



HOUSE OF ASSEMBLY

PUBLIC WORKS COMMITTEE

OLD ROYAL ADELAIDE HOSPITAL SITE - DEMOLITION, INFRASTRUCTURE AND REFURBISHMENT OF RETAINED STATE HERITAGE BUILDINGS

Old Parliament House Chamber, Old Parliament House , Adelaide

Thursday, 2 August 2018 at 9:20am

BY AUTHORITY OF THE HOUSE OF ASSEMBLY

WITNESSES

DE LUCA, DAMIAN, General Manager, Corporate Services, Renewal SA..... 1
DEVINE, MARK, 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, General Manager, Property, Renewal SA

DE LUCA, DAMIAN, General Manager, Corporate Services, Renewal SA

1 The PRESIDING MEMBER: Mr Devine and Mr De Luca, thank you for your attendance here today. As you know, the Public Works Committee is a standing committee of the parliament and its functions, powers, obligations and the protections that you enjoy are set out in the Parliamentary Committees Act. I anticipate that you would have been provided with information in relation to the powers and obligations of the committee and the immunities and protections that you enjoy, prior to attending here today. Have you received that document?

Mr DEVINE: Yes, we have.

2 The PRESIDING MEMBER: Do you understand your obligations?

Mr DEVINE: Yes, we do.

3 The PRESIDING MEMBER: Thank you. I will introduce the committee to you. To my right, the government members of the committee are Mr Patterson and Mr Murray. To my left, the opposition member is Mr Piccolo. Mr Koutsantonis is an apology for the moment but may join us. To my immediate right is Mr Dupont, executive officer. To my left is Mr Macdonald, research officer. We wish to examine aspects of the old Royal Adelaide Hospital site demolition infrastructure and refurbishment works. Gentlemen, do you have a proposal you wish to share with us?

Mr DEVINE: We don't have an opening statement, so we are happy to go straight to questions.

4 The PRESIDING MEMBER: I am interested in trying to determine what additional benefits the spaces that are contemplated within this redevelopment will provide for the state as against existing incubator spaces available in universities and otherwise throughout the CBD.

Mr DEVINE: Certainly. One of the prime advantages of a project like the former Royal Adelaide Hospital is the scale and its location. It is a site of seven hectares, which has the ability to be redeveloped as a master-planned community, if you like, with its location adjacent to the existing University of Adelaide and University of South Australia. Deloitte's have done a body of work for us to develop an innovation framework for the site, which would investigate those types of economic uses that would best benefit the state, given its location.

So to answer the question, essentially from a co-working space the site will be set up focused on creative industries and advanced technology, particularly focused on the areas of defence and cyberspace aligned to those programs that the university is already accommodating. The difference this project will provide for co-working space is an element of scale; whereas other co-working spaces may be small and isolated in various areas around the city, this will provide an element of scale where a number of hubs, co-working spaces, can be brought together beside large-scale businesses and immediately beside the university.

5 The PRESIDING MEMBER: Just a little bit about the commercialisation strategy, or rather about how you are seeking out new tenants. Is there a program? Are you working with commercial agencies to ensure there is a rapid uptake of tenancy space?

Mr DEVINE: In terms of the types of tenants we are seeking to attract, as I said Deloitte has completed an innovation framework which sets out what we call a suitability assessment before those tenants come onto the site. To be acceptable on the site tenants will need to be aligned to the uses we are attracting; they will need to have an interest in creative industries or technology, they will need to be interested in collaborating with the university and the existing programs they have across Frome Road.

The suitability matrix sets out the framework for tenants to meet to be attractive to the site. From our point of view we are working with a licensed agent, we are working with the Department for Industry and Skills Investment Attraction to filter through those tenants and attract tenants who meet those criteria to come to the site.

6 The PRESIDING MEMBER: How many inquiries or real prospects do you have so far for utilisation of this space?

Mr DEVINE: I couldn't give you the exact number but there is certainly a very high level of interest, and we have a number of tenants who will be moving into some of the heritage buildings at the end of the month. To put it in some context, Renewal SA has recently developed the Tonsley Innovation Precinct on the former Mitsubishi factory site. That project is about five or six years into its phase, and it is now really well regarded around the world as a benchmark for how these innovation precinct should be developed.

What we are experiencing on the former Royal Adelaide Hospital site, given its location and proximity to city, is significantly in excess of that experience, of the interest we experienced down at Tonsley. The early years of Tonsley were a challenge to get the site established, to get tenancy in. At the moment, now that the precinct is well regarded, the flow of tenancies is at the level we would expect. The old Royal Adelaide Hospital site in the city has been really strongly sought after by tenants because of its location in the city and because of the Tonsley experience.

7 Mr PATTERSON: I notice in there that some of the buildings offer A grade amenities, others A and B. Do you see any competitive pressures from other commercial spaces going up in the city?

Mr DEVINE: We are open to competitive pressures. The range and space at the development will come from two things, and one is the variety of buildings on the site. We have seven heritage buildings on the site which will all be adapted or reused for business users. Some of those, given the standard of the buildings and given their configuration, lend themselves to different types and standards of accommodation and different types of users.

Also, within the site we would see a number of vacant land allotments which will have new buildings constructed on them. Those new buildings would be of a modern standard with a large floor plan, and would generally be your A-grade standard. The other thing is that we would like to have a variety of tenancies available for a variety of tenants; certainly the model of an innovation precinct is to have both big business and small business and universities working together in close proximity to get that collaboration and innovation between them.

Certainly, that's the type of tenancy offering we will be creating on the site. In terms of competing with the broader central business district and other areas, there will certainly be competition and it is our model to offer choice to tenants. We would compete on our own merits in terms of what we offer and the type of tenants we want to attract.

Mr De LUCA: If I could just add too, Mark, the fact that it's differentiated as a high-tech hub is attracting the sorts of tenants that want to be there and want to be there with other tenants in similar industries. That's taking the edge off the competitive rod to some extent, because they want to be a part of this whole site.

8 Mr PATTERSON: So it's a point of difference.

Mr DEVINE: Certainly, within South Australia, we want those variety of tenancies. If you are into advanced manufacturing, then you really should be at Tonsley or somewhere like Technology Park at Mawson Lakes. If you are in health and biomedical, you probably need to be at the other end of North Terrace around SAHMRI and the new hospital. But for defence, technology and creative industries, we would see a home for them on this site.

9 Mr MURRAY: I have a question on the economics of the whole scheme. My interpretation in round terms, if I go to page 7 of your submission, is that we have a refurbishment cost of around \$32 million, from memory.

Mr De LUCA: The total refurbishment cost is about \$37 million or \$38 million.

10 Mr MURRAY: Just going on a building by building basis, as it's enumerated here. It would appear that, assuming it is at the rates you have quoted and that each of the buildings was let at a rate of 100 per cent, it is a return of about \$3.2 million per year. How is my maths? Does that accord with your expectations?

Mr De LUCA: It grows over time. When it's fully let, the total amount of lease income over the period is about \$12 million, but that is between the time of initial tenancy and the time the buildings are disposed of at the end. I don't have the annual figures with me, but it would be about \$12 million over the last four or five years, so that's not too far off. It would be about \$4 million or \$5 million.

11 Mr MURRAY: I have a question on page 10, which talks about the program, etc. My question is when is the first income expected? Do you have some sense of when?

Mr De LUCA: As Mark mentioned, with the initial tenancies, it could be in the next few months and then growing thereafter, but probably into next year and the later years.

12 Mr MURRAY: A necessarily back-of-the-envelope exercise. On page 9, there's a table which details the costs, both the initial as well as ongoing. I have several questions: again, can I confirm that this will, all other things being equal, have, roughly speaking, \$2 million in operating costs per annum?

Mr De LUCA: In terms of the innovation hub itself?

13 Mr MURRAY: Yes.

Mr De LUCA: For the innovation hub itself, the outgoings would be much higher than \$2 million. They would be about \$3 million to \$3.5 million per annum. We are still actually estimating the cost. What we have here is an estimate of those outgoings because, as you might appreciate, it's still a development site. Once it gets settled and we get a firm view of the actual services that are required, we will be able to firm those numbers, but it's looking somewhere between \$3 million and \$3.5 million.

14 Mr MURRAY: Do you agree that the table on page 9 indicates that, without anybody in there, it's going to cost about \$2 million just to tick over?

Mr De LUCA: Yes. In terms of the fixed costs, I would agree, yes.

15 Mr MURRAY: With nobody in there, it's going to cost the South Australian taxpayer about \$2 million a year?

Mr De LUCA: Correct. Yes, sorry, I understand where you are going now.

16 Mr MURRAY: And, fully tenanted, it's going to generate, roughly speaking, \$3 million a year, assuming it's fully tenanted?

Mr De LUCA: Correct.

Mr DEVINE: If I could just clarify, the other operating costs there don't just look at the costs of holding those heritage buildings we are leasing. There are rates and taxes associated with the balance of the site, as well as maintenance and security for the site. As the site is developed over time, those costs will decrease as that land is sold onto other tenants. As you can see there in the table, the costs reduce to about a million dollars per annum in the final years.

Mr De LUCA: Correct.

17 Mr MURRAY: I have a question regarding the financing costs. There is an overall cost of \$360 million with finance costs of about \$40 million.

Mr De LUCA: Correct.

18 Mr MURRAY: Roughly speaking, that's about 11 per cent. Does that appear to be on the high side?

Mr De LUCA: No. The borrowings on this are about \$200 million, so the \$400 million in expenditure is funded roughly with a \$200 million community service obligation from the state and there's about a \$200 million borrowing, but the borrowings are around 5 to 6 per cent per annum, and growing over time. That includes the guarantee fees we pay the state as well.

19 Mr MURRAY: Pardon my obvious ignorance, but that was a question at page 8: what is the community service obligation?

Mr De LUCA: Community service obligations, to give you a bit of history: Renewal SA is a public non-financial corporation within the state. It generates its own revenue through development activities and lease income activities, but there are some activities that it does that may not be commercial, and where that is the case the state makes a payment, almost like a grant to them, to fund them to do that activity. In this project, there is about a \$200 million contribution from the state to fund the non-commercial elements of this project, which initially are the up-front demolition costs and remediation costs.

20 Mr MURRAY: Referring to Tonsley and the experience there, I note your evidence regarding not just anybody being able to front up and become a tenant in this place. If they have a handful of cash, they still won't necessarily be allowed in. At what stage, if ever, will you relax those rules in order to make sure the precinct is commercially viable?

Mr DEVINE: It's a good question. From the government's point of view, the Tonsley project is still managed by Renewal SA. Renewal SA, together with a steering committee of key founding stakeholders like Flinders University, Marion council and some other key business partners, still administer the governance of the precinct to ensure that the objectives are maintained. At some point in the future there will need to be a decision on whether a steering group is left to other private groups or other institutions or whether it is maintained by government.

A similar situation will arise with the Royal Adelaide Hospital site. At the moment, Renewal SA, together with government, is administering the objectives of the precinct. The key difference here is that the land is leasehold land, so Renewal SA will retain ownership of the land in perpetuity and offer 99-year ground leases. So we would expect in this case, because of the land tenure, it makes sense for government to have a long-term involvement in this project, particularly the governance, to ensure that the economic objectives not only for the site but for the broader state are met.

21 Mr MURRAY: Just to be clear—I genuinely don't know the answer—is it within your remit to relax those criteria in order to increase the take-up rate?

Mr DEVINE: Certainly, the cabinet decision that directed the land be transferred to us had key priority economic objectives, so the way we work, we have been given objectives to make this a world-class precinct to create the jobs of the future for South Australia, to make sure it contributes to the carbon neutral aspirations of the city and requirements in terms of the amount of open space we are to deliver. We work within those parameters; we don't relax them at any time, but we try to get the best commercial outcome we can within those parameters given to us by the state. So those objectives won't be relaxed at all on the—

22 Mr MURRAY: If you weren't able to fill it with what I would term 'desirable' entities that fit all the attributes, then you would need to come back to cabinet in order to—

Mr DEVINE: We would. That's correct. At Tonsley that hasn't be the case, and we certainly don't expect it to be the case here on the former Royal Adelaide Hospital site.

23 The PRESIDING MEMBER: Perhaps we will test that idea a different way. Do you have a tenancy take-up target for the end of the year, or any other similar target?

Mr DEVINE: At the moment, it's matched by revenue, so we have put a full whole-of-life project model, which talks about the time frames for us to carry out the capital works, but also the time frames for us to bring in rental revenue and also leasehold revenue from the sale of ground lease for buildings. At the moment, we are certainly meeting those targets in terms of the early years.

Those targets will ramp up in the second, third and fourth year of the project as more space becomes available.

24 The PRESIDING MEMBER: By the end of the year do you expect that your tenancy target will be met?

Mr DEVINE: Yes, we do.

25 The PRESIDING MEMBER: Given the character of the tenants likely to be moving in, we expect that the sufficiency or adequacy of internet and other technology services will be significant. The document refers to a technology partner being engaged to support the precinct. Are you able to update us on whether a technology partner has been engaged and the terms of engagement?

Mr DEVINE: A technology partner for the long-term strategy for the site has not been engaged, and we would expect to run a public procurement process to get that technology partner. In terms of the adequacy of connection to telecommunications now, it is certainly not a problem. Given the site was previously used by Health and is adjacent to the University site, the existing SABRENet fibre running down North Terrace and Frome Road provides us ready access to the types of speeds that tenants would desire.

We certainly have aspirations for this to be part of both GigCity and also the Ten Gigabit city prospects for Adelaide, and we can connect to that in the short term without that technology partner on board.

26 The PRESIDING MEMBER: Turning again to page 9—Mr Murray took us there earlier—is it still the case that the payments to the general government sector by Renewal SA is estimated to be \$37.7 million over a nine-year period?

Mr De LUCA: Over the term of the project, correct, yes.

27 The Hon. A. PICCOLO: On page 10 of the report under procurement, could you explain to me what that paragraph means? I am not clear from that paragraph whether a tender has been granted for the work because it says 'where appropriate major contracts'. I am not sure what that means.

Mr DEVINE: A project like this would be run over multiple contracts both large and small, so 'where appropriate' refers to the type of work we are doing. So, with the large-scale contracts, for example, McMahons have won the tender for the stage 1 demolition works. That was a public tender process with a probity auditor and all the rigour you would expect for a contract of that size. For smaller-scale contracts, we work within Renewal SA's procurement guidelines which, for instance, for particularly small contracts we could go to direct source, we could do a select tender or we do an open tender process.

28 The Hon. A. PICCOLO: What will happen here?

Mr DEVINE: It will be a variety of those depending on the work. Anything of scale will go through an open tender process.

29 The Hon. A. PICCOLO: What is the dollar figure?

Mr DEVINE: The dollar figure, I think, is over \$220,000 as it goes to an open tender process.

30 The Hon. A. PICCOLO: So this is about \$32 million?

Mr DEVINE: The total expenditure here is in the order of \$400 million. A lot of that is operating costs and holding costs which generally don't have that, but any single contract over \$220,000 will go to an open tender process.

31 The Hon. A. PICCOLO: In a situation where the lowest tender is not accepted, do you report on that?

Mr De LUCA: In terms of?

32 The Hon. A. PICCOLO: For example, there may be good reasons why sometimes you don't accept the lowest tenderer. Would you report on that matter or do you just implement it without reporting?

Mr DEVINE: Certainly our procurement framework doesn't require that to be reported, but our procurement framework requires us to put in appropriate assessment criteria, which isn't always at that price. Sometimes it's about the performance of the tenderer, their capability to do the work, their proposed methodology to do the work, their industry participation plan, their work health safety plan. All of those things are critical to the assessment of getting the right tenderer.

33 The Hon. A. PICCOLO: Would you report that to us when you do your quarterly reports?

Mr De LUCA: Renewal SA doesn't come within the broader state procurement board framework. It's a prescribed authority—

34 The Hon. A. PICCOLO: I understand that, but the question I was asking—

Mr De LUCA: —so the report goes to our board, if that were to be the case, and so certainly contracts get reported under that framework.

35 The Hon. A. PICCOLO: As we have been asked to approve this project, I assume that you would provide us with quarterly reports.

Mr De LUCA: Yes we do, to this forum, absolutely.

36 The Hon. A. PICCOLO: Would you then be in a position to report to us on whether any tender wasn't the lowest tender and why it was granted?

Mr De LUCA: It's not something we have done before but presumably something we can do. For a project of this size, there are a significant number of procurements. We are running multiple procurements every month so it could be quite a long list.

37 The Hon. A. PICCOLO: I would assume that most of them would, as you said, go to tender—because \$200,000 is not a lot of money—and, in most cases, they will go to the lowest tenderer. Obviously, there will be the occasional one which won't for some reason, but I don't think it would be a huge burden to report on the exception, would it?

Mr De LUCA: No, I don't think so.

38 Mr KOUTSANTONIS: Do you report variations from the tenders on the procurement?

Mr De LUCA: To this committee? There is a report that goes to this committee that provides the status on the whole tender.

39 Mr KOUTSANTONIS: Are you expecting any variations in the demolition costs?

Mr DEVINE: Not at this stage. The stage 1 demolition to date has been held within the target budget sum. The form of the Public Works Committee report would generally report variations to the total budget, so it is not done on a contract-by-contract basis. We have a number of projects where, rather than get the whole budget approved by this committee, it would come up contract by contract. This one is a whole-of-project budget that would have, in the scheme of things, hundreds of contracts over the life of this project.

40 Mr KOUTSANTONIS: How often do you circulate your procurement board, that is, transition them in and out so that you don't get your procurement team that assesses bids? How often do you circulate them—that is, transition new people on and off?

Mr DEVINE: The group that assesses each tender is purposely selected for that tender and it varies from tender to tender, so it is rare that you would get the same team assessing two different tenders. They have people of appropriate qualifications and sometimes will include external groups in that assessment process. For example, the project engineer would often sit on the tender to provide advice.

41 Mr KOUTSANTONIS: I am interested in your answer earlier, Mr Devine, about when not taking the lowest tenderer, there are a whole series of other considerations you have in mind. I

would have thought that with demolition, given EPA standards and the regulatory framework on disposal of waste and demolition, it is all pretty straightforward.

In my experience, the agency that issues a tender doesn't choose the lowest tenderer because of a whole series of criteria that they set out that they rightly think are issues about waste disposal and expertise in dealing with waste that might be on site. But then with the successful tenderer, even though they are more expensive, there are a series of variations that come through with the project that escalate the demolition costs once they have been awarded the contract. What procedures do you put in place to mitigate that occurring once you have awarded the tender not necessarily to the lowest bidder but the highest bidder on an expertise basis and then once they are in the job they start ramping up the variations?

Mr DEVINE: Certainly, from our point of view, we put a lot of work into getting the tender package right. We have the detail in the scope of work, getting a pre-tender estimate prepared by a quantity surveyor, and, again, we have used those parties to help us in the assessment of the tender process. We like to think that we have the cost largely quantified so that we don't experience those variations. As I said, to date, with the stage 1 demolition, there hasn't been any significant variations to note.

42 Mr KOUTSANTONIS: You have experienced quite significant variations in demolition in other projects, haven't you?

Mr DEVINE: In demolition? Not that I'm aware of.

Mr De LUCA: Not of this scale, no.

43 Mr KOUTSANTONIS: So, you haven't experienced variations?

Mr DEVINE: We have. You referred to a demolition contract. We have—from time to time we do experience variations in contracts due to latent conditions we weren't aware of, due to changes in scope that we may require of the contractor or other authorities may require of us. But certainly in terms of the mechanism that we put in place, for a contract of this size, we would always have a qualified superintendent who is appointed to administer the contract. They are generally a qualified engineer and expert in the field. They would assess and critique all of the variations as would we. We also have, generally, the services of a quantity surveyor to assess the quantity of any variation to ensure that it is an appropriate market rate.

44 Mr KOUTSANTONIS: Do you report to the board, or is the board aware of not choosing the lowest tenderer on every option for demolition?

Mr De LUCA: If I can just go back, one of the other controls that is common to all our projects but is specific to this one as well, is that we also put in place a contract management plan that has specific milestones, so the contract team manage the contractor to those milestones. So, if there is any suggestion of a variation, they tend to come out early in the conversation and we have those very granular discussions even there. We report to the board on all our contracts each quarter. Each quarter we report to the board all of the contracts that are signed, together with any variations. We also report to the board whether they have been approved within certain delegations. So that would be the opportunity for the board to ask what happened on that contract and why is there a variation. It is that mechanism—that's every quarter.

45 Mr KOUTSANTONIS: So the board are informed when the agency chooses a demolition contract that wasn't the lowest tender? I understand it happens quite regularly.

Mr DEVINE: I wouldn't say it happens quite regularly.

46 Mr KOUTSANTONIS: How often would it occur?

Mr DEVINE: Are you talking demolition contractors or contractors in general, because—

47 Mr KOUTSANTONIS: My experience as treasurer was that the one contract that would be the easiest to award, that you would always go with for the lowest price, would be demolition, given the very strict EPA standards we have in place, given the fill is generally used at the same spot and the same place in South Australia and that there are, I think, three contractors that are pretty well known to everyone and they compete amongst each other. I would have thought

the lowest tender would always win in that regard. It has been my experience that has not been the case and I have always been quite curious as to why.

Mr DEVINE: I would certainly say it isn't common practice for us not to award to the lowest tenderer. I know a number of examples where we have awarded demolition contracts at Bowden and at Tonsley where the lowest tenderer has won the contract. In answer to your question, the people who would see that we haven't awarded the lowest tenderer, if we have not, are the delegates approving the contractor. We would complete a procurement process. That procurement process would be signed off by the evaluation committee and then it would go to the appropriate delegate.

For a contract of this size, the appropriate delegate is the minister. The minister would receive a full minute outlining the procurement process we have undertaken that actually shows the scores of the pricing received from the different tenderers, the assessment scores we have given them and the rationale for selecting that preferred proponent.

48 Mr KOUTSANTONIS: So the assessment score is a weighting?

Mr DEVINE: It's a weighted score, yes.

49 Mr KOUTSANTONIS: In a weighted score for cost versus expertise, is it weighted equally?

Mr DEVINE: Again, it depends on the level of work and it depends what is most important.

50 Mr KOUTSANTONIS: Can I ask you to take a question on notice for me?

Mr DEVINE: Sure.

51 Mr KOUTSANTONIS: Could you, for example, give me a figure of how many times over the last 12 months—I won't go back the whole four years—you haven't chosen the lowest tenderer in a demolition, and when you haven't chosen the lowest tenderer in the demolition, who that contract has gone to? It shouldn't be too difficult, should it?

Mr DEVINE: It's something we can do, yes.

52 Mr KOUTSANTONIS: Thank you very much.

53 The PRESIDING MEMBER: Thank you, gentlemen, for your attendance here today and for assisting the committee.

THE WITNESSES WITHDREW