



# LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

## 12th Assembly

### Public Accounts Committee

#### Public Hearing Transcript

Time, 21, March 2017

Litchfield Room, Parliament House

**Members:** Mrs Kate Worden, MLA, Chair, Member for Sanderson  
Mrs Lia Finocchiaro, MLA, Member for Spillett  
Mr Terry Mills, MLA, Deputy Chair, Member for Blain  
Mr Tony Sievers, MLA, Member for Brennan  
Mr Yingiya Mark Guyula, MLA, Member for Nhulunbuy

**Witnesses:** Mr Andrew Kirkman, Chief Executive, Department of Infrastructure, Planning and Logistics  
Mr Brett Brogan, General Manager Infrastructure Investment and Contracts, Department of Infrastructure, Planning and Logistics  
Mr Glen Brady, Project Director, Department of Infrastructure, Planning and Logistics  
Mr Michael Tennant, Chief Executive, Department of Trade, Business and Innovation  
Ms Anne Tan, General Manager, Strategic Infrastructure and Projects, Department of Trade, Business and Innovation  
Mr Jason Robertson, Director Strategic Infrastructure, Strategic Infrastructure and Projects, Department of Trade, Business and Innovation  
Mr Michael Kalimnios, Chief Operating Officer, Top End Health Service, Department of Health

The committee commenced at 12:07pm.

**Madam CHAIR:** Thank you. Would anybody like to make an opening statement?

**Mr TENNANT:** Thank you, Madam Chair and members of the committee. I welcome and appreciate the opportunity to respond to the perceived gaps in the policies and procedures for the management of major projects identified as a result of the audit of the Palmerston Regional Hospital. Given the potentially wide scope of matters which could be covered responses to specific questions could be provided by one or more of the three agencies which have been directly involved in the Palmerston Regional Hospital project at various time.

They include the Department of Trade, Business and Innovation; the Department of Infrastructure Planning and Logistics; and the Department of Health, Top End Health Services. More specifically the Department of Trade, Business and Innovation will respond to matters relating to whole of government delivery of major projects, and whole of government procurement policies. The Department of Infrastructure Planning and Logistics will respond to the committee's questions relating to the construction of the Palmerston Regional Hospital project, including construction budget, infrastructure delivery matters, project time frames, local industry participation and project specific procurement activities. The Department of Health, Top End Health Services will respond to questions relevant to the operational elements of the hospital.

To assist the committee in directing questions, let me put some context to the Palmerston Regional Hospital project government's arrangements. The Auditor-General's audit report refers to three phases of the project, being Mark 1, Mark 2 and Mark 3. Mark 1 and 2 were led by the then Department of Construction and Infrastructure, now a part of the Department of Infrastructure Planning and Logistics, and the Department of Health.

In February 2005 during the course of Mark 3, the then office of Major Projects, Infrastructure and Investment in the Department of the Chief Minister, which has now been renamed the Strategic Infrastructure and Projects Division within the Department of Trade Business and Innovation, was requested by the then minister for Health to facilitate the project through the hospital design scoping and project development phase. This direction was a departure from the types of projects generally led to date by the team, ie the Palmerston Regional Hospital project was a government capital works project rather than one that would be private sector delivered. This was consistent with the then government policy in relation to the potential scope of the office of Major Projects, Infrastructure and Investment's activities and responsibilities.

During this phase the office of Major Projects, Infrastructure and Investment had responsibility for whole of government coordination and communications and ad ministerial liaison. The then Department of Infrastructure was the project manager responsible for the hospital construction process, and the Department of Health had responsibility for design and as ultimate operator of the hospital.

The project governance approach adopted was consistent with that in place for all major projects led by the then office of Major Projects, Infrastructure and Investment. With a project control group comprised of senior officers and relevant agencies reporting to a project specific steering committee comprised of relevant chief executive officers. The group met on a regular basis and policy and procedural decisions made by the steering committee were documented to ensure a clear audit trail for all issues considered. The team was accountable and reported directly to the then Minister for Health for project delivery.

In February 2017, consistent with the project design being completed and the advanced stage of construction, lead agency responsibility for the project was transferred back to jointly the Department of Infrastructure Planning and Logistics and the Department of Health. Mr Kirkman will elaborate on the governance arrangements that now support the delivery of the Palmerston Regional Hospital.

As part of the project audit, the Auditor-General made recommendations in relation to the planning of future major government projects. In this regard it is noted that government initiated major infrastructure projects delivered through the Department of Trade Business and Innovation have established project scoping and feasibility assessment process which support project procurement and delivery.

The reports produced out of these processes by their nature contain, among other things, details of demand assumptions, revenue forecasts and capital and project through life cost estimates. They often also contain strategic and commercially sensitive options on project financing and funding options, market appetite assessments and strategies for project positioning during the private sector engagement phase. Given this, and to protect the government's position in subsequent market processes and commercial negotiations,

these documents are not made public. This could result in the incorrect perception that project business cases are not prepared for major government facilitated projects.

In relation to the promulgation of formal policy and frame work for the delivery of major government projects, the government has committed to the development of a Northern Territory infrastructure strategy. The strategy discussion draft will be publicly released tomorrow for broad consultation. It proposes a robust frame work for how the government will plan, assess, select, prioritise and invest in infrastructure, including the requirement for detailed business cases. The Auditor-General will be consulted throughout the drafting of that strategy and the finalisation of that strategy. The government has made clear its intention for infrastructure strategy to be a co-designed and co-developed document, and for industry, business and community endorsement of a high level project development frame work as a key step in ensuring its effectiveness, suitability and acceptance.

Once finalised, detailed processes which accommodate the specific needs and characteristics of the Northern Territory projects will be promulgated, including across agencies. This concludes my opening remarks. Thank you again, Madam Chair, for the committee's invitation to respond today. I will now hand over to Andrew Kirkman, Chief Executive Officer of the Department of Infrastructure, Planning and Logistics, who has a short statement to make on the Palmerston regional hospital project itself.

**Mr KIRKMAN:** Good afternoon. As Michael has mentioned, the Department of Infrastructure, Planning and Logistics will respond to the committee's questions relating to the Palmerston Regional Hospital, specifically the construction contract and everything to with the construction contract. Just to further clarify the government's process, I just like to note the current arrangements that are in place for the project. There are a number of project groups. The Palmerston Regional Hospital steering group—now that we are in a steady state of delivery, this government's structure, as Michael has just mentioned, as transferred from the previous arrangements under the (inaudible) Chief Minister, which were already in place around interagency coordination in the early phases of the project.

That has now been revised. The steering group still has overarching responsibility for project governance. It meets monthly. It is shared by myself and the CEO of the Department of Health. Along to that meeting comes Top End Health Services, Department of Treasury and Finance and the Department of Trade, Business and Innovation to make sure we have really looked at those across agency issues. Under that power we still have a number of those project teams that you would expect to see, and have seen already in this project.

The project leadership team, which meets with the high levels of Lendlease and makes sure that contractual arrangements are in place and are working, the project management team under that and then we have got a sort of an infrastructure project control team that meets monthly. Glen Brady is the project director who takes the lead with that group. There is also a number project groups that interact with the Department of Health and Top End Health Services—Michael Kalimnios behind me is best placed to answer any questions in regard to those but they are obviously very important in terms of moving from construction to commissioning of the new hospital.

I am pleased to advise that the Palmerston Regional Hospital remains on time and within the \$170 million budget that it has been set. Concrete superstructure and rooftops are now complete, structural steel roofing and roof sheeting is approximately 85% complete and external wall cladding has now commenced.

All major services, electrical, hydraulics, wet and dry fire and communications cabling are progressing on schedule and at present mechanical air handlers and water treatment plant and bulk storage tanks are being installed, and chilled water plant being programmed for installation by the first week of April. I have copies of the latest project report if members would like to take that away.

One-hundred-and-two-million dollars in trade packages has been awarded to date to local Territory enterprises. Only two specialised medical packages have had to go outside of the Territory, in fact overseas, because of the special nature of them. The Department has a multi-pronged approach to ensuring this contract maximises local industry engagement. These include an established process which requires all subcontractors to register interest through Industry Capability Network Gateways. This includes a requirement to be CAL-registered as a supplier in the Northern Territory in conformance with the Northern Territory government 'Buy Local' plans and policies.

DLP project staff also review all works packages as part of the tendering process to ensure our Northern Territory companies have the best opportunity to win works. As mentioned so far, 100% of packages other than those two very specialised packages, have gone to locals.

Establishing a permanent staffing presence on site including Glen as a project director, senior project manager, Clerk of Works and support staff that interact with project and contractors on a constant and daily basis means that we know exactly what is going on with the project in every respect. We have also got an auditing of local content and indigenous participation for the works packages, and the last audit we had was in December and was by KPMG, and we have got the next one planned for April.

So, to date \$66m has been spent on the design and construction, with a forecast spend of \$104m to be achieved by the end of the financial year. The project and reporting milestones agreed with the Commonwealth government are being maintained and payment milestones are up-to-date with \$20m received in December 2016. The next forecast milestone payment of \$6m for the completion of roofing and structural steel to the central energy is on schedule to be received in April 2017.

At present there are 250 various trades staff on site constructing the hospital. The total man hours worked on the project to date is 264 000 and indigenous workforce hours at 29 000 equating to about 11% of the total hours worked on site. There has been no lost time injuries.

Thank you again for the committee's invitation to respond and I am happy to answer any questions.

**Madam CHAIR:** Thank you. I think you have actually answered a couple of our questions, which is excellent.

In terms of process though I might ask the first question but then invite my fellow committee members to ask further questions as we go. The first question we did have was about you outlining your agency's responsibility in the major projects but I think that that is quite clear after those introduction so thank you.

The second one may have been, but I am not sure in completeness that it has been and I might just go to the first recommendation from the Auditor-General's report from June addressing the need for robust planning for future major projects including identifying need, defining criteria for success, analysing costs, risk and benefits of options, assessing whole-of-life financial effect or the project options including operational costs and I did hear you touch on the Northern Territory information strategy. Maybe we can talk a little bit more about that, even though that is going to be launched tomorrow for consultation.

The questions, I guess, I have are: are there now policies and procedures for planning of major projects? I guess I should context this, what we are really concerned about—or not concerned about, what we are really interested in finding more about is how the lessons have been learnt at one project to another and ensuring new major projects of this breath are where we might have made some short falls. That is the whole idea.

Are there now policies and procedures for planning major projects? How will you ensure those policies are followed in the future? If you do have any documents could you provide those to the committee, but taking in the fact that is not until tomorrow anyway, the release of the consultation.

**Mr TENNANT:** Thanks, Madam Chair, I will respond to that question.

A consultation draft of the infrastructure strategy will be released tomorrow. The consultation draft proposes a high level project development framework, and the final infrastructure strategy will be released following the conclusion of the economic summits process. That strategy will embed the government policy of a rigorous project development framework going forward.

We concur with the Auditor-General that substantial and detailed guidance material is available for the development of business cases. However, processes and requirements can vary considerably between jurisdictions.

Guidance material needs to be fit for purpose and to reflect the specific jurisdictional circumstances. In this respect endorsement of a high level project development framework by government and industry is a key step in ensuring effectiveness and utility in our context. This will also ensure that the framework is appropriately tailored to the Territory before releasing detailed guidance material under the framework, possibly through Treasurer's Directions.

The Auditor-General will continue to be engaged in the development of the project development framework and detailed guidelines. The project development framework and detailed guidelines will address those

matters that you have identified in your question, and that the Auditor-General recommended in June 2016 will be picked up and addressed in both policy planning and guidance material.

You asked how we will ensure compliance with that. Part of that will be through, depending on the scale and nature of individual significant scale projects. It is standard practice to look at including a probity adviser in relation to large scale projects and complexity. Part of the role of the probity adviser is to provide advice through to the project governance group in relation to compliance with various government policies.

Part of it also, before it gets to that aspect will be in relation to the CEOs as accountable officers for those significant, major projects. There is an interagency steering committee and CEO group established to provide that oversight and ensuring compliance with policies.

Obviously, also, individual projects may also be subject to agencies internal audit programs, as well as to audit by the Auditor-General for ensuring compliance.

I hope that answers your questions.

**Madam CHAIR:** Yes, thank you.

**Mr MILLS:** Mr Tennant, thank you for your presentation. Could you just describe the—you have this infrastructure plan that is going to be announced tomorrow. You gave a description of what it is hoping to achieve. Could you go through that again please?

**Mr TENNANT:** Certainly, there are three overarching documents that we are currently working on for the government. One is the government's broad overarching economic development framework. That will set out a broad strategic direction for the Territory. That is being a co-designed and co-developed and the intent is to be a co-owned document covering the broad economic strategic framework for the future economic development of the Territory.

Through that there has been extensive consultations undertaken throughout the Territory at a regional level and also with individual and relevant sectors of the economy. That is culminating in a summit in Alice Springs on Friday this week, with a following summit in Darwin next week, with the intention that with release of consultation drafts tomorrow to inform those final summits, then for those documents to be finalised to incorporate that final feedback from the summits and resealed around the time of the Territory budget in May this year.

The first two documents to sit under that, we have been developing in parallel, one is an infrastructure strategy and the other is an infrastructure plan. The infrastructure plan will be a list of infrastructure priorities that have been identified and it is covering the broad sense of infrastructure. It includes and incorporates government capital works, but other significant infrastructure projects that have been identified by the private sector or that the federal government may be looking at doing, such as through Defence expenditure in the Territory.

Government's election commitment was to produce the infrastructure plan with at least a 10-plus-year horizon of infrastructure priorities, but then to update that and release an updated version every year as new priorities emerge.

The infrastructure strategy is designed to be a long-term strategic framework for how we deliver our infrastructure in the Territory. It is broader than just government capital works program; it is looking at our various policies, guidelines and material about how we attract or facilitate private sector investment in the Territory in relation to infrastructure. So it is a broader scope. The intention is that it is an enduring strategic document. It will include a range of actions which, through the consultation process, we will be committed to delivering across agencies to look at how we do the infrastructure work.

For example, some of the material that is in the consultation draft to be released tomorrow is not only the commitments to develop the project development framework and address in detail all of the recommendations the Auditor-General has raised, but also other works such as looking at cost-benefit analysis and other prioritisation methodologies for us to be discussing with Infrastructure Australia and federal government agencies to see if we can address some of the historical issues of the Territory for Territory infrastructure projects not being successful in securing federal government funding in our developing economy context.

**Mr MILLS:** Thank you for that. I thought what I was hearing is that the first recommendation of the Auditor-General said we have to identify need, define the criteria for success, analyse the cost risks and benefits of options, assessing whole-of-life financial effect on the project options including operational costs.

I am assuming all of that will be addressed by what you have just described?

**Mr TENNANT:** That is correct.

**Mr MILLS:** So what I heard then, is that must not have been in place before. You do not put a plan in place if there is already a plan. Would you then agree that there is a clear need for a plan such as this?

**Mr TENNANT:** I can say that in relation to the projects that have been led to date by the Strategic Infrastructure and Projects Division, which was the former office of Major Projects, Infrastructure and Investment; those aspects were being dealt with where they were involved in the initiation of projects.

We acknowledge that there is a need to strengthen guidance material across government and we agree with the Auditor-General's recommendations. That is what we will deal with and address in the infrastructure strategy work.

**Mr MILLS:** Okay, thank you. We are really focused on the hospital and how it applies to the hospital. I was interested to hear reference to a probity adviser. What do you envisage the authority of a probity adviser to be?

**Mr TENNANT:** I can answer that from a general perspective if you would like – I will leave it to Andrew to answer any questions specifically in relation to the Palmerston hospital project. For significant or complex projects, it is often standard practice to include the appointment of a probity adviser to provide advice through to the accountable agencies and government groups to ensure that compliance with various government policies is met throughout that process. A probity adviser will provide advice through either the design, planning or undertaking of the assessment processes.

So it is beyond just ensuring that there are no conflicts of interest or that conflicts of interest are being appropriately managed. It is also providing advice in relation to other compliance aspects for the project.

**Mr KIRKMAN:** In relation to the Palmerston Regional Hospital, there was a probity auditor in place. I understand—not being there at the time—it was a legal firm that was engaged. Brett or Glen, would you like to talk a little more about that? Obviously, we are talking two years past. My job is to look forward and deliver on the project that has been set forward ...

**Mr MILLS:** I understand. With respect, the reason you are here is because of the past, so we can set a clear path going forward ...

**Mr KIRKMAN:** Sure. Absolutely. Just to be clear in the question, Member for Blain, you are wanting to understand how the probity advice was provided in this project specifically?

**Mr MILLS:** Yes, that is probably a bonus. I would like to know a bit more about the probity function, how it has occurred, learn how it might apply going forward and how it has worked.

**Madam CHAIR:** Can I also ask a qualifying question. So there is no probity? The function of that has ended?

**Mr KIRKMAN:** So in just about all projects the probity auditor that you have in terms of the function comes in right at the front end to make sure that your procurement of the project is set appropriately in terms of that initial contract.

Individual subcontracts—because effectively we have let the contract to the managing contractor Lend Lease and there is a process in place that we have agreed to make sure that we know exactly who is getting awarded contracts under that managing contractor, ie we are part of the tendering process. Glen sees all of those packages as they come in and as part of the tendering assessment process so that work will continue. The probity adviser is there when you sort of set up a contract, a major contract right at the outset.

**Mr MILLS:** All right. So then, who does the probity adviser report to?

**Mr KIRKMAN:** The probity adviser will generally report to the steering committee who may not have direct control over who actually wins but is assured that the process is followed exactly as per the advice from the probity auditor.

**Mr MILLS:** Who does the steering committee report to?

**Mr KIRKMAN:** Government.

**Mr MILLS:** Directly to the minister. Is there a public line of sight on this? I suppose you are talking about probity audit and I think I understand the function of that as you have described it but how the project is actually tracking, is that reporting only into government or is there an external report?

**Mr KIRKMAN:** Well, we obviously report to the Auditor-General each year in terms of our financial statements. We report ongoing obviously in detail to government and then we are sort of quite open as well about providing advice in terms of what has been happening on site and as I said I am happy to provide those reports, or the updated report.

**Madam CHAIR:** I might just ask-my colleague to the right has a question about the business case if I might?

**Mr SIEVERS:** The Auditor-General has recommended all future projects have a comprehensive business case, which case should document the advantages, disadvantages, the costs, the benefits, the risks and the consequences of each available option. What are the requirements for a business case for a major project, and can a major project proceed without a comprehensive business case as recommended?

**Mr TENNANT:** Thank you. We concur with the Auditor-General that comprehensive business cases should be developed for major projects and this is certainly the process for major projects that are currently coordinated through the Department of Trade, Business and Innovation.

It is noted that these reports are not made public as they may contain sensitive commercial and financial information but those business cases are certainly provided through to the relevant ministers and to government.

Some examples of reports prepared to support major government-facilitated projects that have been led through our team within the Department of Trade, Business and Innovation include for the northern gas pipeline a detailed economic and commercial study, in relation to the Darwin Port lease scoping and strategy study and legal scoping strategies, in relation to the ship lift and marine industries project feasibility studies for the marine industry part, in relation to the luxury hotel, detailed market analysis and scoping studies, in relation to the Mount Isa to Tennant Creek railway detailed scoping study, strategic options paper and economic, commercial and financial analysis.

The proposed project development framework which I mentioned earlier that we will be developing and implementing will guide the terminology and content of business case documentation to apply across all government agencies in relation to major projects.

Ideally, finalisation of the business case documentation would precede a government decision to undertake a major project or the procurement decision. However, in reality the business case process can occur after a government project decision has been made to determine how to actually deliver or best deliver that major project that has been announced.

To clarify there may be cases where government may, for example during an election campaign, undertake certain election commitments for something that may be a major project in nature. It may be something that, if they come to government, then the relevant agency will undertake the further detailed work that may not have been there when the announcement was made, to look at the detailed business case including those aspects you have mentioned and the Auditor-General mentioned in her June report to determine the best way to deliver that major project and to go forward on it.

**Mrs FINOCCHIARO:** Michael, I will ask you a follow-up on that if you do not mind. Under the new economic development framework you are looking at standardising how business cases are managed across government as opposed to each department. It is a bit like audit reports and every department does it its own way. This is looking at standardising that?

**Mr TENNANT:** Certainly standardising the guidance and requirements for those at major project level—so, for those that are significant, high-value, complex projects—and what is the minimum amount of information possible we would expect. Some of that I expect to be in the way of absolute requirements and some of it would be additional guidance material that provides that flexibility. No two major projects are necessarily the same.

**Mrs FINOCCHIARO:** I am assuming major projects is defined in some way—you have a threshold for what will be captured by that and what would not?

**Mr TENNANT:** That is something we will be looking at in defining that threshold. To date, the threshold we have used for major projects, as in the private sector projects, have been those projects of more than \$50m in value and or where there are complex regulatory and or approvals processes involved and or interfaces across relevant agencies.

We are certainly looking at those where government capital works delivered major projects, and also looking at the definition for when the project development framework would apply. Part of that is also to be able to provide the flexibility. There will be cases where there is a more complex, high-value project and the level of assurance and requirements you would want to see will be reflective of that increasing complexity or the financial investment being required.

**Madam CHAIR:** I also have a follow-up question, if that is all right. I am interested in the difference between a business case—which is in the terms of the Auditor-General's recommendations is strongly around a business case versus feasibility and scoping studies. To my mind they are very different things. For those projects that you have nominated, would it be that you would suggest not all of them have a business case; they have something different that might not cover the same sort of requirements that a business case might?

I understand you have prefaced that with that some projects do not have business cases for different reasons. At which time would you give that frank advice to a minister about where a business case might sit?

**Mr TENNANT:** Madam Chair, some of this comes down to terminology and that is part of what we will look at through the project development framework and infrastructure strategy—coming up with a consistent terminology and definitions when these are used.

A range of those I provided examples of were government-facilitated investment projects with private sector investment. The nature and requirements of those may differ from the projects such as Palmerston Regional Hospital, which is a government-delivered capital works project.

Part of whether we use the Treasurer's directions and the guidance material through the project development framework is providing that consistent terminology to address all of those aspects that the Auditor-General mentioned in her report of June last year of things that you would like to see. Sometimes in the past we have called things differently, but they do pick up those key pieces of information.

Part of the nature of where we are looking at a government-facilitated project to try to leverage or encourage private sector investment into the project means we are often needing different levels of information such as market analysis and scoping studies about the best way to approach the private sector investment. Some of that is not necessarily required if it is in relation to a government-delivered capital works project where government would contract out to market for someone to design and build the project or facility and then separately look at how government maintains and operates that facility.

**Madam CHAIR:** But that does lead into another question then around another suggestion, recommendation by the Auditor-General was about procedures to facilitate compliance with the Northern Territory and national guidelines on the evaluation of public infrastructure projects for public private partnerships. We are straight into that area now. I would like to go and just ask: have such procedures been developed?

**Mr TENNANT:** Certainly, when the Auditor-General recommended key performance indicators should be established for use in the planning, evaluation and delivery of all future major projects. We certainly agree with the Auditor-General's recommendation. That information will be included in the project development framework and associated guidance material that I mentioned earlier.

The Auditor-General also recommended that procedures be put in place to facilitate compliance with Northern Territory and national guidelines as they relate to the evaluation of public infrastructure projects in



the context of a public private partnership. My department understands that the Department of Treasury and Finance is progressing the public private partnership guidance material, and it has circulated a draft of the PPP public disclosure policy for comment across agencies.

Projects which adopt a PPP approach to delivery will be evaluated and delivered in accordance with the Northern Territory government's commitments to the national PPP guidelines.

**Mr MILLS:** As I was hearing at the start, and I understood what the Auditor-General highlighted and thought that had great value in making sure we have got a framework in place to measure and assess things and so on, going forward, which leads me to concluded, and I think anyone with a fair observation, that there were some matters that needed to be improved on. Is this a public private partnership?

**Mr TENNANT:** Palmerston Regional Hospital: no. It is a government delivered capitals works project.

**Mr MILLS:** What is the relationship between the government and the contractor? That is Lendlease is it? Yeah.

**Mr KIRKMAN:** So that is effectively—they are our contractor. They are in place. A managing contract model, effectively, has a contractor in place whose job is to package out and distribute the work. They are not meant to be delivering a whole lot themselves other than at times where we need them to do so. It is really a construction project. It is not a private public partnership. There is not any private money coming into it. Obviously the Australian government is putting money into it but that is not exceptional. So yeah, it is a government project.

**Mr MILLS:** At the point of that occurring, so there was an agreement between Lendlease and the then Territory government to proceed. Are there some matters that came to light during that process that now, in retrospect, need to be strengthened or improved in terms of the nature of the contract? And what capacity is there to do an assessment of the nature of the agreement between the Territory government and, in this case, Lendlease

**Mr KIRKMAN:** Yeah, that is a good question. I am definitely keen to make sure that we do a lessons learnt on our managing contract model. There are definitely some lessons to be learnt. If you are after specific examples I am sure Glen can tell you those. I can say, though, coming in as sort of as a Johnny come lately to this, it is.

**Mr MILLS:** I have been here for about 17 years and you are here all the time.

**Mr KIRKMAN:** To this particular project, yes. I have been in quite a few others as you know, Member for Blain, but I missed one. It is running, I can honestly say at this stage it is running very smoothly. As in any contract what is absolutely vital is that the relationships are in place, they are respectful and absolutely honest. That way you can treat any issues. For example scope changes, design changes, when they arise and you can deal with them quickly.

I think everything, to me at this point, shows that it is a respectful relationship with the contractor in both aspects and it is going very well.

**Mr MILLS:** I am particularly interested—I think it makes it a meaningful exercise when you have got a new system in place to address things that may need to be improved. But what lessons have been learnt from the past, and how are they applied going forward? Maybe Brett.

**Mr KIRKMAN:** Yeah, Brett or Glen who is sort of in the absolute detail of this one.

**Mr MILLS:** What can we learn from this?

**Mr BRADY:** This particular contract model, managed contractor, is used very widely with the Australian Defence Force. What we have done as the Northern Territory government is created a modified version of that contract. We do not have bonuses, we do not have incentives in our contracts so it is a very collaborative model that we have adopted with Lendlease.

**Mr MILLS:** No incentives?

**Mr BRADY:** No incentives, no bonuses, so the Defence Force offers bonuses for early completion and things like that. All we have done is taken all those out of the contract and we have given-Lend Lease have

design ownership, so they own the design, we novated the design to them at 50% design. Now they own the design so work with, through the Northern Territory government with the Department of Health, Top End Health through the journey to get the design right, fit for purpose and they deliver that for us.

So in terms of this particular project at the moment we have about 86 trade packages where we are going to be running out through the economy and there are no great lessons learned on this particular project.

**Mr MILLS:** None?

**Mr BRADY:** The Northern Territory Government does run, we have had other MC contracts so there are some live versions going which maybe Brett could touch on but at the moment we do not have any ...

**Mr MILLS:** I am particularly interested in local content because that is a question I ask every sittings. The aspirations for local content and are we achieving it, and how does that look through the contractual arrangement between the Territory government and Lendlease?

**Mr BRADY:** For that very broad example of how we do that, the expression of interest are lodged through NTICN gateways being established, and all the sub ...

**Mr MILLS:** That was not there before?

**Mr BRADY:** This is something we have implemented on this contract so that local contractors can register and they are interested in pricing work. So we have on that website all the packages we are going to release to market, vinyl, structural steel, roofing, mechanical every one of those packages is itemised, we run an expression of interest so local suppliers can-all suppliers in Australia-can lodge an application and be assessed to price those works.

Thirty-five percent is the local development percentage on that which is slightly higher ...

**Mr MILLS:** Is that part of the contract?

**Mr BRADY:** Correct, so that is what we are assessing against. Obviously things like past performance, capacity, have you delivered a hospital before, can you manage a contract to this value: all those things are assessed before we go to market. Then we shortlist those trades and we run that to the market through Lend Lease. It is a Lendlease contract but Department of Infrastructure, Planning and Logistics-myself and my team are on the assessment panel ...

**Mr MILLS:** Alright.

**Mr BRADY:** And then further to that it goes to a Quantity Surveyor, independent Quantity Surveyor to assess the scope of works, to assess the financial breakdowns and those components, and we deliver a, we award a contract.

**Mr MILLS:** How are we going with the 35% then?

**Mr BRADY:** That is what we run. At the moment, apart from theatres, a company called Stryker has won a theatres package to fit out all the operating theatres. There is no such company as national servicing in the Territory.

**Mr MILLS:** I think 35% is a global percentage?

**Mr BRADY:** Yeah, this is.

**Mr MILLS:** Across the board.

**Mr BRADY:** And the (inaudible) is the only two we have awarded outside. One-hundred percent of trade-based contracts, supply contracts have been awarded to Territory businesses up to \$102m.

**Mr MILLS:** Okay, okay.

**Madam CHAIR:** Is that the updated figure? I am just jumping to another question we have later but it does cover it off. So that is 100% of those trade-based ones have, that is the most up-to-date figure you have?

**Mr BRADY:** Correct.

**Madam CHAIR:** Can you tell me how those figures are recorded, or you just take their word for it?

**Mr BRADY:** No, no it is a trade-by-trade breakdown like I explained. We have established a budget, part of the managing contractor contract we have a planning phase agreement which itemises every trade, every sub-trade to be used on this contract. That sets our budget. When we go to market, we set each one of those packages, concrete supply for example with a budget we assess and award against that budget. They are actual figures. I have got those.

I mean well Northern Territory Government hold the money on this project so there is a project bank account that goes, is released to the subcontractors on a monthly claim basis that is assessed by the Quantity Surveyor before we approve those claims. We get a monthly draw-down from the bank account to show that those subbies have been paid and a separate bank account for Lend Lease's costs. So it is all transparent, it is all reportable every month.

**Mr KIRKMAN:** So Chair, in relation to your specific question around how do we know they are local, part of it is making sure that they register under the ICN, Industry Capability Network. They have to register. To register they have to have the right CAL accreditation and they have to meet the normal NT government procurement rules for a local contractor. It is from that list supplies are picked and shortlisted.

**Madam CHAIR:** Just on that we have heard information inside and outside of this hearing but often it just takes a mailbox in the Territory, then they qualify and they can apply for CAL because that is an auditing process around how their financials stack up and their ability to deliver in the Territory rather than that they actually are local.

**Mr KIRKMAN:** So our contract requirements go much further than just having a PO Box. I might get Brett to elaborate on what we currently have in there.

**Mr BROGAN:** Sure. So for each trade package we work with Lendlease in developing the procurement documentation to make sure we accurately specific what works we require. That enables the contractors to tell us how their local staff and machinery and tools and such can meet the project requirements. We then do a procurement assessment based on the tender response we received against that scope of works then make sure that we believe that the Territory Company that has responded to those scope works can adequately deliver, at very low risk to the Territory, those scopes of works.

Andrew mentioned in his introduction that he is going to table the project status report. That report lists every works package that the Territory has entered into with Lendlease and they are all local companies.

**Mr MILLS:** Does the head contractor need to be CAL accredited?

**Mr BRADY:** The head contractor is accredited through CAL, through a national prequalification scheme for projects.

**Mr MILLS:** So Lendlease is CAL accredited nationally.

**Mr BRADY:** Correct. Search Lendlease Building Propriety Limited on the NT Cal website, their name is on there.

**Mr MILLS:** Just curious about no incentives. How does that actually work? Like, what motivates then the contractor to come in under budget?

**Mr BRADY:** The budget is as agreed on the planning agreement so it is a team effort. It is a collaborative contract. The wording collaborative contract model is written all the way through the contract. If there is an over budget we look at why and we look at reassessing and, if we need to, cut scope, which we have not had to do, understand a project philosophy. So far we have not had to do that, and the projects have come in on budget.

What we are talking about with no bonuses is their fee for delivery. They have agreed to a contract, to a completion date in March 18. That is what they have to deliver. If they, in a traditional MC with a defence, if they did finish early they would get a bonus for that. We do not offer that.

**Mr MILLS:** To a certain specification. How is that managed? How is that measured?

**Mr BRADY:** Each specification for design or?

**Mr MILLS:** Well say it is going to be, and it is collaborative, if everyone is getting on really well and it is going to be delivered on time and on budget to a standard. How is that standard determined and monitored?

**Mr BRADY:** So that is through the NTG staff and peer reviewers. So we have engineering staff. We have representatives from Top End Health, the Department of Health, that go through the particular boards

**Mr MILLS:** So the question is: is the Territory getting value here? How is that question asked and answered?

**Mr BRADY:** The Territory, in terms of what we are doing, is assessing against the cost plan that we are working for, if you ask the Territory is getting ...

**Mr MILLS:** This was the plan that was developed at the outset?

**Mr BRADY:** The plan that was signed with the contract which was developed and reviewed by our quantity surveyor, a local Darwin company.

**Mr MILLS:** With what Mr Tennant just described about a new high level infrastructure plan, what effect will that plan have on this project?

**Mr TENNANT:** It is the Infrastructure Strategy we will be setting out through that project development framework. Some of that standardisation of the processes, material and best practice we expect to see, across a range of projects. Part of that will be informed by the lessons and learnings, not just from the Auditor-General's recommendations, but from the experience on other projects as to what is fit for purpose, and what we would expect to see.

Part of it needs to be around, what are the outcomes you need to address, and then guidance around what processes you can implement on a project to make sure that guidance material is there. You touched on—some of this is about doing the specifications up front and early to the appropriate level of detail you need, then as the project is being delivered, how you have the independent assurance—both with the direct relation with your contractor or their subcontractors—that they are delivering what they have been contracted to deliver. That goes to good, strong, solid contract management as well as assurance processes through the delivery of a project.

**Madam CHAIR:** I will give the Member for Spillett an opportunity to ask a question ...

**Mrs FINOCCHIARO:** Oh, no, that is okay. I would have said, in respect to the question by the Member for Blain, there must be standard construction management processes and certification of work stages. Those processes must be in place to say, 'Yes, we asked you to build toilet block B and it is there and contains six light switches we asked for and six toilets'. So, those processes are well and truly established, no doubt? Hopefully.

**Mr BRADY:** One hundred percent. It is important to acknowledge the design process we have with this project with the Department of Health and our teams—27-odd user groups and 300 staff on that—escalating that to the operational staff. You probably have 1000 people who have had input into this design. It has been going for a significant amount of time.

The Department of Infrastructure has, obviously, specialists in each of those trades. Then the design engineers also do weekly site walks. We have clerk of work on-site; that is their role; they are qualified—my senior project and I—we are all from that background ...

**Mrs FINOCCHIARO:** Certifiers all.

**Mr BRADY:** Certainly reviews. Andrew touched on the governance earlier with the groups—project relation and project management team, operational project team and structure control groups. That involves people from the Department of Health as well. Then we look at the weekly site meetings and the daily operation. Our team is on site 100% of the time.

**Mr MILLS:** Probably the practical way of measuring the capacity to exercise rigour in these types of deals—and it has already been alluded to that there needs to be an improved framework to manage these things. At the point of the agreement being brokered between the then Territory government and Lendlease, what was the predicted cost of the project?

**Mr BROGAN:** At that time the project budget was \$150m. Since that time the project scope has grown from a 14 000 metre to about a 22 000 metre facility. The Territory government announced in budget 2016-17 that the project had increased to \$170m.

**Mr MILLS:** That is an initiative of government that has resulted in the increased cost?

**Mr BROGAN:** Touching on Glen's point earlier, we are working extensively with the Department of Health and Top End health services in determining what clinical services are best provided to meet the health needs of the Territory. As part of that process the scope has grown to provide a better health outcome. Some of the key examples there is we are now providing a full commercial kitchen so we can prepare meals on-site and an on-site sterilisation department. They are probably the two big changes in the facility.

**Mr MILLS:** An observation: it appears then that this infrastructure plan that will be discussed tomorrow is really important because were not those things worked out—it is just an impression—and understood before you started? It is not really a question to you. It is ...

**Madam CHAIR:** Can I come back to cost? Is that all right?

**Mr MILLS:** Yes, this in relation to cost.

**Madam CHAIR:** I have a couple of questions about documentation and risk management before we get to costs. We have some significant questions about costs, of which the first part that answers.

The Auditor-General made a number of comments on the importance of documentary evidence and retention. Could you detail what processes and procedures are in place to ensure the retention of information provided to key decision makers—you have talked a little about the governance structures that have informed the decision making and how that has occurred? In your agency is there documentary evidence retained of stakeholder acceptance of changes to planned projects—when things have changed outputs and outcomes for a major project cycle? Do you agree that documentary evidence of both project and construction costs should be regularly reported to and reviewed by any major project steering committee?

**Mr TENNANT:** I will answer from the whole-of-government level. Certainly the guidance material that will sit below the project development framework I mentioned that we will develop as part of the Infrastructure Strategy, will incorporate specific guidance on the information that must be retained and reported to decision makers in relation to major projects within agencies.

Certainly taking on board the Auditor-General's recommendations from June 2016 we have already implemented, and addressing that within our projects within our own department and have been doing that to provide a clear audit trail with reporting through to project steering committees.

That is consistent with the current practice to minute decisions made at the CEO job standing committee of CEO coords, a group of CEOs that meets on a regular basis and is providing oversight for a range of the major projects, private sector major projects but also at the project control group level which is the level of senior officers across departments that come together on individual projects to work in detail around those projects.

In short, the answer is yes, and yes.

**Mrs FINOCCHIARO:** Can I, if you do not mind, Madam Chair, adding to that. You know, obviously with major projects across the Territory or in the past that we have seen you know this committee, not with the current membership but certainly in the past this committee has explored the asset management system and perhaps things that were not done as good as they could have been with that project.

We have looked into the prison and various other things along the way and certainly, I think particularly probably with the asset management system when you have all of these levels of governance which you do with the Palmerston Hospital project that documentation and that structure is really important particularly

when the life of a project is significant, so if Glen was to pack up and move to the Sunshine Coast tomorrow, is the information there or is all of that corporate knowledge kept with him?

So certainly from a contract management perspective and a governance perspective that record-keeping, that clear record-keeping of decisions, actions, problems, risks, all of those things has proven incredibly important and not always done perfectly in the past, but as a committee we are always looking forward to how we can encourage departments to look back on those lessons we have learned, continue to drive forwards so that we do not have issues down the track. The last thing anyone wants is to end up in litigation obviously and yield good results for Territorians. So I suppose that is more of a comment than a question.

**Madam CHAIR:** And it is a good observation. Thank you for that. What that tells me though is that the strategy, the strategy that is coming, the infrastructure strategy is actually a lot more detailed than I had actually anticipated. I knew that there was one coming, but obviously I did not realise that I was going to be that detailed so I think in some ways we have to park some of our questions in terms of that and keep an eye on it when it comes through and make sure that those things are reflected, the things that you are committing to I guess today being incorporated.

**Mr TENNANT:** If I may Madam Chair, the infrastructure strategy is going to set up that broad strategic framework but it is also going to set out a very long 'to do' list of things that we have got to then go on and deliver on-individual actions—so some of those were things that—while it will be mentioned in the strategy that we will then go and do this we have got more work to do to actually then go and implement those specific actions and work up the detailed material, so just be—the strategy will commit us to doing certain things but there is still work to be done by departments to actually then go and work up the detailed guidance material for it, etcetera, that will then—for it to be implemented.

**Madam CHAIR:** My observation is that you know what some of those are already.

**Mr TENNANT:** Certainly the Auditor-General's recommendations but also the consultation across agencies and reflections around lessons learned as Andrew had said from our experiences in relation to projects. There is also been consultation undertaken to date with various external stakeholders as well to inform what is in the draft strategy and the forward work program and 'to do' list and we have commenced consultation with the Auditor-General in relation to the draft strategy and 'to do' list and we will keep consulting with her as we move forward to finalise that and in relation to there will be a range of specific actions that once we finalise the strategy and government approves it and releases it in May.

We will continue talking with the Auditor-General and other external stakeholders as we get in and implement those actions and get that material ensuring that it is fit for purpose and is best practice.

**Mrs FINOCCHIARO:** Madam Chair, can I just ask one further question on that.

**Madam CHAIR:** Sure. I am then going to move to the budget.

**Mrs FINOCCHIARO:** Enquiry. Given that this is a hospital and I think the Territory has not built a hospital for something like forty years, or whatever it is, it has been a long time coming certainly so it is a very I suppose unique project that contractors do not interface with every day, have there been any additional, is there any additional rigour put in place in your governance processes or in your risk management processes I suppose to keep an extra watchful eye on what is going on given that it is not something that contractors—Lendlease obviously have experience with hospitals—and all of the subbies underneath know how a project is run. Is it uniquely different or is it much like other major projects? Or are there additional layers needed?

**Mr KIRKMAN:** Every project is unique in its own way. This is a considerable project. It is not complex in that we have private investors and funding we need to consider. But we have very extensive governance framework which I mentioned earlier—in the steering committee the CEO of Health and I sit on—and there are a number of other project control groups, both in a project and operational sense with Health. Then we have those meshing together as well to make sure each area is talking to the other.

We have a very extensive range of governance processes looking after that. It is far more extensive than, say, what you would do if you were just to extend on hospitals. We have done quite a bit of work on both Royal Darwin and Alice Springs Hospitals. There have been multimillion dollar contracts let for those hospitals and we have seen them grow and improve.

We have not needed this type of arrangement for those packages, even though they might be \$10m or \$20m. You are right, it is unique, but it is not different, I guess, to other major projects and the level of governance you would put in to making sure it is going well.

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#### Question on Notice

**Madam CHAIR:** Excellent. Thank you. I have a question on risk management. Do you mind if I just read it into the record and you could give us a written response on notice after in the interests of time? The Auditor-General found a need for improving management of risks and procurement. Would you please describe to the committee in writing of how risks are continually identified, monitored and reviewed across agency projects? How do you evaluate your agency's procurement controls and how often? Is that okay to take that on notice? You agree to that?

**Mr TENNANT:** Certainly. I agree.

**Madam CHAIR:** Thank you very much. I have a further question building on the questions of my colleague, the Member for Blain previously about what you described to us as a model of a management fee being paid to Lendlease and reimbursable costs to the subcontractor from the government holding that money.

The reimbursable costs have increased—we have just heard the General Manager describe those. Can you tell you if the management fee then also increased?

**Mr KIRKMAN:** The management fee for Lendlease was set at the outset. Going to your earlier question, Member for Blain, that is really the incentive for them to get there on time because if they blow time then they blow their fee.

There is an element though that means if we increase the scope—as we have done by \$20m—they will then be able to charge 5.6%-odd. Glen is that correct?

**Mr BRADY:** Yes, 5.75%.

**Mr KIRKMAN:** 5.75%. So ...

**Mr BRADY:** If we exceed that value.

**Mr KIRKMAN:** If we ask them to do more then, rightly, they should be paid more because there is more work associated with it. So there is a capped fee, but if we ask them to do another \$20m then they get 5.75% of that.

**Madam CHAIR:** Do you know what that is in a dollar figure or is it commercial-in-confidence?

**Mr KIRKMAN:** It is commercial-in-confidence ...

**Madam CHAIR:** No, no, I have been advised.

**Mr MILLS:** Is it 5.75% or whatever of the \$20m?

**Mr KIRKMAN:** I will get Glen to answer that because I do not think it works out exactly to that.

**Mr BRADY:** The original contract we had with them was based on if there was significant scope change Brett mention of 14 000 square metres to 22 000 square metres. The Department of Health provided additional briefing requirements and we have incorporated a general ward which is (inaudible) valuation management and rehabilitation ward which is something that they require for this facility.

At the time when the figure was agreed to suit the management and site establishment requirements of this like sheds and those sorts of things to construct the hospital, the original concept was a multi-tiered structure of four or five levels. It is now a two-level operational facility with treatment courtyards and those types of things. So the fee has not increased since we awarded and executed the contract on 2 December 2015. There has been no managing contract fee increase.

**Mr MILLS:** Has not been increased?

**Mr BRADY:** Once we executed the contract on the 2 December there has been no fee adjustment. So that execution of contract, as mentioned earlier, we went through a novated design process, we novated the design at 50%. At that time the design was approved by the Department of Health and Northern Territory government to proceed. We then executed the contract for Lendlease to manage.

**Mr MILLS:** (Inaudible) had increased by x amount, is that x amount times five, whatever percent that you have referred to before?

**Mr BRADY:** No, if it increases from now it would be 5.75%.

**Mr MILLS:** Of the increased amount?

**Mr BRADY:** Of the total amount. If we said to Lendlease 'We now need to provide a wing' that is of \$1m they will get 5.75% of \$1m. It does not affect their current contract, it just grows it. That will obviously increase.

**Madam CHAIR:** Thank you for that clarification. I will just—the Member for Brennan has a question.

**Mr SIEVERS:** I have just noted we are pushing for time so I will cut to the chase around fit out and commissioning costs. Michael, can you tell us what are the actual fit out and commission costs to date, and estimated final costs?

**Mr TENNANT:** Thank you, Member for Brennan, I actually need to pass this through to our Department of Health colleagues.

**Madam CHAIR:** Can I get you just to state your name for the record, please.

**Mr KALIMNIOS:** Michael Kalimnios, Chief Operating Officer Top End Health Service. So the commissioning costs we are currently working within a budget of about \$3m to commission the hospital. That is currently on target and being managed within that amount. In terms of fit out costs we have an approximate budget and I am happy to sort of clarify this separate bit, around about \$30m fit out. That includes FFNE, Furniture Fitting and Equipment, and obviously basic other medical type equipment in that category two kind of context. Again, we are currently working within budget around that.

**Mr SIEVERS:** So, Michael, is that the cost to date?

**Mr KALIMNIOS:** Sorry, no, that is the total budget. So, again I cannot give you exact figures up to date but I am happy to provide that separately and take that on notice if you are happy for me to do that. I can provide that information.

**Mr SIEVERS:** Okay thank you.

**Madam CHAIR:** Do you anticipate that you will stay within those budgets?

**Mr KALIMNIOS:** At this stage, absolutely. We are managing within those budgets. That is the intent and we are planning to make sure we do remain within those resources.

**Madam CHAIR:** Do you want to ask that question on project related head works?

**Mr SIEVERS:** Yep. Just going on from the fit out costs with the project related head works what are the actual project related head works cost to date and the estimated final costs?

**Mr TENNANT:** Member for Brennan, I will ask Andrew Kirkman to respond to that question.

**Mr KIRKMAN:** To clarify that was cost to date, and final estimated costs?

**Mr SIEVERS:** Yes.

**Mr KIRKMAN:** Okay. Glen, do you mind responding to that?



**Mr BRADY:** Sure. The head works contracts currently for the access roads, water incoming, service feeds power, NBN and section works: \$26,667,284.

Those are live contracts. They are being managed within that budget. They have all been awarded.

**Madam CHAIR:** So none of them have been completed as yet so you do not know if there has been any cost overrun?

**Mr BRADY:** Water mains have been completed, in sections are completed and the others are at various stages. We do not anticipate cost overrun. That is the contract figures for that entire bundle of works.

**Madam CHAIR:** So we have a figure of \$10.7 million for the intersection that came in on budget, or under budget?

**Mr BRADY:** I believe that is the figure for the intersection, correct.

**Mr SIEVERS:** Just one other question on associated development costs. What are the current estimates for ongoing operational costs for the hospital, for the Palmerston hospital?

**Mr KALIMNIOS:** We are still working through a process at the moment, working out the operational costs for Palmerston. As you are aware we are working towards an opening date of May 2018 at the moment. We are going through a process of just looking at what we need to do in terms of being able to open services in a staged way to ensure they are safe and appropriate, and that obviously then impacts on the operational costs that we need to use.

We are hoping to have that process finished within the next couple of months so we can obviously then move into appropriate implementation activities like actually recruiting the workforce we need to open the hospital so it is very much an active priority for us in terms of commissioning to understand what we need to deliver the services that we are going to have there but it is directly related to how we can safely stage services as we open the hospital over the period from May 2018.

**Mr SIEVERS:** Thank you.

**Madam CHAIR:** Do you have any additional comments you want to make about the budget or the actual costs of the hospital?

**MR KIRKMAN:** No, other than what I sort of said upfront; it's that we are within budget and within the time frame set for us which is good.

**Madam CHAIR:** Okay. So the Auditor-General said that there was, remains a risk. I will quote:

*There remains a risk that the comprehensive whole-of-life cost [given the discussion we have had before about the infrastructure strategy] of the Palmerston Regional Hospital may not be accurate or complete therefore robust monitoring, management and reporting of changes to scope and functionality of the Palmerston Regional Hospital together with the movements in associated costs is critical.*

Do you agree with that statement, and how do you monitor, manage and report changes to scope and functionality of the Palmerston Regional Hospital project and movements in associated costs?

**Mr TENNANT:** If I can: it covers across two aspects. One is any changes in scope that have been made during the actual project which was mentioned in relation to the government's decision for the additional \$20m and the change of the scope but importantly the impact of that, that then has in relation to the whole-of-life operational costs is something that the Department of Health when it has finished its further detailed work through the steering group that is looking at the operations, the commissioning and the operation of the hospital and part of that is something that the Department of Health will then need to pick up in relation to ongoing operational costs of the scope of what services will be provided in the hospital.

Michael, was there anything you wanted to add?

**Mr KALIMNIOS:** Just to confirm that part about our operational costing processes obviously whole-of-life costs which including maintaining the facility, operating the facility as an ongoing health service. That

is incorporated in that process and I think we are at a point now in the project where the scope in terms of the building itself and the services themselves are pretty sort of finalised so that work is just part of our ongoing development of operating budgets.

**Madam CHAIR:** I take it you will be regularly reporting up to the minister, tracking where that is heading?

**Mr KALMNIOS:** In terms of ongoing, in terms of formulating what operating costs we need obviously that is part of the current process. Once we are into operational mode of course that just forms part of our ongoing operational budget and there is a whole accountability mechanism around how we manage operational budgets year-to-year. The critical issue for us is up front, making sure that government and our minister is clear on a comprehensive assessment of what costs are needed to open for the services that we will be providing there.

**Madam CHAIR:** So we should see that appearing in next year's budget, not this? Is that your response?

**Mr KALMNIOS:** Correct, so again given the hospital will not be operational at the earliest May 2018 it will not really impact us this year at all and next year it will only be for a small portion of the year, given we are talking about maximum a month of the financial year.

**Madam CHAIR:** Thank you. That brings us actually to the end of the formal questions that we had because we did cover local employment contracting earlier but I was just about to say does anybody in the committee wish to add further.

**Mr MILLS:** I got ahead of myself here but ...

**Madam CHAIR:** I was trying to pull you back.

**Mr MILLS:** Yes, I know. Where are we at with local content?

**Mr KIRKMAN:** To date, we have awarded \$102m to local companies. Other than those couple of specific specialised medical contracts, they have all gone to locals.

**Mr MILLS:** How do you know that is the right number? What is the mechanism to check that the \$102m is the right number?

**Mr KIRKMAN:** Well, it is 100%, effectively, of all our trades. Our target was 35, we are at 100%.

**Mr MILLS:** What is the mechanism of knowing that? How do you know that?

**Mr KIRKMAN:** We get regular reports from Lendlease. Glen participates on all the assessments so he knows who has been awarded. We ensure we have audit in place to audit that local content component. As I said, we had an audit in December and we are getting another one in April just to make sure that is all verified.

**Mr MILLS:** So, is this verification of what Lendlease is saying or do you have another line of sight to see that is actually occurring?

**Mr KIRKMAN:** Well, we are participating in the process. That is our direct line of sight.

**Mr MILLS:** Okay.

**Madam CHAIR:** Any further questions?

**Mrs FINOCCHIARO:** With those audits—I think you mentioned KPMG did the December audit—obviously they are independent of government. Are they public documents or are they just internal fact checkers for your own purposes?

**Mr KIRKMAN:** They are internal audit documents.

**Madam CHAIR:** That are available to the Auditor-General at any time?

**Mr KIRKMAN:** They would be, I am sure.

**Mr MILLS:** (Inaudible) ask for them?

**Mr KIRKMAN:** I am sure. Of course. We give the Auditor-General anything she asks for.

**Mrs FINOCCHIARO:** Do not mess with her. Well done.

**Madam CHAIR:** I did not ask that on her behalf—just asking a question.

That brings us to the end of our formal questions. Do you have any questions today of the committee? I thank you all for your time; I know it is previous and clearly everyone is very busy. So thank you for attending today. We will take on board all of the responses you had. If you could provide that one that was asked on notice, we would appreciate it.

Again, thanks for your time.

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The committee concluded.

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