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PARLIAMENT OF TASMANIA

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PARLIAMENTARY STANDING COMMITTEE ON PUBLIC WORKS

# Derwent Entertainment Centre Redevelopment

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*Presented to Her Excellency the Governor pursuant to the provisions of the  
Public Works Committee Act 1914.*

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Legislative Council

Mr Valentine (Chair)  
Ms Rattray

House of Assembly

Ms Butler  
Mr Ellis  
Mrs Petrusma

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## 1 INTRODUCTION

To Her Excellency Professor the Honourable Kate Warner AC, Governor in and over the State of Tasmania and its Dependencies in the Commonwealth of Australia.

MAY IT PLEASE YOUR EXCELLENCY

The Committee has investigated the following proposal:-

### **Derwent Entertainment Centre Redevelopment**

and now has the honour to present the Report to Your Excellency in accordance with the Public Works Committee Act 1914 (the Act).

## 2 BACKGROUND

- 2.1 This reference recommended the Committee approve works to redevelop the Derwent Entertainment Centre (DEC) into a contemporary multipurpose sporting, entertainment and events facility.
- 2.2 The DEC is Tasmania's biggest indoor sports and entertainment facility, and has been owned by the Glenorchy City Council (GCC) since 1998. The facility is dated and in need of significant investment and its operational results have fluctuated over the years.
- 2.3 GCC considered the DEC to be a non-core function and undertook disposal of public land processes under section 178 of the *Local Government Act 1993* for both the DEC and Wilkinson's Point.
- 2.4 While the GCC process initially contemplated disposal of the DEC to the private sector the Tasmanian Government formed a view that the DEC is an important asset for the Tasmanian community that should be retained in public ownership. Further, the upgrades required to bring the venue up to a contemporary standard were unlikely to be funded by the private sector, and the Tasmanian Government considered it appropriate to invest significant public money into the facility on the condition it remained in public ownership.
- 2.5 The owner of the National Basketball League (NBL), Larry Kestelman, presented a proposal to the Tasmanian Government in mid-2019 that would deliver a Tasmanian-based team, owned and operated in the initial stages by the NBL. Redevelopment of the DEC was a stated prerequisite for a new NBL team. On 25 June 2019, the Government agreed to commence formal discussions with both the NBL and the LK Group with regard to the establishment of a Tasmanian NBL franchise, development of the DEC and Wilkinson's Point precinct and the establishment of a community multi-sport venue.
- 2.6 The Tasmanian Government's position on ownership ultimately resulted in the high level agreements reached by the parties in February 2020 for the Tasmanian Government to purchase the DEC from the GCC, retain ownership and fund the

majority of a redevelopment, with the redeveloped DEC to be managed by the LK Group. The agreements also included the establishment of a Tasmanian NBL team, to join the NBL for the 2021/22 season.

- 2.7 The proposed works will see the DEC redeveloped to:
- meet contemporary standards expected of a sporting, entertainment and multi-purpose event facility;
  - increase stadium capacity;
  - facilitate the playing and broadcasting of NBL games; and
  - broaden the range of events that can be hosted at the DEC by improving the facility's functionality.
- 2.8 Specifically, the proposed works will include the following elements:
- Improved *Disability Discrimination Act* (DDA) access with the provision of new lift facilities, entrance paths, DDA compliant toilets, improved seating numbers and increased viewing choice with different seating locations to be offered for spectators requiring DDA seating;
  - Improved statutory compliance in many areas, including the provision of two fire tanks for use in the event of a fire, replacement of the fire indicator panel and the installation of fire sprinklers and an early warning system;
  - Improved ticketing, entry and improved aesthetics with significant work to be undertaken on the entrance façade and landscaping;
  - Improved access within the centre with the widening of walkways on the upper tier;
  - Improved seating with new lower level retractable seating;
  - Extensive plant replacement works, including heating and ventilation;
  - Replacement of all front of house amenities such as toilets and food and beverage offerings, that provide spectators with easier access and choice;
  - Improved player facilities and provision of new administration facilities for the DEC and the JackJumpers NBL Team;
  - New NBL drop-in court, and increased capacity for multi-court use within the DEC, with the potential for three courts to be utilised at once; and
  - Extensive improvement of audio visual and lighting capacity to provide a facility capable of broadcasting NBL Team games, while also improving the capacity and ability for the DEC to host a broader range of multi-purpose events and concerts.
- 2.9 The upgrade of the DEC is a key part of a broader project to:
- establish a Tasmanian team in the NBL;
  - secure land to construct an indoor community multisport facility; and
  - secure significant investment to develop the Wilkinson's Point Precinct.
- 2.10 The total potential investment associated with the broader project has been estimated in the order of \$200 million, by creating a sports and entertainment precinct on a currently under-utilised parcel of riverfront land at Wilkinson's Point.

### 3 PROJECT COSTS

- 3.1 Pursuant to the Message from Her Excellency the Governor-in-Council, the estimated cost of the work is \$46 million.
- 3.2 Since being referred to the Parliamentary Standing Committee on Public Works (the Committee), the estimated cost of the DEC Redevelopment has been updated to \$50.6M. The Government has committed funding capped at \$41 million toward the estimated cost of \$50.6 million of what is now termed *Category 1 Project Works*. The Development Agreement between the Crown and LK Development (Tas) (LKDT) provides that any project costs (with the exception of latent conditions in the building or below ground) over the Tasmanian Government's commitment of \$41M will be borne by LKDT.
- 3.3 *Category 1 Project Works* are comprised of *Project Stage 1 Works* and *Project Stage 2 Works*. *Project Stage 1 Works* are already underway and involve the preliminary, enabling works required to expedite *Project Stage 2 Works*. The cost of *Project Stage 1 Works* is \$1,229,458. The Tasmanian Government is solely funding these works from its capped \$41 million commitment.
- 3.4 The Tasmanian Government's funding commitment attributable to *Project Stage 2 Works*, which constitutes the proposed works being considered by the Committee in this reference, is \$39,770,542. The total cost of *Project Stage 2 Works*, based on the current estimated cost for *Category 1 Project Works* of \$50.6 million, is therefore \$49,370,542.
- 3.5 The tables on the following page detail the current cost estimates for the project and respective funding commitments of the parties to the Development Agreement, including the *Project Stage 1 Works* that are already underway:

<b>TOTAL FORECAST BUDGET FOR CATEGORY 1 PROJECT WORKS (Project Stage 1 and Project Stage 2 Works)</b>	
Building/Fit out Works	\$37,200,000
Professional Costs	\$5,420,000
Building and Design Contingency	\$7,820,000
Authority costs, Council Fees and Charges	\$160,000
<b>TOTAL</b>	<b>\$50,600,000</b>
(Crown funded)	\$41,000,000
(Developer funded)	\$9,600,000

<b>CROWN FUNDED BUDGET ALLOCATIONS FOR CATEGORY PROJECT 1 WORKS</b>	<i>Project Stage 1</i>	<i>Project Stage 2</i>
Building/Fit out Works	\$296,562	\$36,403,438
Professional Costs	\$932,896	\$2,000,000
Building and Design Contingency	\$0	\$1,207,104
Authority costs, Council Fees and Charges	\$0	\$160,000
<b>TOTAL</b>	<b>\$1,229,458</b>	<b>*\$39,770,542</b>
AGGREGATE	\$41,000,000	

**\*The cost of the works being considered in this reference.**

## 4 EVIDENCE

- 4.1 The Committee commenced its inquiry on Monday, 7 December last with an inspection of the site of the proposed works. The Committee then returned to Committee Room 1, Parliament House, whereupon the following witnesses appeared, made the Statutory Declaration and were examined by the Committee in public:-
- Kim Evans, Secretary, Department of State Growth;
  - Alison Turner, Director, Infrastructure Tasmania;
  - Teena Guest, Senior Project Manager, Infrastructure Tasmania; and
  - Thomas Floyd, Architect, Philp Lighton Architects (PLA).

### Overview

- 4.2 Mr Evans provided some background on the history of the DEC Redevelopment and the broader developments that are planned at the site, as well as the agreements that have been negotiated to underpin them:

**Mr EVANS** - At the outset, the Derwent Entertainment Centre (DEC) and the surrounding land was owned by the Glenorchy City Council until recently. The DEC is about 30 years old. It's a multi-use, large-scale venue; the largest of its kind in southern Tasmania and has served us well. However, it is now very tired and is struggling to perform, including in terms of compliance.

The Glenorchy City Council looked at the future of the DEC last year and they were also having some discussions with various operators, including the LK Group represented by Larry Kestelman. They formed the view that they should dispose of the DEC and also the surrounding Wilkinson's Point lands. They reached a view they should transfer that facility and the surrounding lands to the LK Group, to enable the redevelopment of the DEC to turn it into a first-class entertainment facility suitable for many purposes - but also to accommodate NBL basketball teams. They also had a vision about - as did Mr Kestelman - of the broader development of Wilkinson's Point and a lot of work went into working up a master plan for the surrounding areas.

In order to make this transaction work, though, and to get agreement to establish an NBL team in Tasmania for the first time for, I think, about 25 years, there is a requirement for substantial public investment in upgrading of the DEC. Late last year, the Government formed the view that if it was to invest in the upgrading of the Derwent Entertainment Centre, it would be desirable for that facility to remain in public hands rather than be sold to Mr Kestelman.

We entered into some discussions with the Glenorchy City Council and in parallel with the LK Group, consistent with the tenor of their discussions with the Glenorchy City Council. On 28 February this year, after a number of months of negotiation, we reached an in-principle agreement to key issues, key terms - subject to the development of the legally binding documents with the Glenorchy City Council - to buy the DEC and surrounding Wilkinson's Point land from them and in parallel enter into, again, an in-principle agreement with the LK Group.

In a nutshell, we were buying the DEC so we could retain it in Government and public ownership.

.... That purchase has now occurred. It's quite a complex set of transactions aimed at a number of outcomes. One is updating the DEC; the second is about providing for the future development of surrounding lands at Wilkinson's Point; and also, getting in place an operator

for the DEC for the long term to ensure that we maximise its use. As a part of that, we wanted to protect the ongoing public uses of the DEC, so that was a factor in the negotiations as well.

Fundamental to all of those agreements was an agreement from the LK Group to establish an NBL team, as I say, for the first time in 25 years in Tasmania. You will have heard about the fact that the LK Group, or Mr Kestelman, has issued a licence for that team. We are off and running in the establishment phase of setting up our first NBL team for 25 years, the Tasmanian JackJumpers.

That is it in a nutshell, but it is underpinned by six legally binding agreements, five of which have now been finalised. I will run through each of those, if I could.

The first is that the Government purchases the DEC and Wilkinson's Point from Glenorchy City Council for \$8 million with the DEC, as I say, remaining in public ownership. That settled on about 4 November - so the Government of Tasmania now actually owns the DEC and Wilkinson's Point.

As I have indicated, a second agreement was produced around the establishment of the NBL team. The Government has agreed to enter into a sponsorship of that NBL team for an average of \$2 million per year over five years, plus indexation, with a further five years subject to achievement of key agreed milestones and targets - so it's potentially a five-year sponsorship deal. It is an enabler for the establishment of the team. For Mr Kestelman's part in signing that sponsorship agreement, he has now issued the licence and commenced the establishment of the team.

In terms of the DEC itself, last year we did a lot of work with the Kestelman group, and we co-funded some work to look at future options for development. There were three basic options looked at. Option 1 was the costs associated with upgrading the DEC to a standard to be able to conduct NBL games. That is what we called option 1 and that would cost in the order of \$35 million. Option 2 involved not only upgrading it for the purpose of NBL games, but also upgrading other facilities to make it more of a multipurpose venue fit for concerts and other uses as well as NBL games. Option 2 would cost \$46 million.

Option 3 was a total redevelopment of the DEC at the cost of \$100 million. We clearly didn't accept that as an option.

We did agree that option 2, which involved not only the upgrade of the DEC for the purposes of conducting NBL games, but also as an entertainment facility more broadly, was what we should do.

We entered into the third agreement with the LK Group - that was what we called the 'detailed design agreement' whereby we would agree with the Kestelman Group subject to option 2, which is the middle option - what are the detailed design features that we would expect within the DEC in order to part with public funding.

I should have added a little earlier that having reached these in-principle agreements back in February then along came COVID-19 and everything stopped. We didn't pick up conversations again with the LK Group until June this year. All of these legal agreements that I'm talking about were negotiated between June and November just gone.

Again, sale agreement to the council; sponsorship agreement for the team; detailed design agreement with the LK Group; and a lease agreement so they would be the operator of the DEC in the long term. That's an up to 49-year lease, obviously with a range of conditions, including that it continues to be made available for community access. There is also the payment of an annual rent, which was set after discussions with the Valuer-General and on top of that base rent, a percentage rent subject to the performance of the DEC as a commercial venue.

.... The next agreement is the development agreement itself - the redevelopment agreement for the DEC - and that, as you would expect, requires compliance with all of the sorts of requirements that you expect.....things like buy local, employment of trainees and



apprentices, the Wood Encouragement Policy. The sorts of things we would normally include within a tender, are within the redevelopment/development agreement.

... .. They're the agreements relating to the DEC, the design agreement, the development agreement and the lease itself. I think we've done a good job in protecting the public interest in each of those. More broadly, when this was first contemplated, it was not just the redevelopment of the DEC but the future development of the surrounding Wilkinson's Point land. In terms of that land, we've agreed in principle a term sheet to negotiate a detailed sale contract to the LK Group - what we call a 'future land sale and development agreement'. It hasn't yet been negotiated but the terms have been established through ... .. a high-level term sheet to underpin the negotiations.

... .. That requires Mr Kestelman to pay us a deposit of 10 per cent of \$6 million, which would be purchase price for the surrounding land - again, discussed with the Valuer-General - and to pay the holding costs whilst he's working out his development. We wouldn't transfer the title though, and complete that transaction either in part or full until such time as he has substantively commenced individual developments on site.

... .. The last piece is that the Government in parallel, has a commitment to build a multi-court community facility; I think it has committed in the order of \$20 million to do that. That project is being run by Communities Tasmania, and they are going through a process to work out on the land adjacent to the Derwent Entertainment Centre what that would look like. They will come to you as the Public Works Committee separately once they are a little further advanced with their planning for the four court multipurpose community facility.

## **Ensuring Project Delivery**

- 4.3 The Committee understood there was significant pressure to have the redevelopment completed in time for the commencement of the 2021/22 NBL season in October 2021. Recognising this compressed timeframe, the Committee did express some concern on the potential to complete the works on time, and sought further assurance from the witnesses that there were appropriate project and risk management strategies in place to ensure a timely and quality driven delivery of the DEC Redevelopment:

**CHAIR** - With the delivery model, where the redevelopment and project works are being managed for the Tasmanian Government by the LK Group, through LK Development, given the LK Group is basically a beneficiary, can you explain to me why it is wise to have them as the managing entity? I'm not suggesting that they will, but it could be seen that they might want to cut corners to reduce costs for themselves. Can you just tell me, give me some comfort there?

**Mr EVANS** - We have safeguards in place to ensure they don't cut corners. It is a feature of how this project has evolved, to be honest. They were, up until late last year, to be the purchaser and developer of this site from Glenorchy City Council, and had done a lot of work. It was only late that the Government stepped in to say that if they were going to contribute funding, then they wanted it in public ownership. It didn't make sense to be that far down the path with the work that the LK Group had done to stop and try a fresh approach. We would have lost the benefit of why we had decided to invest in the first instance.

Given that situation, where we turn our attention to is in the contractual documents. How do we ensure we safeguard the public interest? We think we have done that pretty well.

**Ms TURNER** - There are a number of requirements and conditions-precedent set out in the legal documentation. Certain points during the design work and part of the development require Crown approval before things can proceed further. A good example of that is in the development agreement, prior to the commencement of the stage 2 works, which is the bulk of the works to complete the redevelopment, the Crown is required to sign off on the project design documentation. In the drawings included in the submission, there is much more detail

sitting behind those. We have our own technical expert advisers to advise the Crown on those drawings. We have to be satisfied and essentially sign off the design, before that work can commence.

**CHAIR** - That's Johnstaff Projects, is it?

**Ms TURNER** - Yes, that's right. That's one example of where we are taking our own advice about the project in order to satisfy ourselves that what we are purchasing for the funds being invested meets the Crown's requirements.

**CHAIR** - It seems you found it necessary to use external legal advisers, King and Wood Mallesons. Do we not have the internal skills to do the work they are doing?

**Mr EVANS** - That was a decision made by the Crown Solicitor. Some of these developments are quite complex.

**CHAIR** - I can understand that.

**Mr EVANS** - From time to time we will outsource complex work. It is an outsourcing arrangement by the Crown Solicitor not by the Department.

**Ms TURNER** - That's enabled us to negotiate five agreements within the space of five months, which has been no small task.

**CHAIR** - ... ..I can imagine the agreements are quite significant, but in a sense it gives an element of comfort that other eyes are on it, and are providing that level of scrutiny.

**Ms TURNER** - That's right. Both the legal advisors and the Crown's technical adviser in Johnstaff are highly experienced in similar projects, both public and private. Both in Tasmania and in other Australian jurisdictions. Again, bringing that experience to this project we felt has been highly valuable in protecting the Crown's interests.

**CHAIR** - Is that part of the \$41 million, their costs?

**Ms TURNER** - The Department has a project delivery sort of budget.

**CHAIR** - And that's part of that?

**Ms TURNER** - Yes.

**Mr EVANS** - In our budget this year there was an allocation to project manage this.

**CHAIR** - Can you give us an understanding of what that might be?

**Mr EVANS** - Our own project management resources, for example, Johnstaff -

**CHAIR** - The legals?

**Mr EVANS** - And any legals that would need to help the Crown Solicitor with.

**CHAIR** - Do you have a number on that?

**Ms TURNER** - One million.

**CHAIR** - ... .. Project time lines. I don't think I'd like to be project managing this; I reckon it's a bit fraught. You've got your bases covered there, staff moving and leaving?

**Ms TURNER** - We think so. All parties acknowledge that it is a challenging program. Part of that is, we think, mitigated by the delivery model that we've got in place with the LK Group. They are a highly-experienced commercial property developer. This is by no means their first project to manage. They are absolutely committed to delivering on the project time line.

**CHAIR** - Again, the question is the milestones that you've got and targets that you have in the project plan allow you basically to control things at the end of the day if things aren't being delivered. You've got in your agreements and in your time lines, those critical points where you could say, 'No, this doesn't proceed until X is achieved?'

**Ms TURNER** - Yes, the agreements essentially provide the Crown with that right. If we are not comfortable or not satisfied that comments have been addressed or the elements of design

aren't to the satisfaction of the Crown then we could withhold approval. We would need to have a discussion at that point in time about what that would mean for the overall delivery program.

**CHAIR** - With the project risks, I read what is being said there, what latitude does the steering committee have regarding delivery of stage 2 itself? How much latitude do they have before they have to refer to other parties, or don't they? Do they have full carriage of delivering stage 2?

**Ms TURNER** - There is a project coordination group that is established under the development agreement and then internally we also have a project steering committee which is chaired by Kim.

**Mr EVANS** - It also includes Communities Tas with an adjacent multisport facility.

**Ms TURNER** - One of the members on our internal steering committee is our representative on the project coordination group, so we think we have the appropriate internal governance in place to cover those, making sure that we are satisfied and that we are also providing appropriate advice through to the Tasmanian Government as well.

**CHAIR** - What due diligence was undertaken to ensure the project was investment-ready for the Government? You have gone through all the agreements that sit around it but prior to developing those agreements, there must have been some due diligence that you did on the LK Group and you had a process in relation to that. Can you give us a bit of an overview as to what went down there?

**Ms TURNER** - Through the second half of 2019, we had probably six months' worth of negotiations, as Kim has previously said. Where the discussion started with the council and with the LK Group, initially the Government's role was more in relation to sponsorship and support for the establishment of the team. Then we provided some advice to the Government which they supported to co-invest in the design work that Thomas and the team originally did about the upgrade options. Through those discussions and as they evolved we were doing our own investigations and satisfying ourselves about entering into this transaction.

**Mr EVANS** - They were quite intensive negotiations involving the Crown Solicitor, who sat in on quite a few of those, particularly at the end point. Alison was doing this almost on a full-time basis and I was spending a lot of my own time involved in those negotiations as well.

**CHAIR** - ... I have asked this, but explain what the process may be, should a major hitch in development be encountered, holding up or slowing project progress. There are concurrent things happening. Is there a considered adverse event response plan in place? I call it an adverse event response plan, but should something drastic happen - it could be a fire in the middle of construction - is there a plan for handling that sort of event, when you have concurrent things that rely on each other? How are you handling that circumstance?

**Ms TURNER** - The tender does require, as would any tender, each of the contractors to contemplate a construction methodology. That tender process is still live.

**CHAIR** - You don't know what they are going to come back with.

**Ms TURNER** - Equally, one of the requirements of the development agreement between the Crown and the LK Group is that a construction methodology is submitted and approved. Similarly, there will be a requirement of putting appropriate insurance in place for their contract works as well, so that there is an appropriate construction methodology.

**CHAIR** - It could be said that the NBL time line that you are trying to meet is very tight. With regard to the level of risk that presents to the whole project, bearing in mind that its broader life is much bigger than that over time, what level of risk is that? Is it a very significant risk that you are not going to meet that time line, and if you do not meet that time line, what is the impact?

**Mr EVANS** - The impact from an NBL perspective will sit with the LK Group of how they manage the commencement of the season and they would be thinking about that. They are solely focused on ensuring they can get this redevelopment done in time for the commencement of the season. In a lot of respects their motivations to get this done in time and in terms of quality are stronger than ours.

**Mr VALENTINE** - Because there are risks.

**Mr EVANS** - Their reputational risks in terms of the NBL itself are very significant.

**Ms TURNER** - Similarly, as the future venue manager and operator in terms of quality and finish and not just for NBL games, if the standard of the works is not up to scratch then it will be patrons of all types who will let them know. Again, that goes to reputational risk beyond just that - how it plays out for NBL games.

**Mr VALENTINE** - Is it fair to say our risks as a State Government - the \$41 million is definitely value and dollar based whereas theirs is more reputational? They are risking \$6 million.

**Mrs PETRUSMA** - Plus the whole building comes to over \$50 million now, doesn't it? They have more than the \$6 million; \$40 million is the base for the building and then there are the other millions on top?

**Ms TURNER** - Yes. The latest cost estimate has been done - independently prepared by a quantity surveyor as is in the submission - has put it at in the order of \$50 million. So, it has gone up and been a product of the evolving design process and the fact those original cost estimates were based on a concept. Jacquie rightly points out because the Crown's contribution to the redevelopment is capped at \$41 million, anything over and above that is their cost and, in that sense, they're incentivised both financially and reputationally.

**CHAIR** - And reputationally.

**Ms TURNER** - Yes. The other important comment to make on the delivery program will be when the tenders come back in; what we see from contractors their response to the program. With it still being live, we will see what that looks like when those responses come in in a couple weeks' time.

**CHAIR** - When I first read this - at this point it's a bit of a 'trust us, we're from the Government' but after listening to you today and the levels of agreement in place and sort of thing, it certainly improves it from my perspective.

## **DEC Lease Arrangement**

- 4.4 The Committee understood the LK Group would operate the DEC on a long term lease once the redevelopment was completed. The Committee sought further information from the witnesses on how the lease arrangement would work:

**CHAIR** -... you're saying that the rent can vary depending on how it performs?

**Mr EVANS** - Yes, there's a base rent - \$200 000 - that's a fixed annual rent. Then there's a performance rent on top of that. As I say, we discussed these matters with the Valuer-General on the way through, in terms of developing that agreement.

**Ms RATTRAY** - The operating lease is for a period of up to 49 years. Is the committee to be informed that the fixed annual rent is \$200 000 for 49 years?

**Ms TURNER** - There's a provision in the lease that's been agreed to that, I think, the rent is fixed for the first period. The first period is 10 years, and then it provides for a market review of that base rent prior to the beginning of each renewal period.

**CHAIR** - The renewal period is?

**Mr EVANS** - Ten years.

**Ms TURNER** - I think it's in blocks of five after the initial period.

**Mrs PETRUSMA** - Regarding the performance provision of the percentage rent, how is that calculated. If they had big games and good gate takings, for example, do we get a percentage of that? Is that what we're saying?

**Ms TURNER** - Yes, potentially; to the extent that across all events that are held during the year, it takes account of outgoings and revenue received as associated with those events. To the extent that it becomes a highly profitable facility into the future, the Crown, as the owner, has the potential to capture part of that upside.

**Mrs PETRUSMA** - ... .. I know we did briefly mention 49 years before, but why was it selected up to 49 years for?

**Ms TURNER** - From memory through the discussions with the LK Group, they were looking for long-term certainty on the basis that if they were going to invest their own private funds into redevelopment of the surrounding land, they saw the DEC as an important component of the broader redevelopment and they were looking for that commitment in terms of length of time. On the flip side that length of time was as far as the Government was willing to go in locking in for such a long period of time.

**CHAIR** - ... .. In five-year lots, basically, which is inclusive to the 49, then in the fiftieth year something might be renewed if it were successful and continued -

**Ms TURNER** - I think the last period is four years instead of five, so it is 10 plus seven lots of five and a four at the end.

**Ms RATTRAY** - ... .. Chair, it might not be necessarily be part of what we are looking at today, but it is in the overall context. I found it interesting that it is a fixed annual rent. Even the Government sponsorship is plus indexation. Why wasn't it lease plus indexation on that \$200 000 annual rent?

**Ms TURNER** - I think, Tania, it might have indexation applied to it.

**Ms RATTRAY** - It says 'with a fixed annual rent'. Can that be clarified?

**CHAIR** - Together with a percentage rent.

**Ms RATTRAY** - But a percentage rent could be nothing if they don't make anything.

**CHAIR** - ... .. That is the base rent isn't it? Plus the other bit that you were talking about.

**Mr EVANS** - That's the fixed base rent then on top of that a performance.

**CHAIR** - So there is the performance rent on top of the \$200 000; I think that is what they are saying.

**Ms RATTRAY** - But that may well be nothing if there is no performance. If it doesn't perform as anticipated, there might well be nothing. Still having the rent at \$200 000 for effectively 49 years - I hear what you say, that in about 10 years, you will reassess it. The LK Group gets ownership of the land they purchase for the \$6 million for their development into the future. It's not like they are necessarily putting a lot of money into a Crown-owned facility and not getting anything back for themselves. That is a discussion for the committee.

**Ms TURNER** - If I can just clarify, I've just popped up the lease and it may be a terminology issue. The concept is a fixed rental, but is subject to annual CPI with that additional performance rent on top.

## **Apportionment of DEC Redevelopment Costs**

- 4.5 The Committee understood the Tasmanian Government would contribute \$41 million to the DEC Redevelopment (i.e. Category 1 Project Works, comprising both Project Stage 1 Works and Project Stage 2 Works), with the LK Group to contribute the balance, and sought confirmation of this arrangement:

**Mrs PETRUSMA** - .....if the costs go over the \$41 million the State Government has committed, the LK Group funds everything else after that?

**Mr EVANS** - Yes, they do. The development agreement we have caps our contribution at \$41 million and makes the LK Group liable for any costs over and above that.

**Ms TURNER** - And equally to the extent the cost of the actual building works was to come in under \$41 million, the development agreement also provides the Crown would essentially only pay those actual costs. So, it is up to \$41 million but not beyond and we would not be paying more than the actual cost of the works.

### **Improvements to the DEC Design and Functionality**

4.6 The Committee sought to understand what improvements would be made to the DEC to improve the design and functionality for NBL games and other events more broadly:

**Mrs PETRUSMA** - When we talk about an NBL standard training and performance facility, can you describe to the committee what an NBL standard training and performance facility actually looks like? What does that mean for Tasmania? What are the elements of it?

**Mr EVANS** - Ali might be able to add, but all of the league sports require facilities, whether it is AFL, NBL, or cricket. They require performance and elite facilities for the resident teams. We are still working through what that means for the LK Group, because we want to have a broader look at elite facilities across all sports. We do not want to deal with that issue outside of looking at sports more broadly including TIS, AFL, cricket.

**Ms TURNER** - Would it also be worth talking about, and this might be one that Thomas can provide a bit more detail, is within the DEC redevelopment itself some of the upgrades to bring it to NBL standard and around broadcasting and player amenity, and viewer experience. Thomas, could you talk to some of those?

**Mr FLOYD** - For athletes to operate at their peak, the DEC originally did not have player facilities of toilets and showers that would support team sport, so they have been placed at the back of the venue. They include offices for coaches, some storage for their gear, and also accessible showers in those spaces to complement the team showers and toilets.

In regards to broadcasting, all that lighting and audio visual technology in the venue now is towards end of life and is being replaced through an informed process with specialist AV consultants, which the LK Group are liaising directly with. That will allow them to broadcast these games nationally and internationally with an American audience in mind.

For people viewing sport and basketball in the venue, their experience has been heightened by creating a better atmosphere around the court, new retractable seating all the way around the court which, at the moment, is on two sides. There is some fixed seating on the lower bowl on the bottom also going to be transformed into retractable seating. By having retractable seating all the way around the bowl, we have been able to create the most flexible and multi-purpose flat floor space we can within the constraints of the existing venue.

Towards the arrivals precinct and the front door of the venue, we have three food and beverage offerings now with different standards of offering. They are catered to your more traditional pie and chips you would get at a sporting event, but then higher end burgers and Tasmanian beer sales at another concession space, and a third food and beverage offering that can open up for longer periods of time and be operating when the stadium is not operating as a basketball stadium. They are all functions that modern day venues would be built with and which were lacking in the program at the DEC given it is a 30-year old facility.

**CHAIR** - Catering for corporate boxes would be undertaken in those kitchen facilities onsite or would they be expected to -

**Mr FLOYD** - There is a corporate program for the DEC. On that side of the plan shown in yellow, we have a new commercial kitchen and a bar that supports this space and feeds directly out

onto with a very close connection to some of the seating shown in orange just in front of that back-of-house area. Let's imagine corporate seating would mainly be in that retractable seating through that part of the plan, but also the more favourable seating around the courts. You have two rows of operable seats or seats set up game by game that go right up next to the court edge.

**CHAIR** - And for the rental of the space for dinners and the like, those corporate facilities, the commercial kitchen would be available for those?

**Mr FLOYD** - It comes down to how facility management want to run the venue. It has been designed as such where that can run independently to the rest of the stadium, so you do not have to open up the entire stadium. Likewise, that food and beverage outlet which is closer to the Brooker Highway can be opened up and run for the community events and separately to the entire stadium.

**Ms GUEST** - If the internal arena was used as a car show dinner or something like that you can use the commercial kitchen at the back to feed into that area.

**Mr FLOYD** - Yes.

**Ms RATTRAY** - Can you point me to where the corporate boxes are?

**Mr FLOYD** - Sure, part of the top of the plan as it is shaded white which hasn't got colour on it. That's back of house. Directly below that is an orange bank of seating. They are corporate boxes. If you go left, towards the blob of yellow, that is the corporate space. It is shaded yellow, so they have that connection through there.

## **Accessibility and DDA Compliance**

4.7 The Committee was pleased to note that Michael Small from Equality Building had been engaged to assess and formulate an approach to ensure that the DEC Redevelopment meets relevant requirements in relation to access and inclusiveness for people with disability. The Committee sought an understanding of how the redevelopment was incorporating these accessibility requirements into the design:

**Mrs PETRUSMA** – With respect to DDA accessibility.... I used to work with Michael Small on the Premier's Disability Advisory Council, and also because I was the previous Minister for Disability Services. I want to commend you for the fact he has been involved in putting all this together. It is one of the best submissions I think we have seen in regards to this. It is wonderful to see.

It is quite extensive, so are you able to give a summary of how you have made this facility DDA-compliant?

**Mr FLOYD** - We might start at the beginning of the experience, when you arrive at site. What we have tried to do is reform some DDA car spots and align them with a new entrance ramp. There is now a continuously accessible path of travel all the way up to the front door. We have been able to achieve that from that main entrance, where we parked today, but also around on the corporate side of the building.

Once we come inside, we now have the correct provision of DDA toilet. We have provided a new lift. Now DDA patrons can access all of the food and beverage outlets on both levels, and they can move down into that lower part of the stadium and sit in that preferred area of seating on the newer seats.

We have made space for their family members next to the allocations for them, which Michael Small was quite passionate about. It generally is a good result for them.

**CHAIR** - Was wheelchair accessibility to the next level up considered, so they could get a better overview of the site, or was there a bit of compromise on that?

**Mr FLOYD** - Michael recommended trying to put them into an area - a preferred viewing area - as opposed to out of the way, towards the back of your mind sort of thing. .... That was a very conscious decision. The other pragmatic driver for that is that concrete structure of the building is quite hard to modify. Taking a lift up three parts of the stadium would literally put it in front of existing seating which is in tiers in the back of that building so it was not practical on a couple of different levels.

**Mr FLOYD** -

**Mrs PETRUSMA** - For a basketball/NBL game, people who need wheelchair accessibility are better placed in an area at the courts so that they are closer to the court action and the experience when they are seated. Is that what you are saying?

**Mr FLOYD** - Yes, a lot more.

**CHAIR** - With regard to the DDA, it might be a good opportunity to turn to that report which is at the back of the submission.

**Ms RATTRAY** - In regard to car parking, it talks about -

“... while minimum requirements will be met, they have recommended for more than minimum if possible.”

Has that been achieved?

**Mr FLOYD** - It has been taken on notice by the LK Group.

**CHAIR** - At the bottom end where it says -

“... operator monitoring of usage will guide future provision.”

They are going to see how that pans out by the looks of that. My question on the very point you are making: is there any guarantee funds will exist and this will become a reality if they find there is a need for further provision? Is that something the Government would be funding or is it something THE LK Group would need to fund?

**Mr EVANS** - I think the answer to that is we would probably be liable for that funding but we are still in discussion with the LK Group about the detail of DDA compliance more broadly because if we are investing these funds on behalf of the taxpayer -

**CHAIR** - They need to be accessible by the taxpayer.

**Mr EVANS** - DDA compliance is a non-negotiable from our perspective.

**Ms GUEST** - .... Also, the building gets approved by the building certifier... .. He will be going through Michael's reports and ticking those things off.

**CHAIR** - .... After reading Michael Small's addendum on access, how do you intend to keep that in the top of your minds as you are working through? Are you going to have someone like Michael sitting on the steering committee, or somebody charged with keeping those issues that he talks about front of mind?

**Ms TURNER** - Kim may want to talk to it as Chair of our steering committee, but it is certainly something that has been discussed by our steering committee in recent meetings, and continues to be front of mind.

We have a representative, as Kim said, from the Department of Communities, which is useful from not only a sport and recreation perspective, but also from a disability access perspective as well. Those are discussions that are ongoing at the Crown's end. Similarly, Michael will continue to be engaged by the LK Group for the purpose of progressing the design work as well. Thomas and the team of consultants have a weekly design meeting, where a whole range of different issues are discussed every week. As these issues are evolving and being resolved, it is very much on the agenda of all parties that are involved in the project.



**Mrs PETRUSMA** - To get the final approval, it has to be DDA compliant as well, and reach NCC standards, et cetera. There are basic requirements that it has to meet to get final approval?

**Ms TURNER** - Yes, absolutely.

### **Unlocking Potential Future Development of Wilkinson's Point**

4.8 The Committee recognised that redevelopment of the DEC was considered the critical investment that would leverage further investment in the Wilkinson's Point site, and without it, further investments were unlikely to be realised. The Committee sought to explore this further:

**Mrs PETRUSMA** - Mr Evans, in regard to the potential benefits, it talks about how this could offer up to \$200 million-worth of value. Can you outline why this is a good outcome for the site? This is tied up in the Hobart City Deal, the agreement's between State and Federal Government, and it helps to activate part of that. It is an under-utilised piece of land, it is going to have a lot more development on it. Why is this a good outcome?

**Mr EVANS** - I think that what is reflected here is the result of work commissioned by the LK Group in putting together the grander vision to support the redevelopment of the DEC and Wilkinson's Point. Their analysis would indicate that redevelopment of the DEC, establishment of a basketball team, unlocks the future development potential of that broader area. It is a pretty exciting master plan, if you have had the opportunity to look at it. They got some independent economic analysis from SGS Economics and Planning to look at the impacts of the 10-year stage build. You have to remember that the DEC redevelopment is only the start. This is a 10-year future program for broader Wilkinson's Point. Potentially unlocking value of up to \$200 million is pretty exciting in terms of the initial investment that we are required to make.

**CHAIR** - With respect to the multi-sport facility side of it, yes, it is exciting that \$200 million in total is going to be generated. Was an analysis done as to demand and need for that particular multi-sport facility in relation to all the other facilities that are available in the region? Why was this settled on, so that we know that it is not going to end up being a white elephant?

**Mr EVANS** - I can't give you a detailed answer to that question because it is really a matter for the Department of Sport and Recreation rather than the Department of State Growth. It has been long recognised that there is a need for additional community-based sporting facilities, particularly in that part of the Hobart region. I understand that a commitment was made by the Government prior to the last election -

**Mrs PETRUSMA** - I might be able to assist because I was the minister for sport and recreation. Many studies have been done based on the eastern and western shores and there is a dire shortage of multi-sports facilities. Football Tasmania would like it for futsal because there is a shortage of facilities for futsal. Gymnastics Tasmania wants it, Netball Tasmania wants it, Basketball Tasmania is running out of places to hold basketball in the south.

**CHAIR** - It is a covered facility you're talking about?

**Mrs PETRUSMA** - Yes, also badminton. There is a dire shortage in Tasmania which is leading to fewer people participating in team sports. Women and girls want modern facilities, they want toilets and they want showers. We needed more courts, more facilities, better quality facilities to get kids playing sport at a younger age. We needed a development where it could be multi-use sports during the day, age appropriate for seniors during the day, kids after 3 p.m. It is in a central location and allows people from the Eastern Shore to come across the Bowen Bridge. It allows people from the western shore to use it too.

**Mr EVANS** - ... To go back to where we started with a broad picture of a suite of transactions to deliver an NBL team, redevelopment of the DEC, Wilkinson's Point redevelopment or broader development, the redevelopment of the DEC - which is the issue before you today - is

an essential part to realising all of those broader developments and without the redevelopment of the DEC, the rest doesn't happen.

### **Opportunities for Local Businesses and Job Creation**

- 4.9 The Committee was keen to understand how the DEC Redevelopment would benefit local businesses. The witnesses indicated there had already been significant local engagement and that this would be encouraged throughout the process. Furthermore, the tender assessment criteria also contained specific weighting for local content:

**Mrs PETRUSMA** - You mention Tasmanian Government policies relating to Buy Local. Do you have an estimate of how much will be local Tasmanian companies? How are you trying to encourage this development to be as much Buy Local as possible?

**Mr FLOYD** - The methodology has been to embrace the wood encouragement policy, so use a lot of the timber suppliers and manufacturers where we can and leverage off the knowledge that local joiners have - wall linings and their technical knowledge of working with timber. With other materials and finishes, that means dealing with local suppliers for products that come from interstate. A lot of our building products, such as carpet and tiles, are sourced from outside of Tasmania. Kitchen equipment and lighting come from overseas. We've already contacted local suppliers and incorporated a brief for those elements in the tender documentation already.

**Ms TURNER** - To step it up a level, in a consultant and contractor sense, the discussions that we as a Department are having with the LK Group are to encourage if there is a local consultant or contractor that can fill a brief or provide services, then our preference is to look at local content where possible. In the list of companies that have been engaged to date, the vast majority are already local.

**Ms GUEST** - The Buy Local policy is within the tender. That's the formal 25 per cent weighted criteria, and also the mandatory 20 per cent of apprentices for training policy. That's a local policy.

- 4.10 The Committee also sought to establish how job opportunities for northern suburbs residents would be supported and encouraged through the redevelopment:

**CHAIR** - ....Page 6, continuing there. With respect to the paragraph directly under the first set of dot points –

*“the redevelopment will also provide a catalyst for the broader development that will support the precinct to facilitate much-needed job opportunities for Tasmanians living in the northern suburbs of Hobart, noting that, as at the 2016 Census, the unemployment rate in the Glenorchy City Council area was 9.3 per cent.”*

How do you intend to maximise employment from that local area? I hear what you are saying about apprentices and all the rest, but they could come from anywhere. Is there some understanding as to how you intend to do that?

**Mr EVANS** - I imagine that will be through active engagement with Glenorchy City Council. They are very excited about it. The reason they were initially the champion of this broader proposal with the LK Group was about the job opportunities for their local residents. I imagine that, with individual developments, they would be working very closely with us and with the LK Group about how we can maximise job opportunities, whether that is in retail, hospitality, entertainment, other aspects of the development as it proceeds. We can't understate the construction and building opportunities that will emerge, either.

**CHAIR** - Thanks for that. It is easy to write words, but to know that there is a bit of a plan in place to make it happen.

**Mr EVANS** - We would actively work with the LK Group and the Glenorchy City Council.

### **Use of the DEC for Community Events**

- 4.11 The Committee understood the importance of the DEC as a community event venue and recognised there may be some concern as to whether it would be affordable for community groups to use the venue in future. The Committee sought a commitment from the witnesses that the DEC would be made accessible for community events on an affordable basis:

**Ms RATTRAY** - Will it be affordable to hire for a community event as in community sporting event is the question?

**Mr EVANS** - There will be commercial events in there, whether that be NBL games or whether concerts, but we have also provided for in the lease agreement that those community based events are accounted.

**Ms RATTRAY** - So it will be affordable for those sports to hire that venue if it is not being used for the more commercial.

**CHAIR** - It is an important question in terms of affordability. Do you have any cap on what might be charged per event or in some way constrain the commercial nature, given that this third party is operating it? They can virtually charge whatever they may see as commercial proposition for them, but it might not be viable or affordable for the community.

**Ms TURNER** - There are a couple of important things the lease agreement does. It includes a base hiring agreement and requires that the hiring agreement including costs have a reference to industry standard. That is one important thing it does. Separately and probably more importantly, it also requires to the extent the venue is not used for commercial purposes it is available for community usage, including on an at cost sort of a basis. That is to recover the bare minimum costs of opening the doors, not necessarily charging a commercial rate for the usage.

**CHAIR** - Is there a certain percentage of events that have to comply with that or is it so many times a year they have to let it out at this reduced rate?

**Ms TURNER** - It is not specific in that regard. It is intended to capture any days or periods of time where it is not otherwise booked for commercial purposes to be available for community usage.

### **Does the Project Meet Identified Needs and Provide Value for Money?**

- 4.12 In assessing any proposed public work, the Committee seeks an assurance that each project provides value for money, is fit-for-purpose and is ultimately a good use of public funds. The Committee questioned Mr Evans who confirmed that the project was a good use of public money and would provide significant value to the community:

**CHAIR** -To finish, we have a standard set of questions. They are standard, but they are very important questions. It is basically for us to make sure that, under the act, we are able to judge or assess the works.

*I'm asking you the question: do the proposed works meet an identified need or needs, or solve a recognised problem?*

**Mr EVANS** - I think the need is broad. It's about development of Wilkinson's Point and the creation of jobs in Glenorchy. It's about the redevelopment of the DEC as a facility for the NBL, but also other purposes. It's not fit for purpose at the moment

... ..Even prior to the work that's been done in the last few weeks, the state of the Derwent Entertainment Centre is such that it's not fit for purpose in terms of a whole range of aspects, including safety.

**CHAIR** - Your answer is yes, it does meet an identified need?

**Mr EVANS** - It is an enabler to secure an NBL team, which many in the community would see as a fantastic thing in bringing a national sporting team to Tasmania.... ..Yes.

**CHAIR** - ... ..Are the proposed works the best solution to meet identified needs, or solve a recognised problem within the allocated budget?

**Mr EVANS** - Again, I would answer that as yes. When I started, I talked about the examination of three options. We could have gone for a cheaper option, which would not have seen the DEC redeveloped for purposes other than basketball. We chose to adopt option 2, which is the \$46 million option, which will see it fit for purpose for basketball, but for a whole range of other uses as well, including concerts and the like, entertainment. Clearly, the third option, which was \$100 million, was well beyond what we consider was necessary or could afford.

**CHAIR** - ... ..Are the proposed works fit for purpose?

**Mr EVANS** - They will be.

**CHAIR** - Do the proposed works provide value for money?

**Mr EVANS** - ... ..I would go back to my first answer and say they provide value for money, not only in terms of the DEC redevelopment and making it available for a whole range of uses, including NBL, but it's also key to unlocking the further development of Wilkinson's Point and creation of jobs, economic development and the establishment of a team.

In terms of value for money, I think you've got to look at it far more broadly than just the DEC redevelopment.

**CHAIR** - ... ..Are the proposed works a good use of public funds?

**Mr EVANS** - Yes, I believe they are. It's important that we do invest in public facilities. I think the decision to retain this facility in public ownership is a good decision, rather than putting it into a private development. It means we can ensure that this facility is available for public use into the future.

## **5 DOCUMENTS TAKEN INTO EVIDENCE**

5.1 The following document was taken into evidence and considered by the Committee:

- *Derwent Entertainment Centre Redevelopment*, Submission to the Parliamentary Standing Committee on Public Works, Infrastructure Tasmania, Department of State Growth.

## **6 CONCLUSION AND RECOMMENDATION**

- 6.1 The Committee is satisfied that the need for the proposed works has been established in accordance with the Government's policy position. Once completed, the redeveloped DEC is expected to provide a contemporary, multipurpose facility, capable of hosting a wider range of sporting, entertainment and other events than at present.
- 6.2 The Committee acknowledges the Government's view that the DEC Redevelopment will be the key to unlocking significant investment in the broader Wilkinson's Point site, including a much needed community sporting facility and potential accommodation, hospitality and retail developments. The Committee also recognises the Government's intention for the development to provide an economic stimulus, especially in the present COVID-19 period. The Committee acknowledges this further investment is unlikely to be realised if the DEC Redevelopment does not proceed.
- 6.3 The Committee acknowledges that the varied challenges endured by parties to the redevelopment have resulted in an unusual project delivery methodology (in comparison to other public works) and ambitious delivery timeframe, driven by the Government's intention for the DEC to be ready for the commencement of the 2021/22 NBL season. The evidence provided to the Committee gave some comfort that the delivery methodology, if applied as described to the Committee, should be capable of managing the risks and held appropriate incentives such that the redevelopment would be delivered on time and ultimately serve the public interest.
- 6.4 Accordingly, the Committee recommends the Derwent Entertainment Centre Redevelopment *Project Stage 2 Works*, at an estimated cost of \$49,370,542 (of which the Tasmanian Government funding commitment is \$39,770,542) in accordance with the documentation submitted.

**Parliament House  
Hobart  
17 December 2020**

**Hon Rob Valentine MLC  
Chair**

