

- The Bank's presence within 65MP is intrinsically linked to the heritage value. This and other aspects of the building's heritage value will be lost if the building is sold and the Bank moves out.

- All other heritage management obligations pass to a new owner and likely that State and or Local Government heritage and planning constraints will apply

#### *Key points:*

- Option 1 is the cheapest over 30 years closely followed by Option 4.

- However, Option 4 carries a lot of uncertainty with the need to purchase an appropriate available existing building.

- It is interesting to note, in comparison to Option 0, Option 1 is only \$500m more than what the Bank would have spent anyway over 30 years and we achieve a significantly enhanced building asset with an extended structural life.

- Option 1 also avoids the uncertainty of dealing with the heritage issues which carry significant time risk

### **Slide 22**

In terms of notification to PWC, the key changes are summarised as ...