

**THE PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS MET
IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON TUESDAY 11
NOVEMBER 2008**

INQUIRY INTO FEDERAL HOTELS AGREEMENT

Mr ROB NICHOLL, DEPUTY SECRETARY, DEPARTMENT OF TREASURY, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Mr Wilkinson) - Thanks Rob. Thank you very much for coming along. I do not know how long we are going to be with you. Whatever the case, at 10.55 a.m. we will have to adjourn for a short time and go downstairs and go outside for Remembrance Day.

Mr NICHOLL - Hopefully we are not going to take that long.

CHAIR - You know the terms of reference. It was a Standing Committee of Public Accounts that resolved of its own motion to inquire into and report upon, firstly, the compliance by Federal Hotels in relation to the commitments and requirements in the deed of agreement, Recital B and (e) in Schedule 1 of the Gaming Control Act 1993, compliance by Federal Hotels in relation to the evidence provided to the Public Accounts Committee in the course of the committee's inquiry into the deed of agreement in 2004 and the responsibility of State Government to keep Parliament and the people informed of any variations to the projected time lines and the nature of the proposed developments by Federal Hotels at Coles Bay. Then of course the catch-all, any other matters incidental thereto.

You have been before plenty of committee inquiries before. The way I normally deal with it is to let you open, speak to your submission if need be and then we ask you some questions.

Mr NICHOLL - Thanks. I had not planned to make any opening comments. I think we made a relatively straightforward submission on behalf of Treasury. The nature of our submission was focused on the three extensions granted to Federal Hotels in respect of the development of the Coles Bay resort. We have not entered into any other matters that may be interpreted as falling within the terms of reference but that is not to say of course that the committee might not have other issues that they might want to raise.

CHAIR - In relation to the extensions granted, as you know, part of the agreement was that construction had to start by October 2003 and it was believed that it would be completed by early 2005. Can you just run us through the history in relation to the extensions, please? We are in 2008 now and obviously we are three years overdue and as far as the actual bricks and mortar are concerned there does not appear to have been anything done at all.

Mr NICHOLL - Yes. As I understand, the first two extensions were related in nature and the third was somewhat unrelated, in my view at least anyway. In the first instance Federal had made a request to the Government for an extension with the view of incorporating into the project a water supply and sewerage treatment plant that would have been on a scale to also take account of the needs of the Coles Bay township and community more generally rather than just focusing on the needs of the resort itself. As a result of that, the approvals that they required in order to get a much bigger treatment plant and to increase the scale of the water supply required approvals that they could not seek for some time. In the process of delay in seeking those approvals, they realised that they could not meet the time lines and then came to the Government and the Government granted the extension, as I understand, on the basis of the benefit that it would have been to include the consideration for the Coles Bay community's broader needs in water supply and treatment. At that stage they believed that an 18-month extension would have covered their needs.

Subsequent to entering into that process of seeking the approvals, the application was appealed by the Tasmanian Conservation Trust and my understanding was that a lot of the basis for the objection from the Conservation Trust at the time was to do with the water supply. As a result of going through the Research Management and Planning Appeals Tribunal process, Federal was sent off to negotiate with the Conservation Trust and they reached agreement on an outcome, the details of which I am not sure. That led to them then proceeding with the approvals process and, of course, the time that was taken in the appeal through RMPAT obviously was the result of a further delay. As a result of that the Government agreed to viewing this as an extraneous circumstance, and agreed to an extension of a further two years. I think that at the time, that would have taken completion of the resort to late 2008. In late 2007, Federal's Andrew Eakins, who is the director of finance, wrote to Don Challen, secretary of the department, indicating that for a number of reasons Federal had seen the need to redesign the development, as a result of the redesign of the development they would require further approvals processes and on that basis they would not be able to complete according to the third deadline that was granted. They sought an extension for the last quarter of 2009, effectively another 12 months. On 22 October the now Treasurer, Michael Aird, wrote back on behalf of the Crown granting that extension, but also signalling that having been granted three extensions the Government was now looking for the project to be proceeded with and completed.

CHAIR - Do you know if anything has yet been done in relation to the sewerage works for the benefit of the township and not only the Federal development?

Mr NICHOLL - No, as I understand, but I'm not aware of or close to the detail. The decision in the end was that the schemes couldn't incorporate what they had originally envisaged and the focus is now back on the resort itself rather than the broader Coles Bay community needs. I'm not aware of the technical or the planning details that have led to that decision.

CHAIR - Originally Federal Hotels stated that they believed that they could entertain a water and sewerage development which would have encompassed the whole of the community of Coles Bay, including the development. They went through the planning approvals for that. After that concluded, are you saying that now they're saying that can't occur now and they're just going to focus on the development and not the township?

Mr NICHOLL - Yes. I have an idea that a part of it was valued by Federal and the council to reach agreement on exact terms but I'm not sure of the details.

CHAIR - That didn't form part of the original deed, did it?

Mr NICHOLL - No, it didn't form part of the original deed and, I guess in hindsight, had there been more time in the lead-up to incorporation of the resort development as part of the deed, the Government could have investigated the prospect of whether there were wider issues that could have been included, but no-one was thinking of that at the time.

CHAIR - Sure. In relation to the deed itself, have Treasury and the Government solely looked at the written deed of agreement between the two parties or have they looked at evidence that came out in the Public Accounts Committee in relation to numbers of people employed, the size of the complex, et cetera?

Mr NICHOLL - There's been no specific review as such, but there are a number of mechanisms that are part of the administration of Federal's activities, under the gaming control act and in respect of the deed, that would either directly or indirectly be holding Federal to account on a number of the commitments that they must meet under the deed.

CHAIR - Has the Government ever had to focus Federal's minds on the deed itself, by letter or meetings with them that you know about stating that in comparison with the original agreement that was entered into the time lines had blown out quite dramatically?

Mr NICHOLL - Not to my knowledge. I haven't been involved in any discussions with Federal about any of these extensions specifically.

CHAIR - That is you, what about other members of Treasury?

Mr NICHOLL - Not that I am aware. In fact, my understanding is that the only issues that have come out of Federal's compliance with the deed have been issues around the timing of the development of the resort.

Mr HIDDING - I will go back to the start. I indicate that I believed that the secretary of Treasury was coming. We are very happy to have you, Mr Nicholl, but Mr Challen was tasked with negotiating the deed in the first place. When questioned in this committee, in answer to a question from Mr Wilkinson, who asked: 'Was part of the agreement for Federal to proceed with building to, let us say, a better standard of development up at Coles Bay or any other development like that, or didn't that form part of the negotiation?' Mr Challen said:

'I didn't feel I was extracting that commitment. I felt that Federal Hotels had effectively already committed themselves to do that in terms of their public announcements and with discussions with business leaders and so on.'

My question - and I will place this on the record, although Mr Nicholl is unlikely to be in a position to answer it - what was it that Mr Challen felt that Federal Hotels had committed to, particularly in his reference to 'public announcements'? Every

announcement on that development, up to that date, was about 150 rooms essentially as a minimum. It is competent for this committee to ask Mr Challen, as the principal, to go in to negotiate that deed what he felt was in his mind when they put that development in there. What was that development? Could it have been in Mr Challen's mind that it was a 20-room development? I suspect the answer would be no because of the mountain of media releases and public statements. The fact that those words didn't end up in the deed are somewhat immaterial. What I want to ask Mr Challen is - I am placing it on the record so that he can consider it - was it his view that the development that they placed in the deed was a 150-room hotel, a very substantial hotel in terms of rooms or was it a 20-room accommodation facility? I take it you are not in a position to comment on that?

Mr NICHOLL - I was a party to some of the discussions between the Government and Federal at the time of negotiating the deed. From my recollection, the focus of the discussion on the Coles Bay resort was on the capital value of the development, as opposed to the specifics of the configuration of it. My understanding is that the focus was most definitely on the fact that the development would be of at least \$25 million capital. That is why that was included in the deed as opposed to something that was more prescriptive about the configuration and design of the development as such.

Mr HIDDING - I would be interested in your view, given your position - and I suppose someone in your position has to wax and wane between whether a glass is half full or half empty - if a deed or agreement were to state that a development was to be 'at least \$25 million', what would be the spread of numbers between \$25 million and what, particularly five years after the event, that would seem to be reasonable? You have just alluded to the fact that it was about capital value more than rooms, but did the \$25 million in your mind suggest to be \$25 million or \$26 million or could it have been \$40 million to \$60 million? Bear in mind there was a huge element of inducement in this to seek agreement from Legislative Councillors.

Mr NICHOLL - From my recollection there was no upper boundary discussed. I certainly can't recall having in my mind a range as such and, other than the general concept of a substantive high-quality resort that was discussed, anyone could make a judgment as to whether you thought it was \$25 million to \$30 million or \$25 million to \$40 million but we certainly did not make a specific judgment at that time.

Mr HIDDING - Do you recall considering a different set of words? In other words, if the words said 'up to \$25 million' that would protect Federal but if the words said 'at least \$25 million' that protects the State. Was there any quibbling about those words? Was there any discussion about it?

Mr NICHOLL - Not from recollection. My understanding at the time was that Federal certainly had in their mind that they were committed to some development as part of their tourist business model that they have in Tasmania. Given that they had indicated that they were proceeding with that, certainly the idea during the discussions with them over the deed was to include that and to, for want of a better way of describing it, hold their feet to the fire and their commitment to do some sort of major development on the east coast. But the Government did not have particularly in mind whether it should be a \$20 million or a \$40 million development it was about locking in what Federal had already been planning. As to the nature of the prescriptiveness of it there was certainly

discussion about what it might be like but there wasn't any agreement that it would be locked into a particular configuration.

Ms FORREST - Can I clarify that? You are saying that discussion really revolved around the amount that was going to be spent and there was very little consideration or discussion had in relation to the configuration of how it could be - except that it had to be a significant and premium resort or something like that, is that the word you used?

Mr NICHOLL - Yes.

Ms FORREST - So at no point did you discuss what it might look like, even though the Federal Group had said that it would be 100 or whatever the number of rooms the resort was going to be initially. At any point was there any comment or discussion that that may change?

Mr NICHOLL - Certainly there was discussion at the time about what the resort might look like, although there had been no firm commitment on the part of Federal as I recall or understand that went to a specific configuration.

Mrs BUTLER - Can I pick up on that point too, Rob? What about the number of employees, was that ever set at a certain level?

Mr NICHOLL - No.

Mrs BUTLER - It wasn't? It was kept up in the air? So it was just verbiage that was around in the media that it would be up to 150 employees?

Mr NICHOLL - Yes.

Mrs BUTLER - Right, that is nothing concrete?

Mr NICHOLL - There was nothing concrete.

As I recall, what fell out of the nature of a premium resort development of a capital value of \$25 million plus would have been *x* number of employees, but I do not see how anyone could have sat there and been prescriptive looking forward about how many employees the resort should have employed. That would be a matter for the operator to determine and not really something, I would not have thought, for the Government to be prescriptive about.

CHAIR - He did say, though, in his evidence to the committee that he believed that the number of people employed would be between 140 and 180 - 180 at the high time and 140 at other times. He also stated that there would probably be a cruise boat put on when the development was completed.

Mr NICHOLL - I don't recall any discussion about a cruise boat, that is for sure.

Mr HIDDING - No, that came a little later but -

CHAIR - It came in the evidence to this committee.

Mr HIDDING - Yes that is right.

I think we can find from the submission to today's inquiry from Federal that they are not backing down from the fact that they believed with honourable intentions that they were going to build 150 rooms and there would be about 180 staff. That is what they genuinely believed. It all changed after that, after it was through Parliament, that is the point. That is why I am focusing on the pre-deed discussions because Mr Challen in evidence to this committee said 'I didn't feel I was extracting that commitment' - in other words, it was not forced on Federal to put it into the deal - 'I felt that Federal Hotels had effectively already committed themselves to do that in terms of their public announcements.' So that gives credence to all the media releases, that is what was out there, and their discussions with business leaders.

Further on he says, 'I did not want to come back here after a number of years and say, 'Oh, well that did not go ahead.'

Ms FORREST - That old development or that particular asset?

Mr HIDDING - That forms part of evidence a little later but -

Mr NICHOLL - If I may offer one observation that could be germane to the thinking behind Federal's shift in their planning on the configuration of the resort. My clear recollection is that when the deed was being negotiated with Federal, and there was discussion around the east coast development, Federal at that time was neither the owner nor a planned owner of the other Coles Bay resort.

Subsequent to the deeds they acquired that which had already fixed amount of accommodation with it. As I understand, there was some reconsideration as to what they would do with the other development to meet or match with the amount of accommodation that they were already providing on the east coast given that they had acquired the other.

So I think that is probably a question best asked of Federal, but I do recall that was change in -

Mr HIDDING - So this has turned out to be now an annexe of the Freycinet Lodge. But going into this deal, and these guys had to vote for it in the Legislative Council, we were being offered Freycinet Lodge as it sat and Hazards of Freycinet as it sat. There was no question about one could buy the other and therefore get out of its commitment there.

Mr NICHOLL - I am not sure that you could describe the current development as an annexe of the Freycinet Lodge. I think that you would have to talk to Federal about their business model and how they see these different developments fitting into a system of tourism developments around the State.

Mr HIDDING - How would 20 rooms service a huge convention centre like that? They have got to come from somewhere, they have got to come from Freycinet Lodge to fill up the convention rooms. But that is a matter for Federal. Could I ask Mr Nicholl to have a look at the letter signed by the Treasurer in response to Mr Eakin's letter in 2007?

It seems to me that the correspondence prior to that, the points prior to that for extensions, was about the difficulty the developer had with third party appeals, very difficult and technical negotiations on water and the rest of it, and therefore an extension was, in my mind, completely warranted. That is why that clause was in the deed, so that you did not lose the development simply because of third party appeals.

This one, on 21 September from Eakins to Challen, changes things entirely. It goes on to refer to clauses 4.2 and 4.3. 'These clauses deal with the requirement of the Federal development's new premium standard resort, including the necessary sewerage and water infrastructure required to support that development.'

It goes on to say 'due to its complexity and a somewhat remote construction environment', which is the first official excuse provided, 'Federal also took the opportunity to review the resort design during this time. Following that review Federal decide to take a new approach.' In others words, we are going to drop it now from 60 rooms to 22 rooms.

'And has appointed a new architect to work with existing development. The newly designed resort will still meet Federal's covenant under the deed', so that is a claim that they are making, 'but we are going to have a time line issue so we request that you grant that.' Now if we look at the response. Firstly, is it normal that a letter would come to the Under Treasurer and then be responded to by the Treasurer? Eakins wrote to Mr Challen asking that and Mr Aird has responded.

Mr NICHOLL - I think there could be many circumstances in which somebody might write to the department and they may decide that that is an issue for the minister to respond to and it would be referred as such.

Mr HIDDING - 'Previously it took place' - yes, it is the same stuff.

If we now look at the response, then, signed by Mr Aird, the Treasurer, in the third paragraph - 'I accept that Federal Hotels will use its best endeavours to advance the project' - I don't know what he is basing that on but that is a statement that he has made. 'but I also note that Federal Hotels has recently taken up during review of the project, an alternative approach' - this is where we now drop to 22 rooms. 'I note in Mr Eakins's letter that the new design will still meet Federal Hotel's covenant under the deed in terms of premium standard facilities level of investment'.

It could be read that in no way there is Mr Aird actually giving approval for the new design. All he is noting is that it meets the deed. It makes no comment at all as to any other commitments made anywhere else as to whether Federal would have any other issues other than the deed. The hard words in the deed appear to have been complied with as a result of this thing although in that line there he says 'I note in Mr Eakins's letter' so he is accepting completely Mr Eakins's letter. It doesn't test anything, it doesn't say -

My question is was there any discussion about bringing in the plans, sitting down and talking to these people and saying what are you seriously up to here, what is going on? Mr Eakins has said it is still on the deed and the Treasurer has written back saying Mr

Eakin tells me it is still on the deed and so we are on the deed. It seems to be just a blanket acceptance of whatever Federal Hotels says, which appears to be a peculiar way of going about business.

Do you have any recollection of this exchange of letters at the time, whether there was any discussion in Treasury whether there ought to be better investigation as to the morality, the sensibility, the legality of these people just continually reducing the size of this thing so that it bore absolutely no relation to the original?

Mr NICHOLL - I wasn't personally part of the process of considering the request from Mr Eakins or advising the Treasurer or drafting the response.

CHAIR - That was a question that interested me and I just underlined it - that the deed itself says that the company's covenant with the Crown that subject to clause 4(3) they will undertake development of a new premium standard tourist resort. It would seem the only way that one could understand what a premium standard tourist resort is, is if there was a meeting of minds between both the Government and Federal as opposed to just accepting Federal's saying yes, it is a premium standard resort.

More than likely it is, but unless you have that meeting of minds and meetings between the two to say whether it is or not, how would the Government have known that it was a premium standard tourist resort, other than just taking Federal's word?

Mr NICHOLL - It is a difficult test to meet, isn't it, because -

CHAIR - In other words, I am the Government, trust me; we are Federal, trust us.

Mr NICHOLL - Really I think probably ultimately the test of whether the development is a premium quality tourist resort development will be a judgment by the market and those who use the facility.

CHAIR - How then can the Government enter into an agreement if they do not know whether it is going to be a premium standard resort? That is part of the contract, after all.

Mr NICHOLL - Well I think that is why there was a focus on the capital value. I go back to earlier comments that I made: it is difficult to be prescriptive about the configuration of a resource. If I were to walk in and say to the committee that I was planning a budget accommodation facility somewhere, we would all have in our minds some general perception about what we thought that might encompass.

Ms FORREST - Backpackers.

Mr NICHOLLS - Yes, shared facilities and all sorts of things. If I were to come in and say that I was focusing on a premium resort, there is no particular definition as such. This is about judgments that people make and -

Mr HIDDING - That all came later of course, on evidence. We tidied all that up.

CHAIR - What about convention facilities? It could be one room with a desk and 10 seats. Has the size of this convention facility ever been discussed? I ask that because originally

it was to be 140-180 rooms and now it is much fewer. Surely that would have been discussed, as to what is envisaged with this convention facility.

Mr NICHOLLS - Certainly there was some discussion about the size of the complex in terms of examples given of a number of rooms but I do not recall any discussion about the specifics of the convention facilities other than the fact that the resort complex would incorporate some restaurant and convention facilities and others.

CHAIR - It could be a takeaway with two seats. Obviously it is not going to be but what I am saying is that unless something is tied down -

Mr NICHOLLS - That is true, but I would think that if Federal Hotels were to have gone ahead and put a small room in the corner that fitted 10 or 12 people and called that a convention facility then the Government and certainly the department, I think, would consider that a huge breach of faith in terms of their commitment.

CHAIR - Breach of faith but not a breach of the agreement.

Mr HIDDING - What about 20 rooms as opposed to 150?

Mr NICHOLLS - I do not see anywhere in here where they are tied to a particular configuration.

Mr HIDDING - Well, that came later -

Mr NICHOLLS - Yes.

Mr HIDDING - where we have evidence that Mr Challen understood what this development was going to look like in his mind where it was referred to and effectively already committed in terms of their public announcements. These public announcements were copious and definite. We got another one yesterday. They are very good at this stuff; they create a picture in people's minds of what we are talking about. I want to ask you about the original discussion around the deed when you said it was about the money. Why was the money of any interest to the Government other than - let us say, \$25 million is a wow factor. That is good for the construction industry because it cycles through the construction - \$25 million is great. It is over in two years though, and that is all gone.

You see, what the people of Tasmania and the members of parliament are interested in was the fact that the tourism industry in Tasmania in the regional sense was in trouble, that it was being concentrated around the cities and the west coast and at Strahan, Cradle Mountain, back to Hobart or up to Launceston and out. The east coast was struggling for its share of tourism. Here was a way to spread the tourism benefit around Tasmania particularly up the east coast. If there was going to be a huge hive of activity in Coles Bay somewhere, in Bicheno, Swansea, St Helens - everything around in the satellite of this major development was going to benefit. All the public announcements were about how good it was going to be for the east coast, what a big development it was going to be for the east coast. How could, then, the only interest of the Treasurer be of the 25 million? Surely somewhere in there it was in your mind that this was something exciting for the east coast of Tasmania in terms of economic development?

Ms FORREST - And employment. You are talking about that sort of thing.

Mr HIDDING - Yes, development and employment. I mean, 150 people living on the coast cycling through because they are shift workers. That's 300 people.

Mrs BUTLER - They bought Churinga Farm in to house them.

Mr HIDDING - Yes. There is no argument about what it was going to be because they bought all this stuff. But what it was going to be and what it ended up to be is chalk and cheese. I am interested in what was in the mind of Treasury when they were actually putting this together. That is what the Chairman has just been asking. Surely there must have been some meeting of the minds about what we are talking about, even though the words did not go in the contract. Before the deed was signed there must have been some implied terms. We are going to get into implied terms and collateral contracts later in the deal about the submissions to the Public Accounts Committee. That came after the deed was signed. I am very interest to know whether there were any implied terms - and of course there were - prior to the signing of the deed?

Mr NICHOLL - I go back to my earlier comments. The focus of the discussions was on the capital value and I think it stands to reason that in the nature of the type of development that you are talking about, a tourism resort, you cannot be prescriptive about employment levels, either during the construction or the operational phase for a particular level of investment. However, you certainly know that there will be more jobs associated with a \$40 million investment than there would be with a \$5 million investment.

CHAIR - It depends what you charge for the rooms, doesn't it? If you have 100 rooms that have to be catered for by staff as opposed to 20 rooms catered for by staff, it does not make any difference -

Ms FORREST - You could be paying \$3 000 a night, expecting your own live-in person who is just available at your beck and call. Has there been any discussion about such things?

Mr NICHOLL - I think that question is best directed to Federal because that is part of their business model. I certainly do not recall, at the stage that this development was discussed and incorporated into the deed, that there were specific plans on the table. It was very much still in the concept phase.

Mr HIDDING - Other than the public announcements that Mr Challen referred to. They had already committed themselves to do that in terms of their public announcement. The environment they are operating in involves a storm of media releases about what is going to happen at that place.

My question to Mr Challen would be, if just prior to the Government signing their part of the deed, and Mr Challen had been advised by a whisper in his ear that Federal were building a 20-room resort, that he would have pushed the alarm bell and advised the Government not to sign because it was nothing like the public pronouncements and what it would appear from what he has told this Parliament, nothing like what was in his

mind? I would like to put that question to him and I might get a chance some time but he might respond to this committee based on what I am saying now.

CHAIR - It seems to me from what you say occurred, to an outsider looking in, one might assume that Federal stated to Treasury that the development is going to be at the Hazards, with x rooms and employing x staff, costing not less than \$25 million. Government took into account that Federal has been a good corporate citizen, with Wrest Point Casino and the Country Club in Launceston as well as developments on the west coast, and the Government trusted that it would be a proper development to the tune of \$25 million and more and left it at that. Is that a fair conclusion that I could make of the situation on the basis of prior history of Federal and what they have done in Tasmania? The reason I ask is that Federal does not seem to have been asked what type of convention centre was envisaged; how many people were to be catered for; the type of restaurant, gym, whether there would be tennis courts, swimming pools, saunas, bars et cetera. None of that seems to be entertained as far as the particulars are concerned. It just seems to be a general acceptance of a \$25 million investment and trusting that all would be okay.

Mr NICHOLL - Yes, I think that is probably not an unreasonable broad summary, but you have to put it in the appropriate context. To me the appropriate context is to ask the question, is government, and more specifically, is Treasury best equipped to make judgments about what the configuration of the resort should look like and should we be trying to lock in a level of detail that just made the administration of the deed so complex and inflexible over a period of time if the need for sensible change did arise?

Certainly in our minds when somebody like Federal comes forward and says they have in mind a \$25 million development, we would have a rough idea about what we thought the benefits the Tasmanian community would derive from that during the construction phase. As I said before, you cannot be prescriptive about employment levels per million dollar of investment, but you can have a fair idea. As to the ongoing employment levels, I think you could easily envisage a situation in which a 20- or 30-room resort employed as many if not more people than a 100-room resort. I think at the time we did not have a specific employment level in mind, and in my view it is folly for governments to go down the route of trying to lock in specific employment numbers. Sometimes trying to adhere to employment commitments would make a business weaker than would otherwise be the case. I think it is about finding that range in which reasonable flexibility allows business to get on and meet a broad commitment to government and government being satisfied that generally this can be met without being too prescriptive.

CHAIR - But it is business, I suppose, although I hear what you are saying in relation to it. I could have a builder say he could build a deluxe house for \$3 million. Do I say, as the person giving the business, do it or do I specify what I want. I would have a general idea as to how it is going to look before agreeing. A great ogre of a building could have been envisaged in the Hazards, one might argue, which nobody would agree to but Federal was abiding by the agreement of spending \$25 million building a huge thing like you see on the shores of Dubai.

Mr NICHOLL - Yes, in some regards it goes to the extent to which the development was considered a core part of the requirement of the deed.

CHAIR - Very much a core part because it is in there.

Mr NICHOLL - Yes.

Mr HIDDING - If you look at the passage of the legislation through the Legislative Council it was not that easy. There were a lot of concerns about other elements in the deed and then people refer to Coles Bay. It was a very real and genuine thing, and Jim Bacon from day one was holding it up as 'look what we got'. He said the Liberals only got a couple of cafes started up the last time they did a deal like this.

Ms FORREST - The comments Jim made in relation to building monstrosities, for want of a better word, the projects still would have to go through the planning approval process. Also what you said earlier about what Federal have done in other parts of the State, some they bought already built, like the Cradle Mountain Chateau -

Mr HIDDING - In fact they have done nothing since Country Club.

Ms FORREST - Yes, that is besides building it. They purchase and update to a certain standard. Is what you would expect?

CHAIR - I do not know. I want to look into what was envisaged beforehand, what has happened now and as a result of what has happened now, is the Government saying they have to abide by the agreement?

Mr NICHOLL - I think there would be no doubt in anyone's mind that what we envisaged is a separate, stand-alone resort development facility on a completely different site to the one that they have subsequently acquired. As to the configuration -

Mr HIDDING - Say that again. Sorry, did I miss something there? You were saying. Just start that sentence again.

Mr NICHOLL - I do not think there could be a question in anyone's mind that what is expected and what was envisaged was a separate stand-alone resort development facility. Separate to anything else that Federals were involved in. As this question goes to the actual configuration of it, there was no commitment to a particular configuration as I recall.

My view remains that those sorts of decisions are best left to Federal Hotels. They gave a commitment to a certain level of capital investment which I think we can all reasonably envisage a range of benefits to derive from. I said at the outset that I thought that the first two extensions were of a similar nature to the last one and I did highlight that at the outset. One way to interpret the series of events is to say that the only, for want of a better way of describing it, I will choose my words carefully here, discretionary extension might be this final 12-month extension because the previous extensions of three-and-a-half years were definitely on the basis of extraneous issues of a technical matter beyond.

During that period for reasons that I am not privy to Federal Hotels have had a rethink of what it is that they are doing there on the site. What we are interested in is ensuring that they are going to put in at least \$25 million to that investment.

Mr HIDDING - Could I interrupt you, because that is what is in the deed. Yet it is stated in such bald terms in the deed that it is of interest to this committee as to whether there were any other implied terms that could be reasonably expected. I think we could reasonably expect there was some performance in the mind of Treasury. You are telling us you do not recall it, well that is fine.

Can I just ask you this now? In the full knowledge that following the signing of the deed Federal Hotels, Mr Farrell, your head of Treasury, your boss, and your boss the Treasurer at the time, Mr Crean, all came to Public Accounts Committee and put a mountain of words on the *Hansard* of this Parliament. If Treasury is asked the question by Mr Eakins as to the fact that they want to change the nature of the development, was there anything in your mind that said actually while it might be sheer matching words to words in the deed, while we might make that fit, do we not have a problem here that they went in and made a commitment to the Public Accounts Committee that this could be breaching? Treasury knew that there had been a week or two of hearings on this matter so we have a mountain of evidence, of extra evidence and material that was placed on the record in order for these people to make a decision on how to vote. Was there any thought of going to see what they had said there?

Mr NICHOLL - All I can say is - you mean in terms of the last extension that was granted?

Mr HIDDING - Yes.

Mr NICHOLL - I was not a part of that process.

Mr HIDDING - If you had been part of the process and if, for instance, you were aware that Mr Farrell had come to the bar of the lower House or the bar of the upper House and stood there and put his hand in the air and said I warrant I will build a 150 room motel at Coles Bay and then walked away. Would that be a problem for Treasury in granting this extension?

Mr NICHOLL - I think I can only answer on behalf of myself and I would say, yes, that would give cause for me to want to ask a lot of questions. But the focus would be in my mind does this deliver in broad terms a similar level of benefits than what the \$25 million envisaged was at the time. As I say, we do not have any particular numbers on that but if Federal were to come back and say we are now going to do a cafe and a meeting room with two or three bedrooms and it will only cost us \$12 million'. I would say well on hold a minute that's -

Mr HIDDING - What about if it was a cafe and two bedrooms and it cost \$25 000 010?

Mr NICHOLL - If it only employed five people, I would say there was definitely an issue there. Without having a particular number in mind, employing five people in a \$25 million development would certainly be very different from what we would have envisaged in the back of our minds.

Mr HIDDING - So there was an envisaging in the back of your mind? There is more than the deed in place here.

Mr NICHOLL - But, as I say, there was no formula, configuration or employment level numbers.

Mr HIDDING - You are telling me as a professional officer that if you were aware that a party to the deed had come to Parliament and stood at the Bar of the House and warranted to do something, then you would not be advising your minister to agree to a change without him going back before the Bar of the House to explain himself? It could be argued that that evidence to the Public Accounts Committee is just the same as coming to the Bar of the House.

CHAIR - Who was present at the deed negotiations?

Mr NICHOLL - As I recall, for most of the discussions there was Greg Farrell, Andrew Eakins, Don Challen and myself.

CHAIR - These were the discussions prior to the commencement?

Mr NICHOLL - Yes. There were a number of issues that were discussed over the period, including tax rates and all sorts of things.

CHAIR - You would have discussed then approximately how many rooms it was going to be, would you not? There would have been some indication given to you as to the rooms, employment and the benefits for Tasmania. Here we are, the Government agreeing with Federal to extend the agreement for 15 years - quite an extensive agreement, one could argue, worth a substantial amount to Federal Hotels. There would have been some conversation as to how big the development was envisaged to be. It is hard to accept that that conversation didn't take place, for me anyway.

Mr NICHOLL - I recall there being discussions about the broad configuration of the resort so that it would include convention facilities, restaurants and accommodation, but I honestly do not recall there being any discussion about the specific number of rooms. I have heard numbers ranging from 60 to 150.

Mr HIDDING - When did you hear 60?

Mr NICHOLL - It was part of a media discussion or something like that.

Mr HIDDING - Yes, that was after the event.

Mr NICHOLL - Oh, okay.

Mr HIDDING - We have that time line. Mr Farrell himself will agree, and he has agreed, that up until it went through the Legislative Council it was always 150 rooms, no question. You are saying now that you didn't understand it to be 150 rooms necessarily but you had a picture of a substantial resort in your mind. Was there any discussion then about why and how good this was going to be for Tasmania? What was in this for the broader community? In other words, this was put up as being a clincher, this was to clinch the deal in the upper House. What was the good thing for Tasmania in this inclusion in the deed? What was the trade-off? What was the good thing about it? Was

it the \$25 million construction costs or was it \$25 million to energise the tourism industry on the east coast?

Mr NICHOLL - It was a package of benefits that were not just the benefits that derive from construction at the facility itself but the ongoing benefits of all of the supplies that Federals would buy from around the State, the employment and a number of other things.

Mr HIDDING - For 20 rooms it has an industry average of 45 per cent occupancy at that rate. If they are high-rollers travelling without their wives, we could be looking at a total of 15 warm bodies on the east coast as a result of this development. That is the sum total of the number of customers who at any given time would be at this resort. Does that gel with the thing you had in your mind, that it was a resort that was going to be good for Tasmania and was going to be good for the east coast?

Mr NICHOLL - You could build a 200-room facility and only sell 30 rooms in it.

Mr HIDDING - No.

Mr NICHOLL - That's true. I don't think building a large resort guarantees you anything in terms of patronage so -

Mr HIDDING - I could argue with you on that. If you have 100 rooms - because in his submission to this committee Mr Challen said he always had 100 to 150 in his mind - in the market place after having spent \$25 million or more, probably \$40 million to \$60 million, and you've spent on marketing, there is an accepted lower range of occupancy. In other words, no matter how hard you try, you couldn't possibly get down to 10 or 15 rooms sold out of 100 rooms. There is an accepted range of occupancy, even in high-roller rooms. Kangaroo Island and other places like that have those numbers. There would be an accepted range of occupancy in a 100-room development and there would be a damn sight more people on the east coast cycling in and out than there will be from this lot.

Mr NICHOLL - You're assuming that the latter will create a greater benefit for the community of the east coast and maybe Tasmania more generally, than the former and I'm not sure you can make that assumption.

Mr HIDDING - At \$3 000 a night they're not going to rent a Commodore from Avis and drive up; they're going to be choppering in and out or getting a limousine to and from the high-roller rooms and they'll be staying for two or three nights. As opposed to a \$250 to \$300-room price point, which is what he placed on the record as -

CHAIR - It was a \$500 price point.

Mr HIDDING - Yes, \$250 to \$500 price point per room. People would be staying much longer and there'd be a damn sight more activity on the ground. It seems to me that it's hardly worth arguing about.

Mrs BUTLER - I was involved in the tourism industry in Swansea in 2003 when this was first mooted and the general feeling was excitement, doubt, but also, 'Gosh it's going to

suck everything out of Swansea'. There were mixed feelings about it but I can set the context as a director of the TT Line at the time, we didn't have the cheap airlines. You have to remember what it was like then. I think things have changed a lot but. Rob, as a member of the Treasury staff, what's the current dollar amount of \$42.5 million in 2003? Real estate values are different, the value of the dollar's different.

Mr NICHOLL - I'll have to go back and do some sums on that.

Mr HIDDING - It's actually not that scary. The exponential numbers on the CPI -

Mrs BUTLER - Is it \$32 million?

Mr HIDDING - It's \$30 million and a bit, I think.

Mr NICHOLL - I can accept it would be in the order of about \$30 million, but I don't know exactly.

Mr HIDDING - If you were to go on CPI, it doesn't go because you've only got 1 or 2 two per cent and a couple of points.

CHAIR - Rob, do you know who's doing the building?

Mr NICHOLL - No, I'm not aware.

CHAIR - Part of the agreement was, as you're probably aware, in undertaking the development described in clause 4(2)(a) or any alternative developments, they will engage Tasmanian contractors and labour and will use Tasmanian materials where it's possible and commercially feasible to do so. Have the Government looked at who's doing it or where they're getting their materials from?

Mr NICHOLL - I'm not aware that there's been any specific audit of the contracts for construction, which would be the way that you would determine it.

CHAIR - Part of the agreement is that they will introduce a flexible operating model that permits a licensed premises, gaming operator of a club or a hotel to choose from the selection of companies then available, the games and gaming machines that the operator considers most appropriate for those premises. Do you know anything about that?

Mr NICHOLL - As I understand, there are a number of administrative processes that the Gaming Commission administers under the Gaming Control Act and they approve the contracts more broadly and the arrangements, machine rental rates and things like that, between Federal and the licensed premises. I am given to undertake that the Gaming Commission's consideration in approval of those has also included some consultation with the AHA and the clubs association.

CHAIR - If you had your time again, do you believe a similar agreement would be constructed in the same way? That is, leaving the terms of that agreement very broad and very open, as opposed to properly particularising the agreement? One could argue that the agreement now seems to be okay as far as the money is concerned, but there could be

an argument that it is not going to inject the same amount of energy into the east coast as was previously believed.

Mr NICHOLL - Once again, I would say that I am not prepared to accept that the benefits that will derive from the finished project will necessarily be anything less than what was envisaged, but most certainly there is a delay in those benefits arising. Would I consider, with hindsight, that we would do this differently? I do not think so, although certainly I think we would probably want to consider some more specific provision for the prospect of delays, given the appeal and planning delays we have seen Federal go through.

CHAIR - And the sensitivity of that area as well.

Mr NICHOLL - Yes. I think with the benefit of hindsight, we would probably be trying to build into that some tighter mechanism for the way in which extensions could be considered, but that is just my view; that might not necessarily be the view of government or anyone else.

CHAIR - Is Treasury still happy with the agreement that they entered into back then?

Mr NICHOLL - I have no reason to believe that the nature or construction of the agreement is deficient in any material way. It certainly reflects the policy desire of government at the time, and they were the instructions we were working to when the deed was negotiated.

Ms FORREST - Rob, earlier you talked about the water and sewerage issue. You said, 'Now we're back to looking at a development that just focuses on their own water and sewerage' - is that right?

Mr NICHOLL - I believe that to be the case but, once again, I have not been involved in the detail of any of the negotiations around water and sewerage projects. I am aware that there have been a lot of issues over the last couple of years about that but I have not personally been involved in any of those issues directly.

Ms FORREST - The question in relation to it - and maybe we can check with Federal as well - taking into account the recent water and sewerage reforms and the infrastructure being split into the three bodies, will that potentially have an impact on this if there is capacity here or still remains the capacity to address the Coles Bay water and sewerage issue?

Mr NICHOLL - Certainly the east coast issues will be swept up in the management of water and sewerage services under the new regional corporation.

Ms FORREST - What does that mean for this development, then? I know it is not part of the deal -

Mr NICHOLL - I do not think there is anything in particular in terms of an impact for this development because the legislation as it has been passed provides for private water and sewerage schemes to be outside the licensing regime, so it does not necessarily sweep those up into it.

CHAIR - Rob, you said you were not part of the discussions for the last extensions and design changes. Do you know who was part of those discussions?

Mr NICHOLL - No, I would have to take that question on notice.

CHAIR - Did Treasury advise that Parliament should have been advised of the extensions and the changes? Was that part of Treasury's advice to the Government that, 'You should advise Parliament of this'?

Mr NICHOLL - Once again, I would have to take that on notice.

CHAIR - If you wouldn't mind, thank you.

Mr HIDDING - Coming back to the construction of the deed, we are fortunate enough to have one of the four people who were around when that was taking place. One of the reasons we are in the pickle we are in - that this inquiry is in fact happening - is that it was necessary for the Public Accounts Committee to hold an exhaustive process because there was a duress clause inserted into the deed. That was clause 6, which said that if there were any amendments made to this deed then neither party would be bound by the deed from that point on, and the very clear threat in discussion in the Legislative Council and elsewhere was that if you sought to amend the deed - Mr Harriss sought to amend it and Dr Crean went off his tree and said, 'The deal will be dead; it will be no longer', and implicit in that, prior to that, was that if the deal is dead then the State could be flooded with thousands of poker machines. So therefore you couldn't possibly touch the deed; no member of parliament was allowed to even contemplate changing the deed and so members of parliament sought to get more comfort prior to agreement of the deed by a Public Accounts Committee inquiry being set up.

So the reason we are here today is that that clause was inserted in there, otherwise it would have been competent for the lower House or the upper House simply to amend the deed to say that a premium standard resort of a major number of rooms - x number of rooms - as explained or publicised by the developer, will be built. We were not able to do that so we had to seek these things. Why was that clause 6 put in there, in spite of the fact that a contract law had actually made the contract quite unsafe because it had an element of duress and it was therefore a possible vitiating circumstance to the deal in the first place? What was the genesis of the duress clause, and why did it go in there?

Mr NICHOLL - As I read clause 6(b), which I think is the clause you are referring to, it provides for the legislation to have been enacted but without amendments that prevent the Crown from complying with its obligations under the deed.

CHAIR - It's under 'General'.

Mr NICHOLL - I read that clause as being a protection for the Crown that it was not being locked into doing anything to commit Federal should the legislation have been passed in a manner that would have committed the Crown to doing things that it could not otherwise perform under the deed. So I see that as quite a level of protection to the Crown; that is my interpretation of it.

CHAIR - The deed says:

'If by 1 August 2003, or such later date as the parties agree, the legislation -

- (a) has not been enacted; or
- (b) has been enacted but with amendments that prevent the Crown from complying with its obligations under this deed;

then from that date this deed ceases to bind the parties, who will have no claim against each other about anything done or omitted to be done under this deed'.

Mr NICHOLL - Yes. So in other words you didn't want the legislation to be passed with the Crown being bound to this deed and things it had to comply with, which would have made it unable to do so because of the amendments to the legislation. I see that as a protection clause to the Crown. It gave the Crown the opportunity to walk away from the whole deal if it had been put in a position where the legislation was asking it to do things that it could not comply with under this deed.

Mr HIDDING - And that is also in clause 6(a), which is where the pressure came from for the Public Accounts Committee to get this damned thing through, because technically we are in a situation where Mr Farrell could flood this State with poker machines, so we had to hurry up and get the job done.

CHAIR - Because the Public Accounts discussions were held on 16 July and this had to be done by 1 August.

Mr HIDDING - Yes, but it went through -

CHAIR - That was the speed.

Mr HIDDING - I think it went through the Legislative Council in September, didn't it? I don't think it went through in time.

CHAIR - No, but in accordance with the general thrust of clause 6.

Ms FORREST - The clause is there for a later date if agreed to.

CHAIR - That's right. Any other questions for Rob?

Mr HIDDING - Is there any correspondence? I perceive that if there were such a small number of people discussing this deed - and I remember, because I was Leader at the time, the circumstances and the politics and the flavour of all the negotiations; we gave them the lurid term of being done in the middle of the night - but I do not suppose there is a trail of correspondence that you could offer this committee as some sort of comfort as to what the flavour of the discussions were?

Ms FORREST - Minutes of meetings?

Mr HIDDING - Minutes of meetings, or an exchange of letters that could assist us in understanding what was in the mind of the negotiators, other than what we have placed on the record of the Public Accounts Committee which, as Mr Challen says, are the public pronouncements on this.

Mr NICHOLLS - I do not think we have anything that would necessarily enhance the evidence that has already been provided to the committee in terms of - when did the committee -

Mr HIDDING - We have *Hansards* of the evidence Mr Challen gave to this committee. We now have the *Hansard* of what you have said and both of you were involved in the negotiations. Just going back to the questions that Mr Wilkinson was putting to you a little while ago about what was in your mind as to what the nature of this development really was, is there any correspondence or minutes that might assist us in understanding what was it was on your mind, or were all those discussions completely verbal leading up to the signing of the deed?

Mr NICHOLLS - I do not recall them being all completely verbal but I would once again have to take that question on notice.

Mr HIDDING - I might seek the assistance of the Chairman here - I mean, we have FOI laws -

CHAIR - I suppose one could ask that if the information came forward, at first it would be heard in camera, and then before any decision, if it were to be made public, there would be negotiations. There could be - and I am just thinking out loud - an undertaking from this committee that there would have to be discussions with yourself or whoever you designated to decide whether they should remain in camera or otherwise.

Ms FORREST - It would be normal practice to keep minutes related to a document's development such as this, wouldn't it?

Mr NICHOLLS - As I said, to the extent that there is anything on the record that would enhance the understanding, I am not sure. I would have to take that on notice. I am certainly happy to do that and get back to you.

CHAIR - Can we first take that on notice then, please, Rob. If there is nothing then there is no need to take it in confidence. If there is something -

Mr NICHOLLS - Yes - there is a further consideration as to how that's received.

Mr HIDDING - However, when the Chairman says 'If there is nothing', that still leaves it open to Mr Nicholls' judgement as whether it would assist us or not. How about we be the judge of that?

CHAIR - All right.

Mr HIDDING - Considering that this is a major issue for us; we are going back to something the PAC did back then, I think it is fair to ask Treasury for -

CHAIR - The documentation of all minutes and/or letters and/or different discussions that were had involving the negotiations prior to the signing of the deed.

Mr NICHOLLS - Okay.

CHAIR - Is that all right?

Mr NICHOLLS - Yes.

CHAIR - Thank you. Did you want an undertaking from us in relation to the supply of those, Rob, that at first that would be held in camera and if it was to be made public that we would first come back to either you or somebody designated by you to discuss whether it should or should not be in camera?

Mr NICHOLLS - If we had the understanding that anything would first be provided in camera and then subsequent to that, if there was some debate as to whether it was in the public interest to release that, then we could have that discussion at the time.

CHAIR - Yes, we will give you that undertaking.

Mr NICHOLLS - So just in summary before we conclude, I have three questions on notice. Is that correct?

CHAIR - Yes. One, did Treasury advise the Government that it should advise Parliament of the extensions or changes to the agreement? Two, who was part of the discussions for the last lot of extensions? Heather will go through Hansard and formalise that with a letter to you, Rob, if that is convenient.

Mr NICHOLLS - Okay, very good. I'm happy to do that.

CHAIR - Thanks for coming along and giving up your time.

THE WITNESS WITHDREW

Mr ANDREW EAKINS, DIRECTOR, FINANCE; **Mr GREG FARRELL**, MANAGING DIRECTOR; AND **Mr BRENDAN BLOMELEY**, CORPORATE AFFAIRS MANAGER, FEDERAL HOTELS LIMITED, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR - Thank you, gentlemen, for giving up your time and coming along today. You were here about five years ago talking about the same issue. Would you like to speak to your submission?

Mr FARRELL - Firstly, I would like to thank you for the opportunity to address our submission. It was something that we felt very strongly about. What we sought to do in our submission was demonstrate that the company at all times complied with each and every obligation under the deed. Subsequent to attending the PAC inquiry in July 2003, the company decided on several occasions to revisit the design of the development at Coles Bay and subsequently a number of changes have been made which resulted in yesterday's announcement of the commencement of the construction of Saffire. It is fair to say that those changes in no way undermine or diminish the company's commitments under the deed.

During that same process, since my last visit here in July 2003, the company sought and received three extensions by the Government in relation to the development, which was in regard to difficulties in receiving regulatory approvals, particularly in relation to, in the first instance, the amalgamation of the water supply and, secondly, a significant amount of time spent investigating the ability to provide a waste water treatment plant solution for not only our own development but also for that of the community of Coles Bay. It is fair to say now that all regulatory approvals are in place, building works have commenced, and we expect to have an opening around December 2009 which, once again, would meet our obligations under the current extensions granted to us by the Government.

I think that probably encapsulates the key points of our submission, but I would welcome the opportunity to address any questions.

Ms FORREST - To address the issue in relation to water and sewerage, from what I understand, originally it was just to do with the resort itself and then it was extended out to the Coles Bay community to look at supplying and providing a water and sewerage structure for that community, and I understand now we are back to looking at just the resort. Is that right? Is that where we are?

Mr FARRELL - No, in the first instance the deed specified that we would need to obviously address such things as the fresh water and waste water treatment plant options. In addressing the fresh water solutions for the development, it was clear that for any development to be successful it would need to have sufficient fresh water. We ourselves had access to a small dam on our own crown leased land, so we entered into discussions with the Glamorgan-Spring Bay Council and the State Government over a holistic solution that would ultimately provide the company with a bountiful source of water whilst at the same time go a long way towards improving the perennial problems that Coles Bay has.

Essentially that led to doing several things, one of which was an expansion of the town dam by removing and building a new main dam wall and spillway. Then there was the cleaning out of the tin mine dams and amalgamating two dams into one, and then connecting the tin mine dams to the main town dam; and then there was the enlargement of Federal's own dam from some eight or 10-odd megalitres to 50 megalitres. That is currently being connected as we speak to the other two water sources, which is increasing Coles Bay's water supply from something like 70 megalitres to 375 megalitres in total capacity.

That was done at an investment by the Federal Hotels Group of \$1.8 million, with a contribution by the Crown of \$780 000. Essentially the outcome of that will be a guaranteed supply to the Federal Hotels development of not less than 50 megalitres of water per annum, which is more than ample to ensure that we are able to meet the most discerning standards in relation to running the spa development and the suites.

In relation to the waste-water treatment plant, the company had investigated the development of a plant that would solely meet its own requirements. After discussions with the Crown and Glamorgan-Spring Bay Council around 2005, we agreed to investigate a holistic solution which would also cover the township of Coles Bay. Although at that time we recognised that it would not be a short scope assessment process, we felt that it was worth taking a longer-term view, and from personally experiencing on many occasions the difficulty with raw sewage in Coles Bay around the Christmas holiday period around the Iluka Tavern and bakery area, it was totally unacceptable. For one of the most beautiful, unspoilt places on earth, to have for several months of the year the stench of raw sewage to me was totally unacceptable for the community and totally at odds with our position of the new development being built in one of the most iconic and beautiful locations in the world.

So we spent some two years working in conjunction with the Glamorgan-Spring Bay Council and the State Government over providing a solution that would enable Coles Bay to be sewered. However, ultimately the cost of providing a holistic solution became prohibitive for the council, and the council removed itself from a memorandum of understanding in about November 2007, at which time we reverted towards a solution that would specifically look after the requirements of Saffire as opposed to a large-scale solution.

The potential for a large-scale solution for Coles Bay still remains, and I would very much like to see that happen, and I think that may well happen at some time in the future. Hopefully, as technology expenses or costs become lower, we will see that vision become a reality, because in the long term we still have a concern about the fact that Coles Bay cannot cater for the population during peak periods because it is built on granite, obviously, so as accommodation levels rise at the caravan park, and so on, it does produce overflows and obviously from its domestic use as well. We still believe the vision was right, and though it did take some considerable period of time to work these issues through, I think we would do it again.

CHAIR - Greg, what is that going to do for the business? You were saying at the start that you believed, firstly, it wasn't good for the area because of the stench over the high-density months, and also that it wasn't ideal for the type of development you were

proceeding with at Saffire. So by only having the plant for Saffire development, there's still going to be that stench in the busy periods.

Mr FARRELL - There still will. At some point of time it will be addressed, I am sure, by the intervention of council and government, but the costs at this point of time were too prohibitive for the council to continue with the development of the option. The second issue we spent a lot of time on related to that was how we distribute the treated waste water. There was significant community angst over the various solutions that were proposed, which included, in the first instance, ocean outfalls, and ended up with a solution which would have seen the water piped across Moulting Lagoon and towards the Webster's walnut farms' dams. That would seem to be ultimately the best possible solution. There was probably a year-plus worth of working with the community groups over what was the most sustainable solution for dealing with the treated waste water.

CHAIR - In relation to the deed itself, what was actually envisaged when the agreement was entered into in the first place as far as a development was concerned?

Mr FARRELL - Jim, in the first instance, what was envisaged was actually envisaged well before that of the deed, so the company's commitment to developing a world-class development at Coles Bay was born well before the company entered into the 1993 Gaming Control Act. At that time, we envisaged building a world-class development that would set new standards for Tasmania and would place Tasmania on the map as an internationally appealing destination for net-worth individuals who currently do not find that Tasmania offers the physical assets to achieve that. Tasmania has always had wonderful natural assets and quite a few historic assets, but it has not had the pulling power of, say, the New Zealand lodges or the very best of the Australian boutique accommodation.

CHAIR - This is the 2003 act, you said 1993.

Mr FARRELL - Sorry - 2003. We did a lot of market demand work to identify whether people would find a premium quality product built at Coles Bay an attractive place to visit. Our streams of demand work suggested that in fact there was a significant market for premium quality facilities at Coles Bay. By that I mean that it would highly likely be successful, which led us in the first instance to the concept of developing a larger facility.

Originally we were talking about 120-150 rooms; I think that was the case five years ago. Quite frankly, the streams of demand would suggest that such a facility could be economically viable. However, market research we undertook to determine what actually turned people on and off clearly was at odds with the streams of demand work, which was essentially saying that away from capital cities, what discerning guests were looking for was something that was boutique and exclusive, that allowed people to have a feeling that they were only people on the planet, so to speak, and that exclusivity and large-scale developments were not compatible.

CHAIR - When did that come about?

Mr FARRELL - Some of that research started to emerge at about the same time that we were presenting back in 2003. My own personal view was that the larger-scale

development would work and I was pretty well convinced about that. I have to say that I championed that throughout our own business and against all comers, so to speak.

CHAIR - And of course the Public Accounts Committee - that was stated as well in 2003, wasn't it?

Mr FARRELL - Yes, and that was certainly our intention. As the time progressed, however, several things probably happened. We became more and more appreciative of what the trends were domestically and internationally with boutique or five-star developments. For instance, we became aware that the one that was being developed in Australia around the same time was Great Southern Lodge on Kangaroo Island, which had a 20-suite development, quite similar in scale to what we are building, with a capital cost of \$17 million. We looked at other models in Australia that seemed to be successful, which included Longitude 131 at Ayers Rock, which was developed at a cost of about \$8 million for 15 high-quality tents. We did a lot of work on the size and scale of the New Zealand lodges, which are really running out at that 12-15-20 maximum type number, and that started raising some doubts in my mind about whether in fact I was on the right train with my earlier thoughts that the streams of demand will prove out and if we build it they will come.

We also employed the services of a number of consultants, one of whom was Simon Currant, who obviously has an intimate understanding of high-end tourism and an unbelievable understanding of Tasmania. His advice to me from day one was that I had it wrong and that we were going to miss a really fantastic opportunity by not doing something that was more exclusive and boutique. Finally, quite frankly, I agreed that we should really have another look at this.

CHAIR - When was that?

Mr FARRELL - That was in about mid-2007. So two things happened. With the original scheme over those two years we actually changed the design of the scheme because in the original schematics that we had in our mind for discussion with the PAC meeting, the scale was too large for the site, so what I originally envisaged was not going to work and was going to totally overpower the site. We ultimately reduced that to a development of 60 keys using the same design principles and we actually had a public announcement with Paul Lennon at Coles Bay and a sod-turning ceremony as we were then working through the approval processes for the fresh water solution and waste-water treatment plant.

In about mid-2007 we decided to move away from that scheme and we appointed Robert Morris Nunn as our principal architect to develop something which we felt would be more internationally appealing, which has led to the Saffire design which has a very light feeling on the earth. It almost floats on the site and the suites have a very natural relationship to the contours of the land. Robert was engaged in about mid-2007 to start working on that concept which was ultimately approved by the Glamorgan-Spring Bay Council some months ago. We received the final approvals probably six to eight weeks ago, which has led us now to being on site and construction commencing.

CHAIR - Were there any appeals to the most recent development or did it get through the process without any?

Mr FARRELL - It got through a lot more easily and the reasons for that were probably that it is far smaller in scale, it is not as high, it fits more lightly on the site, and the visibility of the development from Coles Bay or Great Oyster Bay is minimal.

CHAIR - Were you aware whether there were going to be any appeals in relation to plan number one or plan number two, that is the \$120 million, \$140 million, \$160 million?

Mr FARRELL - We received a lot of appeals in relation to the larger-scale development. In fact, ultimately we have been appealed on every turn over the last four or five years, including nine appeals over the dams that held it up for months with RMPAT. We have not lost an appeal yet, although in the case of the dams we invested something like \$240 000 in defending our position.

Mr HIDDING - You might just as well have lost them, though, because you did not build it.

Mr FARRELL - Did not build the dams? The dams were built.

Mr HIDDING - Oh, the dams, yes. I would like to look at your submission to this inquiry but this was in the paper today. This committee essentially has been set up to look into the degree of convergence between spin and reality or commitments made in the newspaper over a course of events ever since you bought that piece of land, to the Public Accounts Committee on *Hansard*, and in the deed itself and what it has been delivered or proposed to be delivered. Was there anything behind your timing to have this appear in today's paper the very same day that this inquiry starts?

Mr FARRELL - No. The reality is that we have been working towards the release of the branding name of Saffire for some time and we needed to wait until all conditions precedent had been completed with the development because, as touched on earlier, we have been frustrated many times. Once we had all the conditions precedent addressed and once we were on site, it was then appropriate to launch the name.

Mr HIDDING - Given that you were going to come here today to answer some concerns this committee has, what was the natural benefit to your company from having this naming ceremony yesterday?

Mr FARRELL - If you said to me, was it more advantageous to release it yesterday or tomorrow, I would say that it was better for us to release it yesterday than tomorrow because I think what we have demonstrated and continue to demonstrate is that we do what we say we are going to do, which in this case is to get on with the job.

Mr HIDDING - So it does have a relation to timing of this inquiry?

Mr FARRELL - No, it is incidental. What is your view?

Mr HIDDING - Given that there is a deal of evidence through all the media releases over the years that they have converged with important dates and there is a central logic as to when you say things as well as what you say, it did appear to me when you advised us last week that you were going to do that that it could be seen as discourteous to a committee that you were about to front to answer some questions to that you were going

to go public to say to the people of Tasmania, 'We do what we say we are going to do,' which is exactly what this committee set up to do, to figure out whether you do what you say you are going to do. Do you understand?

Mr FARRELL - Well, I think the answer to that is pretty straightforward.

Mr HIDDING - It is from your point of view. Clearly, it is not from everyone else's, otherwise we would not be sitting here. Do you understand? That is something that this committee needs to make a judgment on. I accept your view on that and your right to put our media releases at any time. As a general view, what weight do you give the matters you place on the *Hansard* of this Parliament - the things you say to this committee or any other committee of Parliament?

Mr FARRELL - In relation to the deed, they have no weight. In relation to what I believed at the time, they were what I believed at the time, and I think if you read the way in which I expressed them they were couched in those terms. We were not then at the point of having a specific development down to details like how the corridors ran and exactly how many keys. It was conceptual and I think what I tried to address earlier was that, in fact, I truly believed that, and the work we had done on the streams of demand for a high net-worth quality development suggested that there was the demand there for that development. However, I am convinced now that we have made the right call.

I think one of the things is that you don't always get it right -

Mr HIDDING - I accept that.

Mr FARRELL - From my perspective it would have been inappropriate to go ahead and build something if we didn't ultimately believe it was going to hit the nail on the head for the company or for the Crown because of comments I made in *Hansard* truly believing that five years earlier.

Mr HIDDING - Yes, but my question to you is this. Rather than comments on *Hansard* they were - you see, you are telling us now you had done the streams of demand modelling and back then in 2003 you believed that up to 150 rooms - this morning you said 120-150 and in your submission you say 100-150, but let's say for the purpose of the exercise 100 rooms, because that would still be a big development to my mind. Your submission says that the evidence given to the PAC was the best estimate of the report configuration at the time and cannot be considered as binding on the company. That brings into question a whole raft of issues such as your competence at the time to actually make the statements you were making, because if you believe that your streams of demand modelling then supported a 100-room hotel, you were in a very particular circumstance of seeking to induce the PAC to make a finding that was favourable to the deed.

Mr FARRELL - Yes, but to put this in the proper context I think you should look at not just the comments I made but also the findings of the PAC. I think if you go back to what the committee found, it was that the company had a commitment to building a \$25-million development at Coles Bay. Even your own findings didn't say the company had a commitment to build 150 rooms or whatever. You took what I said - I felt on reading it - on the basis that that was what we thought we were doing at the time. Now, we changed

our minds and we are quite entitled to do that. To do otherwise I think would have been a disservice to the State and to the company.

Mr HIDDING - We will get a little more into that detail later, but when I had concerns about your project I had genuine concerns about its commercial viability. I am not in the tourism industry and never have been, but I do have some business expertise and when the owner of Freycinet Lodge rang me and said, 'Rene, this is a nonsense; this 150-room idea is not going to work. He's selling you something that's simply not going to work.' He said, 'I run Freycinet Lodge and here are my numbers', and he gave me his figures for the past three years. I came into this Parliament then with those concerns and questioned you as to how real you were being about the 150 rooms.

We are now five years down the track and what normally happens in Parliament is that people come and go and no-one can remember anymore, except you were there and I was there and Mr Wilkinson was there, Mr Dean was also on the PAC, so we do remember this stuff. I came to you and said I had concerns about this - and this is all on *Hansard* - and I said, 'What about the market?', and you said, 'We'll create our own market'. I said, 'How will you do that', and you said, 'Well, you've got to have nerve'.

Mr FARRELL - Which is entirely consistent with what I just said earlier. The streams of demand showed that there would be sufficient business to fill a large-scale development. However the market testing said it was not compatible to have a large-scale development on a pristine site and that even though there is a willingness for people to go to Coles Bay, they won't go and stay at this place, and ultimately we listened to that.

Mr HIDDING - How are we to believe that you did not know any of that at the time and weren't simply puffing up your development in order to get this thing through the Legislative Council? You are saying it was entirely possible back then that it was going to go to 20 rooms?

Mr FARRELL - Quite frankly, Rene, I think if you look at the evidence by Don Challen, at no time did I or Don believe that in fact the carriage of the \$25 million commitment to Coles Bay to build any number of rooms was going to be the critical point as to whether the deed was approved or not by Parliament. To me it was something that we were always going to do. If you read Don's own comments he said that the company had a commitment to do it and they were going to do it so he thought, 'I will wrap it up anyway', which he did. I was totally relaxed about that because we had acquired the site, which I still believe is one of the most beautiful places in the world, and I am as committed today as I was then that we are going to do something extraordinary which I believe will be very beneficial hopefully for not only ourselves but for the State.

Mr HIDDING - Just a small matter. Last time we saw something on the news about this going from 150 rooms to 100, then down to 60 and then down to 22, and your submission now talks about 20, so we have lost another two?

Mr FARRELL - We have lost two, and in a way that is also related to the contour on which the suites are built.

Mr HIDDING - But your submission to this committee was that the best estimate of the resort configuration at the time - 2003 - cannot be considered as binding on the company,

and thank you for that advice, we will consider that. Since that time the resort design has been through a number of iterations and whilst the configuration has changed that has been at your behest and every one of those iterations was at your behest as well -

Mr FARRELL - Yes.

Mr HIDDING - So it is not as though the wind changed. This was your deliberate -

Mr FARRELL - What changed is that we need to be cognisant of what we believe will be the product that will perform best for the company and for the State. Hindsight is a wonderful thing and I think if we are sitting here in five years' time perhaps in a different forum hopefully we will be talking about the success of this new venture which hopefully will then lead to other defining developments by other developers and perhaps ourselves in other parts of the State, but you live and learn. To me, part of our reason for being is our ability to continue to try to reflect what society wants, and that is throughout all our businesses. If we didn't do that, quite frankly we would have been out of business 25 years ago. We have had to continue to reinvent what we do.

Mr HIDDING - And you do it very well. Had there been no *Hansard* available for us to see where you made deliberate statements, in my view, to induce a certain outcome of the -

Mr FARRELL - Well, that is certainly not my view.

Mr HIDDING - It wasn't? Are you aware that when the vote went through, a majority of members who spoke to put this bill and your deed through spoke about concerns but then spoke about Coles Bay? I mean, it was the clincher. They sat here and listened about it always having been, as you admit now, a 150-room development, and the question now is should anybody be scratching their heads thinking, 'What the hell has happened to that 150-room development?' There has been no explanation, anything other than Mr Farrell said to Parliament back then there were going to be 150 room and now he is saying there are going to be 20 rooms.

Mr FARRELL - Let us look at it against what in fact the deed requests us to do. The deed requests us to spend not less than \$25 million - and the company will be exceeding that considerably; use Tasmanian builders - we have appointed Fairbrother and Tasmanian suppliers; so to me if you look at it strictly, what are the company's obligations?

Mr HIDDING - Strictly. Let's stipulate that I've got no concern about your commitment to the deed. The deed, after all, has so few words in it it's fairly easy to do that.

Mr FARRELL - Quite frankly, if I had said then what we're doing now, which is building a 20-suite exclusive boutique development at Coles Bay that met all the undertakings of the deed, are you telling me the legislation wouldn't have been approved?

Mr HIDDING - It could have been a very close thing indeed and might not have been approved, because the members of the Legislative Council, even in the newspapers, were complaining of the bullying, which I didn't necessarily agree with at the time but looking back at it now, I think it could well have been. They felt they were having their feet held to the fire - 'You pass this or you will miss out on the upgrade from 150 ordinary rooms to 150 terrific rooms'. I mean, it's almost beyond belief. We were talking about gold-

plating these rooms up to here and that's what they were going to miss out on. If you had said at the time, 'Hey, guys you're actually going to get 20 rooms, not 150', I'll give you the tip, the deed was in deep trouble, big trouble. If you don't understand that and I do understand it, well, that's where we diverge and we're going to have lots of work to do here on this committee.

CHAIR - Greg, part of the comments, too, related to members of the public being employed, with 140 and maybe up to 180 at energetic times. How's it going with the development now of 20 rooms and obviously 6-star or whatever it might be; how many people do you believe will be employed as a result of the new development?

Mr FARRELL - At this point we believe that in peak periods the employment level would be around 54 full-time equivalents. You probably need 38-odd people just to run the development on a day-today basis.

CHAIR - That was the same as on the last occasion, wasn't it, because I think you bought Churinga Farm on the basis of 30 to 40 full-time people working there.

Mr FARRELL - Yes. In fact, we have now increased Churinga Farm's total occupancy to 65, which was in fact in light of building the larger development which I think, once again, demonstrates where what I was saying five years ago, that it was inconsistent with putting in place infrastructure. There will also be the staff required for the spa development and probably -

CHAIR - Is the spa development going to be part of the resort itself or something as an annex to that?

Mr FARRELL - It will be integral to it. It's very much about wilderness and very much about, I suppose, being spoilt, and we would envisage that the spa will also work in correlation with Freycinet Lodge, which will probably better allow the spa staff to be gainfully employed throughout the year.

The other element, which is probably more problematic to actually give any sort of firm number on, is about the signature experiences. Signature experiences normally would have a guide ratio of at least two guides or more, depending on the experience, for a small group of people, which might be between a couple and six-odd people. They obviously have a very high level of personal involvement with guiding staff and also food preparatory staff, cooks and what have you, so if in fact the signature experiences are as successful as we believe then obviously that has a very positive impact on employing people.

An example of a signature experience that we currently operate from Freycinet Lodge is our Wineglass to Wine Glass experience, where our guide walks you into Wineglass Bay over the Saddle. Then you walk along the beach and across the isthmus to Hazards Beach, walk along Hazards Beach and then you're guided off the track onto a standing camp that we control, where a gourmet barbecue has already been cooked for you of Tasmanian seafood and beef, and a nice glass of wine. After lunch, you then have another walk along Hazards Beach and then our dinghy is waiting in the water, which takes you out to a small launch that takes you back to Freycinet Lodge jetty with a glass of pinot in your hand. So they're experiences that are designed so that you never walk

back over the same course you've walked, so you're doing something that's extraordinarily unique and at the same time having a really insightful understanding of the topography, nature, geography and the wildlife by your trained guides.

Mrs BUTLER - And the history.

Mr FARRELL - Yes, it is quite remarkable and that is doing very very well; it is extremely popular.

CHAIR - Is that something new that has evolved since you came before the Public Accounts Committee in 2003?

Mr FARRELL - Yes, definitely, and that is because we were able to acquire a standing camp on Hazards Beach and we also acquired one on Schouten Island by buying them from people who had longstanding leases who were not using them, and it is the only standing camp on Hazards Beach. We are trying to design experiences that could only be done by being part of the journey with, in that case Freycinet Lodge or Saffire, or marketed under our Pure Tasmania umbrella.

CHAIR - Does that come under the 40 to 50 FTEs which you were speaking about, or is it over and above?

Mr FARRELL - No, there are a number of those included in the 50 - they would take it up to the 50, depending on how successful it is.

CHAIR - Last time you also spoke about the launch of cruises. Is that the cruise that you were thinking about part of the deed or is this something different?

Mr FARRELL - Five years ago we had envisaged the potential to operate a vessel, not dissimilar in nature to the *Lady Jane* that operates in Strahan. We did a lot of work with MAST and the Coles Bay community over enlarging or restoring the Coles Bay jetty, and in fact we did engineering studies. I met with the Coles Bay community groups, and that was on the basis of the company's interest in rebuilding or making good the Coles Bay existing jetty, which is in a terrible dilapidated condition, extending it on the basis of forming a wing, or a t-section. Part of the t-section would be Federal's and that would allow for a large catamaran like the *Lady Jane* to be moored, and then the balance of the space would provide more sheltered water for the existing boat operators as the existing berths for local boat operators.

The community did not want that to happen, even though we were going to rebuild the jetty that had been there two or three decades ago and which has since capsized into the ocean. So I abandoned that idea because there was no point. We also did a lot of work looking at the Swansea and Bicheno jetties to see what sort of ability we could have to have a vessel operate in Coles Bay picking up holidaymakers and guests from larger coastal communities. Again, that proved extremely problematic due to the poor state of the jetties for a commercial operation. So we abandoned that notion and now we are working on the signature experiences, which require a much smaller vessel. We have the *Baudin* at Freycinet Lodge now, which probably has a seating capacity for eight or 10 people, and we envisage that perhaps we will need another vessel as well that would be operating exclusively for our guests between Saffire and Freycinet Lodge.

CHAIR - So the actual FTE numbers envisaged at first were between 140-180 but as a result of the reduction in size of the development and also the signature experience, it is now about 50 FTEs?

Mr FARRELL - Yes, and that would be during the peak period, but just to run the place we will be needing 30-plus people just to keep the door open.

CHAIR - What about masseurs and other people you may have there to -

Mr FARRELL - We are attempting to do as much multi-skilling as possible. One of the only ways to improve the commercial viability and also, I suppose, the living standard and interest in what people do when working in rural and remote locations, is to have a level of multi-skilling that enables people to perform more than one task. For instance, at Great Southern Lodge on Kangaroo Island, which I visited shortly after they opened to gauge whether once again I felt we had hit the nail on the head with Saffire, the person serving you breakfast in the morning is that afternoon out doing landscaping. So it's about being able to maximise people's interests in doing things that they like to do, other than just being paid for four hours a day or whatever whilst they are working on the breakfast service.

CHAIR - Do they have to get certificates for that? Is there going to be a school up there or anything like that that is going to assist those people in retraining?

Mr FARRELL - An area we are putting a lot of work into now is about the right labour arrangements for boutique developments. That is something we will be spending a lot of the next 12 months working through - the best ways to structure the jobs and the best way then to provide them with the skills training to enable them to carry that out.

CHAIR - So you are saying that this could envisage - I do not know, I am thinking out loud - a course within TAFE on hospitality signature experiences or something like that. Is that significant or -

Mr FARRELL - Maybe; it could. We currently work very closely with TAFE and Drysdale over a whole range of programs.

CHAIR - It does not seem to me that they have a course specific at the moment.

Mr FARRELL - No, this whole notion of high-level, high-end boutique accommodation is something that is new to Tasmania and, quite frankly, is going to require a level of real quality in the staff for every position. They have to people people - people with good interpersonal skills. The standard must be exacting as far as service goes and cleanliness and tidiness, but people must have a level and an ability to engage. People have to feel comfortable.

CHAIR - I am looking at things that were discussed in 2003 and things that are there now as far as public perception is concerned. In relation to that, have you spoken with TAFE and Drysdale about a course or a subject?

Mr FARRELL - No, I am not sure at what level our HR people are with that. Personally, no, I could not say whether they have done that. However, it is fair to say that the whole labour relations side is one of the key things that we need to get right in the next 13 months.

Ms FORREST - Greg, in relation to that matter, wouldn't you have similar challenges at Cradle Mountain, for example, where it is a remote location and people do not live really close to the facility?

Mr FARRELL - We do. With Cradle Mountain we have, in the first instance, purchased accommodation at Moina for our staff to live, so we have created a small staff village. Cradle Mountain is closer for some of the employees such as housekeepers, so they will travel from Moina or Sheffield, and there are 60 keys at Cradle Mountain. What we find normally is that in, say, Strahan, the housekeeping staff are relatively local - half-hour drive time - and then during the quieter months of the year they do less hours, and now through until Easter their hours increase dramatically, so it suits their lifestyle. It is more probably your food and beverage type staff. At Cradle Mountain we have a particularly high turnover rate because young people find it is very isolated and it does not have the soul, say, even that Coles Bay has with its own hotel -the Iluka - and a couple of other restaurant or food and beverage opportunities. So Cradle is very difficult to keep people for more than one season.

Ms FORREST - So at Cradle do you have a person who does the breakfast service then goes and shovels snow or something?

Mr FARRELL - At Cradle, because of the size of the food and beverage operation - and we operate the two restaurants - most of the food and beverage people would be on food and beverage for the whole day, so they would work between food and beverage and the kitchen and then over the evening we have the buffet and we also have Grey Gums as an a la carte restaurant.

CHAIR - Greg, it would seem to me, and tell me if I am wrong, that when the negotiations were had with the Government prior to the deed being signed - I am speaking about the poker machines and the number of poker machines - the Government, wanting to endeavour to do all they could to stop an extension of those, spoke with you and part of the agreement was, as is in the deed itself, that a development would take place at a cost of at least \$25 million. Did the Government at all endeavour to extract particulars of that development?

Mr FARRELL - No. The Government sought, through the final negotiations, to trap the elements that were in the deed, which is the \$25 million, the use of Tasmanian suppliers and materials, and I think very much on the basis that they also envisaged that the ultimate outcome of what we are going to build would be determined by the company's best views at that time as to what was most appropriate. My interest at that time in the discussions with the Government was that an outcome of the negotiations would be that our banks would have the confidence in supporting the facility on the basis that the new deed and act would provide the company with certainty of its licences.

CHAIR - That was part of the comments with the ANZ bank.

Mr FARRELL - Yes, what I sought to protect was that we would continue to invest in our vision for Tasmania and obviously at the time the Crown sought to cap the number of gaming machines in the State.

Mr HIDDING - That was your vision for Tasmania at that point?

Mr FARRELL - Yes.

Mr HIDDING - Or your vision for Tasmania at that point or whatever it might change to later, because -

Mr FARRELL - I think you have to go back a step. The vision has not changed, which was to develop a world-class development at Coles Bay. What has changed is what it looks like and the size of it.

Mr HIDDING - Yes, and you are obviously of the view that that is immaterial, that that is not of particular interest to the Tasmanian people, or to the tourism industry on the east coast, or to members of parliament - whether it is 20 rooms or 150 rooms, that should not bother anyone.

Mr FARRELL - In my view, that is a commercial consideration of the company.

Mr HIDDING - Right. Given you have said that what you said to this Public Accounts Committee last time as it relates to the deed has no weight at all, could I draw your attention to a couple of things and ask you to explain them? In your submission this time you have said - it is on page 9, if you want to follow it in your submission, your lead statement there:

'Given the uncertainty at the time surrounding the final form of this resort, the deed expresses commitment in terms of investment of at least \$25 million and a premium standard resort.'

So what you are saying is the reason that the deed only said \$25 million and a premium standard is that there was uncertainty at the time as to what the final form would be.

Mr FARRELL - We had not totally locked that in and I think that -

Mr HIDDING - Well, you had not submitted it to proper market work yet, had you, which you have now?

Mr FARRELL - What we had done was the streams of demand study and clearly there was a view, particularly by me, that a large-scale development would be commercially successful, which is exactly why I spoke to the PAC about some five years ago.

Mr HIDDING - You talked about the size of this development and that it would have 150 rooms and 180 people employed. All the media releases were all about that, all the glowing stuff, and there is no question that in everybody's mind the development was, as you have admitted yourself, between 100 and 150 rooms. That was the size of it.

I think I know what the answer to this is but I will ask it anyway. Is there anything in the negotiations that were conducted and the agreement that was reached that you believe that we, as a committee, should know about that as yet has not been spoken about? You have admitted here that there was uncertainty as to the size. You said:

'No, to the best of my knowledge there are no additional components or elements to the deed or agreement that are not in the public domain'.

Mr Wilkinson goes on:

'Because in five or six years' time' -

about now -

'if there is, is somebody comes back and says, "This was never made known", we could appear to be foolish and your side of the table also could appear to be foolish. That is why I am asking you now whether there is anything that you believe we should know about at this stage that has not been canvassed'.

And you go on to say, 'Not to the best of my knowledge, Jim, nothing whatsoever', but you did know, because you are telling us now that there was uncertainty in your mind as to what the shape of this development was, did you not?

Mr FARRELL - Actually, quite frankly, Rene, if you'd listened to what I was saying, in my mind I was not uncertain. My uncertainty really came about as a result of the period after that time when in fact I realised what I was committed to was not going to fly.

Mr HIDDING - Well, who wrote this submission to us here that says, 'Given the uncertainty of the time surrounding the final form of the resort'?

Mr FARRELL - If you look at what I actually said, I was not saying it is going to be exactly this or exactly that, so that is about the uncertainty. However, my understanding back five years ago was that we would have built a large-scale, high-quality development that would have international appeal. That is no longer my view and because of that it would be irresponsible of me to be pursuing that.

Mr HIDDING - But I pursued you on that about the money as well and you said the ANZ Bank was up there with you and were very happy with the development that was on the table at the time - 100-plus rooms, gold-plated. We talked about price points of between \$250 to \$500 a night, which were almost unheard of at that stage. You said, 'Yes, we'll create the market, Rene', so money was not an object and we even talked about cross-subsidisation and with Challen as well so that even if it does not stack up in a commercial sense the gaming money that will come from this deed will support this development for its 10 years until it does become viable. That is what Mr Challen told this Parliament and he saw it as cross-subsidisation.

Mr FARRELL - That wasn't what I told you.

Mr HIDDING - Let's have a look what we said, then. You said:

'What we are talking about here is not a threat about not doing something. What we are talking about here is that the new licence will provide us with a financial commitment of our financiers and the internal commitment of our directors to fulfil a vision for our company and I believe the State of Tasmania'.

I then said:

'From that statement, then, there is a degree of commercial cross-subsidisation, even if it is giving confidence to the rest of it.'

And you went on to say:

'I call it nerve. Our business success is very much about holding our nerve.'

So the market was not an issue, money was not an issue, price points were not an issue -

Mr FARRELL - Let us talk about this issue of cross-subsidisation because I still don't believe in that. Quite frankly, if you try to establish businesses to be run sustainably on the basis of cross-subsidisation you are going to go out backwards. Does any five-star development or even four-star development make money in its first year?

Mr HIDDING - Of course not.

Mr FARRELL - No. Does it make money in its second year?

Mr HIDDING - No.

Mr FARRELL - You might be lucky to go close to cash flow break-even.

Mr HIDDING - About four or five years.

Mr FARRELL - So it is not about cross-subsidisation and that is why I used the word 'nerve' - it is about holding the line -

Mr HIDDING - So what was that about the ANZ Bank, then? You said the ANZ Bank said it would have the confidence to fund you this if you got this gaming deal. You are saying there is no cross-subsidisation so they are not connected. So what was the ANZ on about? Why were you raising what the ANZ had said?

Mr FARRELL - I thought that was self-explanatory but let me explain it. On one hand we had licences that at that time were due to expire in 2008 and on the other hand we were about to undertake a large-scale significant investment requiring significant debt. If in fact the licences did expire in 2008, which was the worst case for ANZ and, quite frankly, for me, in which case we probably have a development that is close to cash flow positive that has been carrying significant losses, we couldn't do it and they would not support it, which is why I was saying then that by having the long-term licence in place, the ANZ's ability to feel secure that the company was able to meet its ongoing obligations to it must be much higher, as they are and as they remain today.

Mr HIDDING - Okay, I do not want to be wedged into a position here where you are suggesting that I would think that you should be forced to build something that is not commercial. I didn't believe that at the time. That is why I asked you those hard questions at the time - 'Why are you building this thing if it is not commercial?' I actually doubted that you were going to build it. I suspected that we could end up where we are now so that is why I asked you that question, but there was an element of inducement in place to get these guys to do something in the Legislative Council.

Mr FARRELL - You may believe that but I don't.

Mr DEAN - I think you said earlier in your evidence that you did not think that the identification of 100 to 150 employees and the 100-odd rooms would have influenced the members at that stage in making the decision they made. I think that you said something along those lines. Do you still subscribe to that? Do you believe that?

Mr FARRELL - Yes, what I am saying is that what is prescribed in the deed was the commitment for the company to make and was about the \$25 million and about using Tasmanian builders and Tasmanian suppliers. Clearly it is going to have a positive impact on employment and on local suppliers and in the discussion with the PAC back five years ago we had a view about the scale that we were working on, which is what I articulated in best faith then.

My own view, be it right or wrong, would be if at that time I had said that we were going to meet the obligations of the deed and in fact it was going to be a smaller development more consistent with what we are now building, I do not believe that would have been an impediment in the parliamentary approval process for accepting the deed. The Crown needed to keep it in the terms that they did because of the number of elements that needed to be resolved by way of our own - at the end of the day it ends up as a judgement call of the company and a judgment call by me as to what we are going to put our necks out for. I had my neck out and was very supportive of the development I talked about. Quite frankly, I changed my mind.

Mr HIDDING - Just on that question of what effect that the -

CHAIR - Had Ivan finished?

Mr DEAN - I had not finished but I do not mind Rene coming in.

Mr HIDDING - You would be aware that a number of newspapers on a number of occasions said that there was a feeling by a number of MPs that they were being bullied with this upgrade. That was out there; clearly you would remember some of that, wouldn't you?

Mr FARRELL - I actually don't.

Mr HIDDING - Okay. It was quite a substantial story and quite a substantial debate in the House as well where the chairman of the PAC then, and Mr Wilkinson, were saying that they did not feel that there was any element of bullying, but some others did feel that it was bullying. You tell me that you were not aware of it, but do you understand -

Mr FARRELL - I can honestly say that I have never bullied anybody over this matter or any other matter.

Mr HIDDING - It is not a question of what you felt that you did, it is a question of what they felt. They felt that they were being bullied into agreeing to this deed or they would lose that upgrade from 150 rooms gold-plate. How do you think that they feel now, by burying their concerns and passing the thing, thinking they have achieved 150 rooms gold-plated and they have actually only achieved 20 rooms. It was that downgrade that was the threat hanging over their heads. That is exactly where we are at.

Mr FARRELL - I must admit that I think that those same people will see, in three or four years' time, if I am right, that Tasmania has international-quality tourism facilities of the ilk with the very best in the world.

Mr DEAN - That was my next question. What was influencing some members - and in my position it was an influence on me - was what it was going to do for tourism in this State, with 100-odd rooms, the number of employees, and the families it would bring in. Now we have a considerable change from that to the 20-room one that we now have. So what is your view now in relation to the impacts that will have on tourism in this State? Being a significantly reduced complex in size, certainly it will appeal to the high-flyers, but they are the only ones it will appeal to because nobody else will ever be able to go there, so there is a drastic change now in relation to that side of things as well. That was something that influenced members at the time as well in coming to a decision because this was an exclusive decision that they were required to make in relation to poker machines moving forward.

Mr FARRELL - I think Ivan, if we go back, the impact is that in fact it will be less able to accommodate more network people on the site than the previous scheme, obviously going from 100 rooms to 20 suites. But I would argue that the long-term benefit to Tasmania, if we get this right, is actually greater than having a scheme that meets the streams of demand but does not meet the market test. So if we built the 100 rooms and we only fill 20 we only have a 20 per cent occupancy.

Mr DEAN - But at that time we were being led to believe, as has already been identified, that you would be creating this market and that you would be able to 75 per cent fill the complex, so there would be no real difficulty. That is why you were going down the track of identifying to us very clearly, articulating very clearly, that there were no ifs or buts. This is the sort of complex that will be built there if you - and that is really what you were saying to us - agree to the position of this exclusive deal with the poker machines. This is what Federal Hotels will do.

Mr FARRELL - This is what we envisaged we would build, which was the larger scale. I think if you look at it in the context of what will be built now, you will find that it is of an international quality. We believe it will be extremely attractive, domestically and internationally. If we are right it will hopefully create other opportunities for other investors in the State to also develop high-end boutique niche products entirely consistent with Tasmania's brand qualities. The company is of the view so strongly that we are quite well advanced with our own plans for our Port Arthur site, which will be the next one that will come on line after we complete this one. Once again we will have a

relatively small number of keys designed to a different market than what Saffire has been designed to. It is more about heritage and culture.

Regarding the basis for boutique high quality, high net end development I would like to think that in 10 years' time Tasmania has a group of these, a couple that are owned by Federal and others owned by other people, that are competing with the very best of what New Zealand has to offer, which has been a very successful model.

Mr HIDDING - Just on the question that was before the upper House at that time, I am interested that you do not recall the bullying references because you actually made certain statements in here about why it was important that you were going to upgrade and you could upgrade because you were getting this gaming deal. Do you recall at all that the day the PAC report was tabled in the Legislative Council you publicly again warned as follows. I marked it down in a couple of different places but this is not something you said in here. You said that outside. You are reported to have said this: 'The committee decision came as Federal's Hotels managing director yesterday renewed his warning' - so you renewed your warning - 'that the \$25 million resort at Coles Bay would be downgraded if the Legislative Council failed to pass the firm's 20-year exclusive pokies deal. Mr Farrell said the 150-room Hazards at Freycinet Resort may be less luxurious if the agreement was not passed.' That is where the bullying stuff came in. You were actually putting out media releases at the time.

Mr FARRELL - I don't think that is bullying. It was a comment to the best of my knowledge at that time and was entirely consistent with discussions with ANZ.

CHAIR - You stated it to the committee back in 2003 as well.

Mr FARRELL - I don't believe at any time I tried to bully anyone over this matter or anything else I can recall - except my son and that doesn't work.

CHAIR - I wasn't shivering in my boots, Greg, I can tell you. In relation to the \$25 million, what is the estimate of the money spent now?

Mr FARRELL - Our estimate right now unfortunately is \$32 million.

Mr HIDDING - Why is that unfortunate?

CHAIR - It is an extra \$7 million, I take it.

Mr HIDDING - It is \$28 million better than the \$60 million you were up for only a year or so ago before you dumped that project for reasons of cost. I mean, people are giving you this market advice that it was best to go small - they were very welcome in your office, weren't they? I mean this is a \$28 million saving to you.

Mr FARRELL - That advice was present from about the same time we were talking about the larger scale development. That is \$32 million at this point of time. The ultimate cost hopefully will be circa \$32 million, without too many cost overruns.

Mr HIDDING - Concerning the at-least \$25 million, what are the boundaries of what is appropriate under that? You did not seek to negotiate up to \$25 million. For inducement

purposes you agreed to at least \$25 million. Why do you feel that \$32 million is a heavy outcome, opposed to \$25 million five years ago?

Mr FARRELL - The \$25 million didn't come from the Crown; it came from Federal. So, our view, at that time, was that the level of investment required to pull this off would be circa \$25 million.

Mr HIDDING - Circa \$25 million is a lot different from 'at least'.

Mr FARRELL - We were very confident that we wouldn't be able to do it for less, which is why the \$25 million figure is in there.

Mr HIDDING - This, I think, brings us to the heart of public expectation and members of parliament expectations. If it was at least \$25 million then it wouldn't be particularly exorbitant if the project was going to cost you \$50 million because there was evidence that ANZ said if you get that then you'll be able to do this. What is your annual profit from the gaming operations?

Mr FARRELL - I don't think that's relevant to this discussion.

Mr HIDDING - We could work it out from tax, can't we? From all the evidence last time I think we were able to work that out. It seems to me that it is somewhat relevant if there was an element of belief around the table at the time that, in spite of the fact that it might not be quite commercial, at least these guys are getting this big deal and they're going to spend it on that. So, my question is why is \$50 million out of the question for you if it's at least \$25 million?

Mr FARRELL - Well, it comes down, again, to scale.

Mr HIDDING - Commerciality?

Mr FARRELL - No, scale. If, in fact, we felt that to spend \$50 million on 20 keys would be totally uneconomical, to spend \$50 million on 50 keys or 60 keys could well be economical, if you felt that you'd be able to have the right position internationally for that product. That is why at \$32 million the investment per suite at Saffire is approximately \$1.6 million per suite.

Mr HIDDING - That's not commercial, though, is it?

Mr FARRELL - It can be commercial, yes. We believe it is. I wouldn't be doing it if we didn't think it was because, again, this is not about cross-subsidisation.

Mr HIDDING - What are your occupancy projections to make that commercial?

Mr FARRELL - We'd need to run at least at 70 per cent on an annualised basis and with 20 keys we believe that's quite sustainable. We're running at 70 per cent with 60 keys at Freycinet Lodge, which has a lot lower average room rate.

CHAIR - Is that part of the reason why there was a change of plan, for want of another word, because you purchased Freycinet?

Mr FARRELL - No. Freycinet Lodge does allow for some economies of scale we hope between the two developments, but Freycinet Lodge acquisition did not lead to the reasons for the scale differences with Saffire. Freycinet Lodge is designed to appeal to a market more to do with people who are seeking to have a natural experience; so they're active adventurers. So it's about people who are seeking some time out to re-acquaint themselves with nature which is why, even though the cabins have been done up to a high standard, they don't include television sets but do include music. It has a very fine restaurant, the Bay Restaurant, and a good wine list but it's about active people and people who are not necessarily seeking a lot of over-luxurious accommodation. It's more about reflection.

CHAIR - What about the convention side of things? In a part of the agreement there was going to be recreation convention and accommodation.

Mr FARRELL - Saffire is designed for the market which we'd term cultural experiences. So cultural experiences are, generally speaking, high-worth people. They can also be an active adventurer at a different stage of the year or in a different year - a cultural experience in which they really want to be indulged. So it's about the very finest of everything, cultural experiences that might be seeking, say, a board retreat. BHP might want that. The actual conference facilities at Saffire will be designed to accommodate a 20-seat board table or meeting rooms. It has been designed for a whole-of-use purpose so the board and senior executive teams, say of BHP or other publicly listed or private companies, will have sole use of Saffire for a weekend or part-week, in which case it would be an unbelievable experience for a board or a group of executives. It is not designed for car salesmen. It is designed around exclusive use. There is definitely a market at the very high end, though probably not so much in the last six months thanks to what has happened to the financial markets.

Mrs BUTLER - I take your point, though. There is a business at Sheffield that has done very well in that high end, especially professionals with big companies coming over to the west coast. They do not see that the quality of accommodation is available so this Sheffield business is doing very well.

CHAIR - Part of the deed talks about accommodation - we have spoken about that - conventions - we have just spoken about that - so what about restaurant and recreation?

Mr FARRELL - The recreation we would see combined with the spa and gymnasium development. Of course the other recreation elements will be done with guides. With Churinga Farm Cottages we have a large footprint of land which will enable us to develop experiences for people. It might be archery or clay pigeon shooting - things that would be away from the site because we would not want arrows going too close to people in the suites. Also we acquired the wild bird sanctuary, which is approximately 100 acres. It is near Moulting Lagoon, and that is on the basis of having exclusive use for couples. So a couple and their guide would be the only people allowed in the sanctuary at any one time for pointing out particularly species of birds. We also about Moulting Lagoon for canoe trips through a major black swan breeding ground in Australia. That would be quite recreational but also a really unique insight into one of the most highly protected wetlands in the world.

CHAIR - I suppose one could argue that, prior to 2003, with what Rene has been speaking about, the area supposedly was going to be energised. Do you still believe it is going to be energised with the reduction in accommodation and employment from 2003 to now and if so how?

Mr FARRELL - I very much believe so. In some respects energy works in two ways. In reality the Coles Bay community were probably more concerned with the former scheme than they are with this scheme, because of the capacity problems with Coles Bay accommodating a large number of staff and also extra people in Coles Bay. We believe that this will lead to smart operators with the ability to upgrade what they are doing in Coles Bay. It will lead to really good bed and breakfast operators. Tasmania is probably, away from the capital cities, more ideally associated with boutique developments. A leading example of that is the success that we are having with our Henry Jones Art Hotel here in Hobart. It has 60 keys. It was voted recently as the best boutique hotel in Australia and the twelfth best in the world. It is very much about providing something that is different to the normal experiences that people have. We believe Saffire will really complement the Henry Jones. Ultimately what we do at the Tasman Peninsula will complement that. We think that it actually provides a large range of opportunities for other investors in the State to also have successful business off the back of our success.

Mr HIDDING - I had exactly the same question but I wanted to pose it in a slightly different way. You have given us an interesting snapshot of the kind of people that would come to use this development of yours - let us say the BHP board. I can see that happening. It would be a terrific thing for them to do to come down for a weekend, probably on the Friday and go back on the Sunday night or the Monday morning, having considered a particular matter of development within BHP, for instance.

But in terms of public perceptions over what might have been and what is, in terms of perceptions of parliamentarians and particularly Legislative Councillors who voted a certain way, what is in this for people? What is the difference between 20 executives tucked away for a weekend on this property or a 100-room hotel at, say, 50 per cent occupancy with mostly couples, so that is 100 people on the ground, not so much buried away in a conference but out on the ground doing things around Coles Bay, driving up to St Helens, dropping off to Bicheno and doing things - what is the better outcome? This is what I am trying to understand. Why are you saying that we should have BHP executives buried away in there for a weekend getting facials and massages and the rest of it - what is in that for Tasmania other than the employment?

Mr FARRELL - What Saffire will bring to Tasmania if we get this right will be international positioning of Tasmania being able to provide high-level, experience-based accommodation in iconic locations equal to that of anywhere in the world, which would -

Mr HIDDING - All those words are meaningless to people at Stanley. What does that mean to someone at Stanley or Bicheno?

Mr FARRELL - not be achieved by a 50- or 100-room development of a lower standard or lower appeal.

Mr HIDDING - But in your first scenario there is nothing in there for the rest of the east coast.

Mr FARRELL - Well, there is, because what it would lead to is further demand and further opportunities for the creation of other experiences - accommodation, food and beverage, boutique wineries. We believe that -

Mr HIDDING - How would 20 BHP executives lead to an extra B&B in Coles Bay?

Mr FARRELL - Rene, I don't believe the 20 BHP executives will actually stay there for the whole year so I think I have probably 362 days a year to fill it full of other people. A lot of people will visit Tasmania with the knowledge of Saffire's existence and they will never stay there but I believe it will become one of the reasons for people finding Tasmania as attractive on their palate. They may never stay with us but we believe it will have a positive spin-off for the positioning of the State.

Mr HIDDING - Okay, I understand. We probably need to move along a little bit.

Ms FORREST - That is what the lodges have done in New Zealand.

Mr FARRELL - Yes, very much so.

Mr HIDDING - On the extra benefits flowing to Coles Bay, you said at the time in your submission to the Public Accounts Committee that not only will this be good for tourism but it will also be good for the people of Coles Bay, and they were going to get water, sewerage and the rest of it. We have heard that they are going to get some of it, others they are not. Can we talk about what is not going to be delivered as a result of your downgrade to 20 rooms now? What will not be delivered? What has Coles Bay missed out on? I am asking you to come from a negative point of view. It is quicker rather than trying to extract it from you. What aren't they going to get that they thought they were going to get?

Mr FARRELL - The community of Coles Bay?

Mr HIDDING - Yes.

Mr FARRELL - I think by and large they would probably think they are getting a blessing.

Mr HIDDING - What, because they are going to get Saffire, of course, so they will feel terribly blessed. What about the golf club that was going to get certain -

Mr FARRELL - Okay. The golf club on the original scheme was going to receive the reused water which was going to assist it with keeping the golf course irrigated and obviously with the new scheme and advancements in the technology there will not be sufficient reused water to warrant taking it to the golf course.

Mr HIDDING - So it has changed from what the golf club believed was going to take place and that is the situation there now. Were there agreements flowing from that with the local developer regarding blocks of land? I understand there were elements there that were in play that are no longer in play as a result of this change.

Mr FARRELL - Well, I think there was, and still is, a proposed subdivision on part of the golf course and originally the company would have been the beneficiary of some blocks of land which would have assisted -

Mr HIDDING - Your company?

Mr FARRELL - Yes. That will no longer be the case. The potential for the proposed subdivision to continue is something that we've been financially supportive of the golf course in achieving and that would be entirely to their own financial benefit, with no benefit to the company.

Mr HIDDING - What about these blocks of land?

Mr FARRELL - If they were successful then that would lead to the golf club owning the blocks of land and enabling them to realise those for financial benefit in the future.

Mr HIDDING - How do you mean, if they were successful? I'm sorry, I am trying to understand the current situation.

Mr FARRELL - Through the subdivisions. Andrew's probably best to explain this.

Mr EAKINS - Yes. There's a section of land in the middle of the golf course where there are plans for about 24, something like that, strata title units. Originally we were going to share that with the golf course on a one-for-one basis but that still has to go through RPDC and we're funding the process to take that through RPDC to try to deliver the land to the golf club. They can then sell the blocks and then look to increase their dam storage capacity and build their clubhouse, all that sort of stuff, with the proceeds that they'll get from those blocks.

Mr FARRELL - We're doing that on the basis of no financial benefit to the company except that we believe it would be in the long-term best interests of Coles Bay obviously for the golf course to thrive and hopefully some of our guests will want to play golf.

Mr HIDDING - Weren't there some blocks of land that you bought from a developer or something as well? Was that separate to the golf course?

Mr EAKINS - Yes. Jack Bane is developing a whole area of Swanwick there. He gave the land to the golf course and also there is an area of land he kept for subdivision. He wants to subdivide about another 100 blocks but we haven't actually held him up at all. He's put in his own package for a waste-water treatment plant up there. He's putting that water up to the golf course dam so the golf course will still get irrigation from the dam once those blocks get sold and water gets into those dams. So that whole golf course area is pretty well sorted out.

Mr HIDDING - Just going back to the terms of water and sewerage in the village of Coles Bay, what is a resident of Coles Bay going to get out of the development now?

Mr FARRELL - Actually, what they're getting is the fresh water. They're not getting sewerage but they weren't getting sewerage back then either. The holistic sewerage

solution actually wasn't proposed until 2005, so in all reality what they aren't getting is probably if you were a local shopper you might have thought there'd be more staff about or more customers about some part of the year. I think from my reading of it most people were more concerned about the negative consequences of large numbers of people than they were about the consistency of the boutique nature of Saffire being entirely consistent with the values of Coles Bay.

Mr HIDDING - How do you feel about building a jewel of Tassie, one of the jewels of Australia, at Coles Bay, when a handful of metres out into the bay there's a pipe that's discharging basically raw sewage?

Mr FARRELL - Sorry? Do you mean Iluka? It doesn't actually discharge; it discharges into the sand dunes and ends up as seepage. There's not a pipe that takes it out into the water, which is why the stench builds up.

Mr HIDDING - That was the stench you were referring to?

Mr FARRELL - Yes.

Mr HIDDING - So it's not from your own development?

Mr FARRELL - No, it's not from ours. No, heaven forbid!

Mr HIDDING - I have smelt that and I've seen where the pipe goes and I just assumed it was going out into the water.

Mr FARRELL - No.

CHAIR - The stench gets worse over the summer months.

Mr FARRELL - Yes, and it abates during winter when people have moved away.

Mr HIDDING - You need strong coffee to block your nose.

Mr FARRELL - It's not a great selling point for the bakery.

CHAIR - Might be for the Coogee Bay Hotel.

Laughter.

Mr HIDDING - Your submission from your legal special counsel is noted; he is making a couple of statements there that appear to be industry-specific. Did he find this himself or did you brief him on the industry matters?

Mr FARRELL - Which?

Mr HIDDING - It was page 114, where your special council said to the PAC hearing -

Mr FARRELL - No, what he did was read from *Hansard*.

Mr HIDDING - But I am saying on page 114 in the last paragraph it says:

'In our assessment it is reasonable to conclude that the market in Tasmania has matured and is no longer one which considers the bulk and size of the development as a real measure of its work'.

Where would Mr Gleeson's lawyer learn these pearls of wisdom from?

Mr FARRELL - He certainly spoke to me, as he did to other company executives.

Mr HIDDING - So that is not a legal opinion, that is the view he formed after speaking to you. Has your legal counsel briefed you as to the potential threats of the issues relating to your submissions to the PAC, the statements you have made on *Hansard* as to the potential for you having created, to all intents and purposes, a collateral contract in terms of seeking to induce or to secure agreement to the deed?

Mr FARRELL - My understanding of what he said to me is that in no such terms has that been done and I think if you read his legal advice he concludes it with the statement that, 'no legal or other circumstances is demonstrated which permits the conclusion that there has not been compliance with the deed or any representations made in respect of it by Federal'.

Mr HIDDING - Has he warned you at all as to your submission today to this committee as to the nature of what you should or should not say? I mean, has there been no concern at all?

Mr FARRELL - No, no concern at all.

Mr HIDDING - So nobody has suggested to you that you may, where there is a head agreement, a head contract, and when you are seeking the agreement of the third party to it - because the third party is the Parliament, the overall tick of getting the thing in legislation - that a number of elements of discussion in the PAC in fact formed all the elements of a contract? There was an offer, an acceptance, consideration, there was certainty, there was capacity, there were what other people believe to be promises, which -

Mr FARRELL - No, and I think he would furthermore go on to say that the findings of the committee at that time also are consistent with our opinion in that we have not breached any of the undertakings of the deed at any time. What I provided back then were my views at that time of what I felt we were going to do, and we changed our mind with the benefit of hindsight.

Mr HIDDING - Did your legal special counsel not warn you that in the discussion surrounding what could be a collateral contract or conditions or prior agreements that if a statement was reasonably understood by one party to be a promise, it is promissory, whether it was actually intended to be or not. If it was genuinely believed -

Mr FARRELL - His view is that there is no collateral contract established; no onus in law, full stop.

Mr HIDDING - You maintain the view that your statements to the Public Accounts Committee as they related to the deed have no weight whatsoever?

Mr FARRELL - They were my views at that time and my best intentions. As recorded multiple times over the succeeding years, by public media, through Brendan and myself personally, we moved from that position. I moved from that position.

CHAIR - Can I ask in relation to that, Greg, were there any discussions with government or Treasury surrounding the granting of the - and I take it there would be - three extensions, including the changes of design?

Mr FARRELL - Only in relation to, I think, the third extension, when at that time we were in the midst of the redesign. The first two, none whatsoever, because we were still working. The Crown's interest in this was not about that. The Crown's interest in this is about the commitment for the \$25 million the commitment to Tasmanian suppliers and Tasmanian builders.

CHAIR - So even in relation to that, as you know and I know there have been extensions granted. It was to commence in 2003 and finish by 2005 because that is what you believed you were able to do at the time, but as a result of the matters surrounding planning that had to be extended on two of the occasions. Was anything said that everything was still okay and were you still considering spending that \$25 million?

Mr FARRELL - I think in the first instance the Government at all times was aware of the level of commitment this company has to this undertaking. The Government, like the community, like the newspapers, were kept aware of the changes in our thinking and the changes in the design principles since 2003. So it has been, in my view, a totally public measurable process that has been done totally with our hands above the table.

CHAIR - I said to Rob Nicholl that it seems to me that when the deed was originally entered into there were no specifics surrounding what should or should not have been built. There obviously were discussions as to the type of building it would be but the main underlying theme was at least \$25 million with the other prerequisites that we have spoken about in relation to materials and workforce. However, the Government said, 'We know what you are like at the casino, country club, on the west coast et cetera therefore we are quite happy for you to go ahead and do what you think appropriate'. Do you know what I am saying?

Mr FARRELL - Yes and I think largely what you are saying is right. We made the commitment, not the Government extracting the commitment from us, that we wanted to do this. What exactly we were going to do would depend on what we felt was going to be the most marketable and acceptable product of that time, and the Government saw that. In fact I think even the deed contemplates that if we are not able to get the regulatory approvals in a timely manner on the site at Coles Bay then we would commit to building this elsewhere. So I think regarding the level of scope at that time to assess getting this up there were some questions. Of course that has taken longer and cost more in those approval processes than we originally anticipated. At the same time we believe we are not only about to deliver a fantastic development, we have also in the meantime created an ability for Coles Bay's water supply to be quadrupled.

CHAIR - The other thing you mentioned in the debate five years ago was the fact that it is going to be a bonus for tourism because of the standard that it is developed to. How much is that a bonus to Tasmania? I know you have touched on it by saying 'Come to Tassie because of Saffire'. Are you saying that is how they will know of Tasmania, because of Saffire, and therefore they will come, or alternatively by opening it up to people who are in positions of persuasion from around the world they are going to pursue it tourism-wise and write about it in papers, a bit like a Bay of Fires walk?

Mr FARRELL - In some respects we believe that at the high end there have to be aspirational. Such a development has to be something that people look up to. So we really see that Saffire works on a number of levels. Domestically and internationally it will be marketed as equal to the best product in the world. We believe we will be identifying Tasmania with the highest quality of design, because the architectural design by Robert Morris-Nunn is beyond compare.

CHAIR - He did the Hunter.

Mr FARRELL - And this building visually will be absolutely stunning. The interior designs are being developed by Chhada Siembieda Australia, Australia's leading interior designer for five-star hotels, so that the quality and the finish will be superb. We believe that associating Saffire with Tasmania is going, in the first instance, to make the connection that Tasmania has physical infrastructure of unbelievable quality associated with the grandeur and beauty of the Hazards, Great Oyster Bay and the Freycinet Peninsula - an extremely compelling story. A lot of the people who will read about Saffire domestically and internationally will never stay there but I believe it helps to crystallise the quality proposition and experience proposition for Tasmania.

Why is that important? It is important to me on two levels. One is that we operate a number of other tourism businesses right around Tasmania, which I believe will benefit indirectly from Saffire's marketing and exposure, as will the hundreds and hundreds of other tourism operators, B&B operators, and food and beverage operators right around the State. If the model is right, and we are going to do everything we can to ensure it is, then we believe that will lead to other investments by other companies in other parts of the State that will continue to provide for that high-end networked visit to the State. In some respects it is similar to what has been achieved in New Zealand.

CHAIR - So at present there is the major restaurant, convention and recreation centre and then there are 20 suites. Can they change at any time? Could it be reduced to 18 or 15 or could it be increased to 22? Are you tied into 20 at the moment?

Mr FARRELL - Twenty works out to be about the right number, so we will be building 20. Is there opportunity on the site to do other developments over time? There probably is. Would that be ideal? I don't know. We would not build anything below the existing 20 suites because then you have views over views and you are losing the privacy so all the suites are on one contour of the site that allows each suite an interrupted view but also allows complete privacy from the suite beside it. I really feel that is probably about the right scale. We really see leading from this would be the development of Port Arthur. We have another unique opportunity to do something as special.

We also have an unbelievable site at Cradle Mountain just below the old airstrip site, which is another astonishing site for an even smaller boutique development, if in fact we get the model right.

CHAIR - Did you do any negotiation with the Conservation Trust? Did you have to have any negotiations with them?

Mr FARRELL - Yes, we were tied up with the Conservation Trust for probably a year through the appeals process, at a cost to us of over \$200 000. We won the appeal.

Mr HIDDING - You ended up paying their own legal bill, didn't you?

Mr EAKINS - They appealed against the dams and the resort property. For the dams appeal, which they lost, we did get a claims cost awarded to us, which we chose not to pursue. For the resort plan, we didn't go to appeal. We dealt with it through mediation.

CHAIR - Was that a formal agreement or an agreement that you can assist us with? What happened with those negotiations?

Mr EAKINS - Over the costs?

CHAIR - We have some understanding of what the negotiations involved but as to the outcome are you able to tell us what the outcome was or was that an in-confidence outcome?

Mr EAKINS - No, in relation to the resort site there was a consent agreement signed through the auspices of RMPAT, so it is all on public record through the Resource Management and Planning Appeals Tribunal. In relation to the water, that was all through RMPAT as well. The decisions are all on record. The only issue about whether we pursue costs or not was a matter between the company and the TCT. We wrote them a letter and said that even though costs were awarded against you we choose not to pursue this.

Mr HIDDING - How much was that?

Mr EAKINS - It ended up only being a few thousand dollars.

Mr FARRELL - Against the \$200 000-odd worth of costs we incurred.

CHAIR - So your costs were the solicitor client costs of \$200 000 but there were a couple of thousand party costs they would have had to pay?

Mr EAKINS - Yes.

Mr DEAN - Let us go back to the deed. While there is no description or prescriptions in relation to the building and design and the numbers of employees and so on, I suspect that there was a lot of emphasis put on that during the discussions that you would have had with Treasury at the time the deed was being negotiated. Is that right or not?

Mr FARRELL - No, if you go back to the *Hansard* of Don Challen five years' ago - I have not read it for some time - there are words to effect that he was very comfortable about

the company's commitment to developing at Coles Bay and he sought to entrap it in the deed. However, it was not a big win for him because he knew we were going to do it anyway. So it was more about what we wanted. What we wanted, as we explained during the negotiations, was that it was going to be one of the benefits. We were going to be able to continue with the successful negotiations by the Government with the company to enable them to cap the gaming machine numbers. The licence was extended and this was going to be an outcome of that sequence of events.

Mr DEAN - So at the time of the negotiations, in relation to the deed there was no discussion on the numbers of people who would be employed in this complex when it was built or the number of rooms?

Mr FARRELL - No, not in firm terms.

Mr DEAN - What do you mean by 'firm terms'?

Mr FARRELL - We had an in-principle position. We bought the land; we wanted to build a world-class development on it. We were doing a lot of work on the design and architecture. We had appointed an architectural firm. So all that was taking place. In the discussions with Don we would have said words to the effect that it was going to cost, we believe, \$25 million to deliver this product. He said, 'I will take that and we will put that in the deed'. But I think if you read what he said he was very relaxed about it because the company's commitment was to do it anyway. Putting in the deed it just completes the circle.

Mr HIDDING - Yes, because if it did not happen the people would be disappointed, which is what we are now talking about - whether people feel that it has not happened to the level that they talked about.

Mr FARRELL - From the people I have spoken to or the letters to the editor or community groups the tone of disappointment at the development of Saffire being reduced from what we originally projected is non-existent. I do not get that at all.

Mr HIDDING - That could well be as a result of skilful media releases and media management and in fact a result of the Government not living up to - which is not an issue for you - its duty in releasing material to the people.

Mr FARRELL - The reality is that we released the information at every turn that was relevant by way of media statements.

Mr DEAN - Just going back to the deed, I take it that there would have been a number of meetings between yourself and Treasury and others in relation to negotiating of the deed?

Mr FARRELL - Yes.

Mr DEAN - That would have taken place over a period of time. I take it that during that period there would have been notes taken of these meetings and comments and statements made and positions identified? Would there have been minutes taken of those meetings?

Mr FARRELL - Not by me.

Mr DEAN - Were there any minutes taken by anybody?

Mr FARRELL - I do not know. I do not recall, no. What were the important elements of that negotiation: what did the Crown want and what did the company want? Quite frankly, the Coles Bay development was a minor component of the negotiations. That part took a relatively short period of time. The way it is worded in fact demonstrates that because it is locking in a commitment for the company to do something. It was not locking in exactly what it would do because we were not emphatically sure of what that would be.

Mr HIDDING - The time lines go something like this. In 2004 there was a major media release to say that we had gone to 100 rooms and 80 people. Then in mid-2005 approval was granted to you for a 97-room five-star 100-seat bistro, restaurant with 60 people, conference rooms, health spa, pools and 248 car spaces. At that point that was what the public and the Parliament expected, because there was lots of media attention on all that and it was seen as terrific that this was the deal.

A further upgrade by media release a little later took it up to six-star. It went from five-star to six-star. In 2006 there was agreement on all that and there was going to be a groundbreaking ceremony with Paul Lennon. At that stage it was still 100 rooms.

Mr FARRELL - Groundbreaking?

Mr HIDDING - A groundbreaking ceremony there was, for Paul Lennon to come and dig a hole or something, and it was quite a -

Mr FARRELL - Were you there?

Mr HIDDING - No, but your media releases say that actually happened, so unless -

Mr FARRELL - I was there.

Mr HIDDING - I am talking about what the people of Tasmania heard and saw. From January 2006 100 rooms turned into 60 rooms by 14 February. Crash - 40 rooms gone. Lennon turned the sod. He did not say why it had gone to 60 rooms; there was no explanation from you or from the Government as to why it dropped to 60 rooms. That 60 rooms was then eight presidential suites, \$600 a night, two restaurants, unique art gallery, new generation of tourism experience lauded by the Premier.

Over the next 12 months we had the next crash - we went from 60 to 22. Could you tell us now for the record the real reasons for downgrading from 60 rooms to 22 rooms? I could ask you about the 100 rooms to 60 rooms, but let us just say there is evidence here that the 60-room development was going to cost you \$60 million. What were the reasons you went from 60 rooms to 22 rooms and now 20?

Mr FARRELL - Over the last hour I think we have discussed this several times. The scale still at 60 rooms was such that it was not going to meet the requirements of our market.

Mr HIDDING - Not commercial?

Mr FARRELL - It would not be commercial if it did not meet the market, inasmuch as it was not going to be the necessary catalyst for conversion of high-net-worth visitors. That ultimately led to the appointment of Robert Morris-Nunn and ultimately the Sapphire development, which we believe hits the nail on the head.

Mr HIDDING - Any other reasons you would downgrade from 60 to 22?

Mr FARRELL - Apart from the fact that we wanted to put the most appropriate development in place to meet our market's requirements, no.

Mr HIDDING - That is all the questions I have on that. I would like to get just enough so that we do not actually require them back. Away you go.

Mr DEAN - Could I just ask one more question on that? You said you would not pursue the matter of downgrading from 100 to 60.

Mr HIDDING - Not this time, not right now.

Mr DEAN - I see. You were going to do it later, were you?

Mr HIDDING - No. Go now or we might not have time.

Mr DEAN - You have told us you have gone from 60 back to 20 because it was not viable and this is a better option, a boutique et cetera. Why then did you go from 100 back to 60? What was the position there? What was the reason behind that?

Mr FARRELL - Very similar thinking. We thought it would be appropriate at that scale, but then we decided that it wasn't.

Mr DEAN - How long before it changed? I have not got the dates in front of me.

Mr FARRELL - I think we were working within the confines of the architectural principles and when we got down to 60 we still weren't comfortable that we had it right. That led ultimately to the appointment of Robert Morris-Nunn and taking a lighter feel to the earth, a lighter touch to the site. As a result, rather than having corridors and a built-in format, more like traditional Queensland-based resort design principles, we applied for this, which is more open air. It resembles dinghies up resting against a shoreline following a natural contour. Each dinghy turns into your own suite with your own little jetty going into each one. We feel it is an unbelievable solution to the site. The site has absolutely stunning vistas, but it is not an easy site on which to develop a development that meets our requirements.

Mr DEAN - Isn't there another property at Coles Bay? Did having another property there influence the position at all?

Ms FORREST - The accommodation for the work force.

Mr FARRELL - Churinga Farm Cottages?

Mr DEAN - Yes, that's the one.

Mr FARRELL - Churinga is our staff village. We built Churinga based on the earlier schemes, which demonstrates the level of commitment we have to getting on with it. Churinga will still be a wonderful staff village and will ultimately accommodate the majority of the staff for this development and also a number of Freycinet Lodge's staff.

Mr HIDDING - I probably have too many questions to squeeze into that. It depends on where our deliberations go. There's nothing to stop me inviting these gentlemen back again for more information, is there?

CHAIR - No, not if it is decided, and with their -

Mr HIDDING - Then my final question is to Mr Farrell. Mr Farrell has said publicly that he welcomes the investigation by the Public Accounts Committee. Clearly the Public Accounts Committee has determined that it has some issues and wants to raise those matters with you. You welcome that and don't have a problem with anything we've asked you today? I mean, there's been nothing that you've found offensive or -

Mr FARRELL - Not yet.

Laughter.

Mr HIDDING - Let's try this out for size then. When the Leader of the Opposition raised exactly the same issues, your company issued a media release to say that he wasn't capable of running Tasmania.

Mr FARRELL - I'm not sure where that meets the terms of reference, Rene.

Mr KONS - That's a fact, Rene.

Laughter.

Mr HIDDING - I know you agree with that but I'm just trying to see whether the rest of your faction agrees.

CHAIR - I have to take a point of order. Let's keep it to the terms of reference in front of us.

Mr HIDDING - You don't see the similarity then? When Will Hodgman put these questions out there for the Government, you suggested he wasn't suitable to run for the State of Tasmania and yet when the Public Accounts Committee asks you the same questions you don't seem to have an issue.

Mr FARRELL - He didn't ask the questions of me, did he? He asked the questions of the Government and in doing so we believed, went out of his way in some respects to diminish the good name of this business.

Mr KONS - I have a question too, Greg. At the time this deal was negotiated there were some auctions of gaming machines in New South Wales that were going for about \$40 000 each, so 3 000 machines at \$40 000 is about \$120 million. Do you think you got a good deal with what commitments you made with Government, given that if we went out and auctioned those and asked for \$120 million we probably would have got it on the basis of what they got in New South Wales.

Mr FARRELL - I don't know if you would have, whether it included New South Wales or elsewhere. I would think that, based on comparative analyses of taxation rates and licensing fees, Tasmania is at the higher end of Australia. So I believe that the State Government got a good deal and that the company got a reasonable deal that allowed it to continue to go on and meet its obligations.

Mr KONS - It just struck me that you probably would have got the same amount. I'll have a look at the Productivity Commission's report just to clarify some of that.

Mr FARRELL - I will have a new update in 12 months time.

CHAIR - Thank you, gentlemen, for coming along.

Mr HIDDING - Can I squeeze one more in?

Mr FARRELL -Yes.

Mr HIDDING - Where did the \$10 million that hit the media come about when the 22-room development was first -

Mr FARRELL - That was because we provided some media briefings, one of which was to Mr Bingham. Mr Bingham did not at that time ask or receive an investment cost, so he made it up. When I saw the article was I felt that something bad was going to come of this -

Laughter.

Mr FARRELL - So I spoke to Brendan who was already well aware of it. He spoke to Mike and Mike said, 'I apologise, I made it up'. I should have rung you to check but I assumed it had to be a lot less so I put \$10 million down.

Mr HIDDING - So what is the publicly available figure for the development in at the council now?

Mr FARRELL - \$32 million.

Mr HIDDING - Mr Chairman, I have plenty more that I would like answers to but it depends on where our deliberations on this go.

CHAIR - All right. Thank you. Thanks Greg, Andrew, Brendan for coming along. Thanks for your time spent and thanks for answering the questions in the way that you have.

THE WITNESSES WITHDREW.