



HOUSE OF ASSEMBLY

PUBLIC WORKS COMMITTEE

QUARTERLY REPORT UPDATE - ORAH SITE - PRE-DEVELOPMENT WORKS; SITE DEMOLITION AND REFURBISHMENT

Old Parliament House Chamber, Old Parliament House , Adelaide

Thursday, 16 May 2019 at 9:30am

BY AUTHORITY OF THE HOUSE OF ASSEMBLY

WITNESSES

DEVINE, MARK, Acting Chief Executive, Renewal SA 1
PHILIPPOU, MIKE, Acting General Manager, Property, Renewal SA 1

MEMBERS:

Mr D. Cregan MP (Presiding Member)
Hon. A. Koutsantonis MP
Hon. A. Piccolo MP
Mr S. Murray MP
Mr S.J.R. Patterson MP

WITNESSES:

DEVINE, MARK, Acting Chief Executive, Renewal SA

PHILIPPOU, MIKE, Acting General Manager, Property, Renewal SA

1 The PRESIDING MEMBER: Thank you, gentlemen. We now proceed to the ORAH site on the basis that you remain sworn as witnesses.

Mr DEVINE: For the Lot Fourteen site, which is the former Royal Adelaide Hospital, we have a brief presentation for the committee members. The former Royal Adelaide Hospital site is a seven-hectare site. The government handed the site to Renewal SA about 18 months ago with the intent of pursuing a public sector delivery model to ensure that the public sector controls both the outcomes and time frames so that the site will be delivered in the best interests of the state.

Since that time, an amount of work has been done in the planning of the site, both in terms of the property planning as to how it should be laid out and the economic aspirations for the site. Woods Bagot have worked on the master plan and Deloitte have also worked on an economic development plan. In regard to the economic development plan, there has certainly been a clear focus that the site should focus on those areas where South Australia will have a competitive advantage on an international scale. In that regard, the focuses have been identified as digital technology and creative industries. A heavy and well-placed investment in those areas would also drive international education and tourism.

In the last 12 months, we have also seen some very positive announcements in the areas of both defence industries and space industries, which have also led to a strong interest in those sectors on the site, particularly as they relate to the digital technology. That will be the main focus of the site: it will always be about future employment. We also see some secondary uses in relation to potential short-stay accommodation and small-scale retail to supplement the high volume of worker activity on the site, but they will never detract from the activity in those major centres of Rundle Street and Rundle Mall.

In terms of the innovation neighbourhood we are looking to create, it is certainly an environment similar to Tonsley, where we are looking for diversity of spaces that encourage both small business and big business to come to the site, to work together and work with the local universities across the road. We would see room for entrepreneurs and start-ups having access to the accelerator programs they need, access to investors and mentors on the site, access to the universities' research programs and access to those big global buyers on the site. We are also creating a very shared environment where, again, all of those users can come together and interact freely and openly. We also have a very strong focus on both wellness and sustainability across the site and we can deliver best practice in those areas.

In terms of progress, this first slide here shows the focus of work to date. The area in orange is the first stage of demolition, which is the East Wing. McMahon Services have now completed that contract and handed that site back over to government. We also have a significant amount of work on the heritage buildings on North Terrace highlighted in green on the site. All of those buildings are now going through an adaptive reuse program with local contractors.

If we move to the next slide, it shows the balance of demolition work that is now under contract and underway to be completed over the next 18 months to clear the remainder of the

obsolete hospital buildings from the site, which is the majority of the expenditure subject to this PwC report.

If we turn to the next slide, it gives a bit of an idea of how ultimately the precinct will come together, with the cultural boulevard on North Terrace on the left, the heritage buildings being adaptively reused and chasing the start-up economy and smaller scale workers. You can see the introduction of new buildings in the centre of the site to attract those larger businesses that require more modern accommodation. It is certainly a very open and permeable environment where those businesses can all work together.

If you move to the next slide, it gives an idea of the program that we are working through. You can see, through 2019, where we are now. The heritage building upgrades are well progressed through this year. We also see the demolition program well underway this year and into next year. We are now starting to look at the design phase for the construction of new buildings, which will happen over the next five to eight years, depending on take-up and demand. Public realm development will come in after those major physical works are done over the next two or three years.

The last slide here talks about some of the achievements so far. We have certainly had a very strong response from the market. At the moment, we are offering tenancies within the former heritage buildings, and we are pleased to say that over 70 per cent of that space has been committed or is in negotiation. The University of Adelaide has taken a major tenancy of the former women's health building to establish the Australian Institute for Machine Learning, which is very closely aligned to the target sectors for the site. We have about 250 people working in the neighbourhood. We have had about 30,000 visitors come to the site across a number of different events to ensure activation of the East End continues.

We are now registered as a WELL Community pilot project in Australia, and that is a first. We are also chasing a 6 Star Green Star rating with regard to sustainability. As I said, the stage 1 east wing demolition program is now complete. We are also enabled for the Gig City precinct to allow those tenants on site to connect up to high-speed internet services. That concludes the presentation. I am open to questions.

2 The Hon. A. KOUTSANTONIS: You mentioned McMahon completed stage 1 of demolition.

Mr DEVINE: Yes.

3 The Hon. A. KOUTSANTONIS: So they won the demolition contract through an open tender?

Mr DEVINE: Yes, they did.

4 The Hon. A. KOUTSANTONIS: Were they the lowest bidder?

Mr DEVINE: The tender process is a competitive tender process. Through the process we set a number of evaluation criteria, of which price is one but not the only criteria, and those criteria have weighting, so McMahon won on that basis as the highest rated tenderer.

5 The Hon. A. KOUTSANTONIS: But not the lowest tenderer.

Mr DEVINE: Highest rated tender based on capability, experience, demonstrated programs to complete the work and also price.

6 The Hon. A. KOUTSANTONIS: So they weren't the lowest tender?

Mr DEVINE: No, they weren't.

7 The Hon. A. KOUTSANTONIS: How many variations did McMahon enter into once demolition began?

Mr DEVINE: I would have to take that question on notice. I know that the work was completed within budget and within time frames.

8 The Hon. A. KOUTSANTONIS: I know it was completed within the final budget, but what were the variations to the budget while the project was being conducted?

Mr DEVINE: I will have to take that question on notice. I haven't got that detail.

9 The Hon. A. KOUTSANTONIS: I want you to take on notice how many variations were made to the demolition cost by McMahon.

Mr DEVINE: To the stage 1 contract?

10 The Hon. A. KOUTSANTONIS: The stage 1 contract, because there would be more variations to stages 2 and 3, if I know McMahon. I want to know, for stage 1, how many variations they made and what the budget costs were to those variations—not what you had budgeted, but what you had published you thought the scope of the demolition was. That is, what they put in for the cost of the demolition and what they ultimately paid at the end, once they completed stage 1, or what the variance was between those two positions.

Mr DEVINE: If I can just summarise: you are essentially looking within the stage 1 contract for any change in price or scope of work that was made?

11 The Hon. A. KOUTSANTONIS: That's right, yes. I would also like to know who the public officers were in charge of conducting that tender.

12 The PRESIDING MEMBER: It may be that we are unable to disclose the names of public servants, but it also may be a matter on which you take advice, Mr Devine.

Mr DEVINE: I would like to take it on notice and take some advice.

13 The Hon. A. KOUTSANTONIS: Sure. What unit within Renewal SA? The old RAH site or Lot Fourteen, or whatever the working title of the project is, there is some activation there already, isn't there?

Mr DEVINE: Yes.

14 The Hon. A. KOUTSANTONIS: So you have let some tenancies already, some retail tenancies?

Mr DEVINE: Yes, I believe there is a tender out for a small retail tenancy within the Sheraton kiosk. We have also had some small activation within the former foyer and entry area of the Bice Building, which is now closed.

15 The Hon. A. KOUTSANTONIS: What was the nature of that site activation? Was it food, some other form of retail activity? What was it?

Mr DEVINE: We have had a number of small-scale activations. Some have been in the nature of food, again, to service workers on site. Others have been small pop-up businesses or start-up businesses, doing their business activity on site, again, just to bring a level of activity to the site. But it has all been on a very small scale.

16 The Hon. A. KOUTSANTONIS: What process did Renewal SA go through to award those contracts for those start-up activations?

Mr DEVINE: We have run a number of expressions of interest on the site, both as part of the original EOI to find a developer, but also subsequent to that to find groups which had been tenants on the site in activation programs. So through both of those EOI processes, a number of the bidders came through. We are also now actively marketing tenancies on the site through our agent, Colliers, who are working with us to negotiate terms and sign up tenants within those heritage buildings.

17 The Hon. A. KOUTSANTONIS: Were any tenancies or contracts issued that didn't go through an EOI process?

Mr DEVINE: I would have to take that question on notice.

18 The Hon. A. KOUTSANTONIS: Who were the senior executives in charge of activating Lot Fourteen before you became acting chief executive?

Mr DEVINE: There are a number of staff in the Lot Fourteen project.

19 The Hon. A. KOUTSANTONIS: I am talking about the executive group. There was the chief executive, John Hanlon.

Mr DEVINE: Correct.

20 The Hon. A. KOUTSANTONIS: There was Georgina Vasilevski, yourself, and I have forgotten the name of the other gentleman.

Mr DEVINE: Damian De Luca?

21 The Hon. A. KOUTSANTONIS: Damian De Luca. So who was in charge of those three under John?

Mr DEVINE: The primary involvement for the activation of the site would be Georgina Vasilevski as the general manager of people and place management, reporting through to John Hanlon as the chief executive.

22 The Hon. A. KOUTSANTONIS: Did her son take up a tenancy at Lot Fourteen?

Mr DEVINE: No, he didn't.

23 The Hon. A. KOUTSANTONIS: Did he have a coffee shop or van located at Lot Fourteen?

Mr DEVINE: I would have to take that on notice. I don't believe he did but I would have to take that on notice.

24 The Hon. A. KOUTSANTONIS: Is Georgina Vasilevski still with the agency?

25 The PRESIDING MEMBER: That is not a question that Mr Devine may be able to answer.

26 The Hon. A. KOUTSANTONIS: Sorry?

Mr DEVINE: That's not a question I can answer.

27 The Hon. A. KOUTSANTONIS: Whether she is with the agency or not?

28 The PRESIDING MEMBER: Member for West Torrens, this is a matter that has been examined in part in estimates.

29 The Hon. A. KOUTSANTONIS: I am not asking about any ICAC inquiry. I am just asking whether she is still with the agency.

30 The PRESIDING MEMBER: All of us here acknowledged it may not be a question that Mr Devine is able to answer.

31 The Hon. A. PICCOLO: Well, hold on. He is acting CEO. He would know if somebody works at the agency or not.

32 The PRESIDING MEMBER: He has just suggested to you—

33 The Hon. A. KOUTSANTONIS: I am not asking about an inquiry. I was asking if she is still with the agency.

34 The PRESIDING MEMBER: Hold on just a moment. He suggested to you it may not be a question he is able to answer. He has also suggested—

35 The Hon. A. KOUTSANTONIS: I didn't hear that.

36 The PRESIDING MEMBER: He has also suggested that he might have to take it on notice.

Mr DEVINE: I would need to take advice on how to answer that question.

37 The Hon. A. KOUTSANTONIS: Okay. So the activation process at Lot Fourteen and tenancies that were let were conducted by Georgina. Who is doing it now?

Mr DEVINE: We have a team of people involved at Lot Fourteen, and certainly in terms of all—

38 The Hon. A. KOUTSANTONIS: I don't want the individuals' names. I just want—

Mr DEVINE: —areas of work that is being conducted on Lot Fourteen, I can assure you that there has been no slowdown in progress, whether that be in design, construction, activation, marketing or leasing of the property.

39 The Hon. A. KOUTSANTONIS: Who in the executive group is assigned Lot Fourteen?

Mr DEVINE: At the moment, we have a project director, Daniel Redden, who is in charge of running the project and he reports directly to me as the acting chief executive.

40 The Hon. A. KOUTSANTONIS: Excellent, okay. In terms of the tenancies that have been let to date, what revenue has Renewal SA received from those tenancies?

Mr DEVINE: I will have to check but certainly we have had all of the tenancies' negotiations on standing commercial terms. Certainly, we have Colliers there as our agent to advise us on those commercial terms as well as market advice on what rentals we should be charging. In terms of how much rental we have collected, I don't have that information to hand, so I will take that on notice.

41 The Hon. A. KOUTSANTONIS: Has the government paid any community service obligation to any tenant who is operating there or to Renewal SA for them to take a lease at Lot Fourteen?

Mr DEVINE: Renewal SA does not receive community service obligations in relation to tenants on the site.

42 The Hon. A. KOUTSANTONIS: So you have not received any payments from the government to accept a below commercial rate?

Mr DEVINE: For a tenant? No.

43 The Hon. A. KOUTSANTONIS: No? When is the next stage of demolition going to begin?

Mr DEVINE: Stage 1 of demolition was tendered and awarded to McMahon, and that is now complete. Stage 2A was also tendered and awarded to McMahon as the successful tenderers. Stage 3, the former dental school, was tendered and awarded to Royal Park Salvage. Stages 2 and 3 are now underway with both of those contractors on site. There was one final stage to be awarded which is the stage with the final buildings which includes the residential wing and the north wing to the north of the site.

44 The Hon. A. KOUTSANTONIS: Will there be a tender for that as well?

Mr DEVINE: There will be an open tender for that, yes.

45 The Hon. A. KOUTSANTONIS: Do you know when that will begin?

Mr DEVINE: Very shortly. We are preparing documentation now.

46 The Hon. A. KOUTSANTONIS: Will that be the largest?

Mr DEVINE: One of the largest, certainly.

47 The Hon. A. KOUTSANTONIS: If I can go back to my initial question about weighting, how does the agency undertake a body of work to assign weighting to tenders? Is it from past performance from winning tenders, or do you get an independent expert to come in and tell you, 'This is the capability'? Do you go out and inspect their premises, inspect their workforce? How does it work?

Mr DEVINE: In terms of setting the weighting or assessing their performance against the weighting?

48 The Hon. A. KOUTSANTONIS: Assessing the weighting.

Mr DEVINE: I can say that, with all the major contracts we have let at Lot Fourteen, they have all been through an open tender process, and they have all had an external probity adviser as part of that process. We have also engaged external experts in that process, whether that be the project engineer or whatever expert is relevant to that tender.

For the demolition contracts, that would have been our consulting engineer who helped us prepare the documentation for the tender. It would help us to assess the submissions against the tender requirements, which include their program of works, their pricing of the works and

also their capability and past performance. We would also be able to use our track record. We have worked with all the major contractors before, and we also have some experience with their experience and capability.

49 The Hon. A. KOUTSANTONIS: In my experience—and this is only anecdotal; I have no evidence of this—it seems to me that McMahon wins overwhelmingly a large amount of the state government's demolition work. I have always found it very curious in an open tender amongst a very tight field. I would imagine that they all tender about the same so, in the end, it comes down to past performance and weighting, and McMahon always seems to come through.

They may be the best—I don't know—but I am fascinated to understand exactly how the department or the agency assigns that weighting and how it's calculated. I still can't get my head around whether it's the agency that does it or an external expert who comes in and says, 'You will apply this weighting to any tender that this company puts in.' Is it done on an individual basis per tender, or is it weighted and just left there?

50 The PRESIDING MEMBER: There are elements of hypothesis in that question about the process that is underway in the department. That being said, I will allow some leeway here, Mr Devine.

Mr DEVINE: In response, though, I think it's unfair to say that McMahon win the majority of demolition contracts at Renewal SA. I don't know if you have visibility to the other work we do. Certainly, the last two demolition contracts at Bowden were not won by McMahon, the last demolition contract that I'm aware of at Tonsley was not won by McMahon and the last demolition contract at Lot Fourteen was not won by McMahon. So we are certainly very independent. We take our job very seriously—

51 The Hon. A. KOUTSANTONIS: I'm sure you do.

Mr DEVINE: —and make sure that we get the right contractor. At the moment at Lot Fourteen, we have seven different major contractors on site, all through a public tender process, and we have a multitude of other minor contractors and consultants, all generally through an open tender process. If you looked at our portfolio of projects and our portfolio of work, I don't think you could single out any one contractor as getting preferential treatment or a preferential view in terms of the work.

52 The Hon. A. KOUTSANTONIS: Who determines the weighting? Is it Renewal SA, or is it an external expert?

53 The PRESIDING MEMBER: Once again, that question assumes that there is a weighting, and it assumes something about the process. The better question might be: what is the process?

54 The Hon. A. KOUTSANTONIS: What is the process for assigning a weighting, then.

55 The PRESIDING MEMBER: Again, what does 'weighting' mean?

Mr DEVINE: It will depend on the size of the tender but, again, I think we are talking about the large tenders here. For a tender of this scale, the scope of work, the evaluation criteria and the weighting for the criteria would generally be set by the project team in consultation with their experts. That weighting would be signed off by both the probity adviser and the appropriate delegate for the work, which could be the general manager or the chief executive, depending on the scale of the work.

56 The Hon. A. KOUTSANTONIS: If a probity adviser is chosen for a project, what process do you go through to choose a probity adviser?

Mr DEVINE: Again, it depends on the scale of the work, but it could be either a tender process or a direct appointment if—

57 The Hon. A. KOUTSANTONIS: Do you have a list?

Mr DEVINE: Yes, we have a list of appropriate qualified probity advisers that we either tender work to or select from.

58 The PRESIDING MEMBER: Gentlemen, thank you for your update. It is much appreciated by the committee.

THE WITNESSES WITHDREW