

PUBLIC ACCOUNTS COMMITTEE

*Sixteenth Report — “Building Foundations for Value:
An analysis of the processes used to appoint Serco to provide non-clinical services at Fiona Stanley Hospital —
Western Australia’s largest ever services contract” — Tabling*

MR J.C. KOBELKE (Balcatta) [11.00 am]: I present for tabling the sixteenth report of the Public Accounts Committee titled “Building Foundations for Value: An analysis of the processes used to appoint Serco to provide non-clinical services at Fiona Stanley Hospital — Western Australia’s largest ever services contract”. I also table a copy of some of the submissions.

[See papers 4955 and 4956.]

Mr J.C. KOBELKE: In recent years the Public Accounts Committee has looked at state government policies and procedures that are intended to improve decision-making processes for the procurement of major infrastructure. These policies have been designed to more accurately cost major infrastructure projects and achieve the best possible results with this expenditure. These improved arrangements for the approval of such projects give agencies and the community greater confidence that the best possible value is derived from these large amounts of public expenditure. This is true only if these procedures are followed in the decision-making processes for major projects. We have found that for a range of reasons, these procedures are not always followed, resulting in cost escalations and doubt about the value for taxpayers. Two recent examples are the Perth City Link project to underground 300 metres of railway in the centre of Perth, and the Perth Waterfront development. The Perth City Link project was proposed by the Premier with a total cost of \$263 million. With the project not even half-completed, the cost is almost \$750 million. Construction of the Perth Waterfront development was costed in the 2011–12 budget at \$369 million. With the major contract yet to be awarded, the cost is now \$560 million.

The contract awarded to Serco Australia at Fiona Stanley Hospital is a facilities management contract for non-clinical services costed at \$4.3 billion over 20 years. It was at the time the largest services contract ever awarded by the Western Australian government. From the outset, Fiona Stanley Hospital was to be a showcase hospital at the leading edge of modern hospital design and service delivery. It is expected that the quality of clinical and non-clinical services will be of a very high standard. The facility management contract to achieve this goal covers 28 services, with hard and soft services intended to be delivered in an integrated and seamless manner. This contract is not a public–private partnership, particularly as it does not involve the construction of hospital buildings. However, the size and complexity of the contract, well beyond anything previously undertaken in this state, led to Infrastructure Australia’s PPP guidelines being utilised for the procurement process. The people and taxpayers of Western Australia rightly want to know whether they are getting value for money from this contract. They really need to know whether the contracting-out of non-clinical services at Fiona Stanley Hospital will result in better quality services at a competitive price.

This inquiry was not an attempt to judge the merits of contracting-out to the private sector work that has previously been carried out by government, nor was it an attempt to determine how much this contract will cost the state. Given that the hospital is not yet open, this inquiry was not about seeking to define whether this contracting-out of facilities management at Fiona Stanley Hospital would deliver quality services at a lower cost to government. The inquiry examined the procedures and processes used to establish the contract with Serco Australia. Government sets standards and procedures that its agencies are expected to follow to maximise the advantage to the state by achieving a contract that delivers the best possible value. The level of confidence that we can have in whether a contract will deliver real value rests on the extent to which these required procedures and standards underpin the procurement process. The assessment of value for money is not a straightforward issue.

To judge the extent to which the contract is likely to achieve value for money, the committee looked to two key areas. Firstly, it looked at the development of a thorough and independent analysis of the cost of delivering the same quantum and quality of service through a direct employment model, commonly referred to as a public sector comparator. Secondly, the committee looked at the existence of sufficiently qualified suppliers to ensure that there is a market with the depth and strength to provide rigorous private sector competition to deliver quality outcomes at a good price. I will elaborate a little on what I am talking about here. We can set up a best estimate of what it would cost to do that work in a government hospital with government employees. Then we have a benchmark with which we can compare the cost of our contract with that of a private operator. This has been used in the United Kingdom and across Australia as one measure of whether taxpayers are getting value for money. It has a lot of problems, which I will come back to talk about.

We need to know that we have keen competition in the marketplace. If we want to contract-out the delivery of photocopiers, as it is a relatively small item, quite a number of people will put in a bid. However, it costs bidders

a lot of money to prepare bids for large complex contracts; therefore, it is expected that only two or three contractors may bid. However, we want to have a real sense that there is a competitive market and that it is open to us to choose one of the two or three finalists. Those are the key issues about how we can judge the process to see whether we really have a process that is likely to deliver value for money.

I turn now to the public sector comparator. The public sector comparator and all the major financial advice relating to the negotiation of the contract with Serco was undertaken by a company called Paxon Consulting Group. Paxon is a small Perth-based company with a history of undertaking work for government agencies, including hospital-related work. The state government committed to contracting-out the non-clinical services at Fiona Stanley Hospital in July 2009. From that time on, the Department of Health knew that it had a mammoth task that would require significant financial and technical advice, for which it would need to contract-out. Paxon was then engaged to do this work for the Department of Health through a series of contracts costing well over \$1 million without any real competitive tendering. The Department of Health engaged in contract splitting, with the result that all the work went to Paxon, and the larger national companies that normally provide this advice were never allowed to submit a bid for the work.

The government recently announced a contract for the Midland health campus. In that process major companies were invited to tender, and one of them won the contract to do the work. That never happened with the work that Paxon got for Fiona Stanley Hospital. Regardless of tight time frames or other factors, the decision to deliberately exclude any element of market competition in acquiring such important advice can be viewed only as counter to the goals set for contracting-out facility management at Fiona Stanley Hospital. Such blatant rejection of the expected transparent market processes amplifies the concerns that arise when we look at other problems in the conduct of the procurement process. The delay in finalising essential service specifications meant that the earlier PSCs—in the report we allude to four of them—were of limited value because the service specifications were so inexact at the start, that they were varied in quite significant ways.

The final public sector comparator was available to the Department of Health on 12 July 2011, only 13 days before cabinet accepted the contract with Serco. In my view, this is a very much expedited cabinet process with limited opportunity for the public sector comparator to be fully assessed. The public sector comparator concluded that the Serco contract was 18 per cent cheaper than doing the work with government employees. We have looked to other states and in a number of cases they have published the difference between their public sector comparators and the costs of having the work done through direct government employees. Of those states that have publicly released that comparator of the PPP contract price and the public sector comparator, the difference has ranged from one per cent to 11 per cent. Eighteen per cent is way beyond the normal range that we would see. Having been involved as a cabinet minister with the PPP for the District Court, my recollection—I hope I do not break any confidence in disclosing this—is that the differential between the public sector comparator and the price of the contractor was around one per cent. There is not normally a huge differential unless there is something wrong. A number of the sources in the United Kingdom expressed doubt about the usefulness and credibility of public sector comparators in deciding whether a private provider or a public sector-run hospital service is the cheapest or the best quality.

In addition to the inherent deficiencies in public sector comparator modelling, there was evidence of public sector comparators being biased in order to achieve the desired outcome of contracting to the public sector, which was already decided before the process was set up. Although the report finds evidence of some inputs to the public sector comparator not following the Infrastructure Australia PPP guidelines, there is no evidence to suggest that the public sector comparator or its inputs were deliberately manipulated to achieve a particular outcome. Public sector comparators are only a model to estimate what it might cost to deliver a hypothetical public sector option and are based on a number of options. The work Paxon did in developing the public sector comparator may be of a high standard but the contracts then used to appoint them leaves a cloud over its work.

A market for the provision of facilities management services with a strong field of competing companies also would give confidence that the Department of Health is likely to achieve value for money. This assumes that the procurement processes are handled well and that the Department of Health does not allow itself to be outsmarted in the contract negotiations, given that Serco has many very competent people and negotiates these contracts all over the world. Although the problems and delays in finalising the service specification may have strengthened Serco's negotiating position, I emphasise that all the procedures were run and documented in an appropriate way. There were only two companies in the final bidding process as the third company withdrew before the service specifications were even finalised and issued to it. The documentation makes it clear that Serco was always the clearly preferred company. At the expression of interest evaluation, Serco was between 23 and 26 per cent ahead of its nearest rivals on a weighted percentage score. This disparity was also evident in the evaluation at the request for submissions stage. It was clear in the paperwork—the paperwork met the standards we would expect—that right from the start, Serco was way out in front in getting this contract. It is reasonable to conclude that the field of potential contractors was limited. I believe this was due to the bundling of so many services into

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a large integrated package. Other companies were not interested in trying to get the work. It was too big, too much to contract and too difficult, so there was really a clear frontrunner from the start when the contract was set up in this way.

The Department of Health did not document in anything it showed us a concern regarding that lack of depth in the market nor did it reconsider changing its approach, starting part of the process again in order to ensure there was competition in the bidding. Why was serious consideration not given to restructuring the contract and restarting the process in part or in whole to bring some greater element of competition into the process? Serco knew that the Department of Health had a very tight time line if it was to avoid the political and other costs arising from failing to open Fiona Stanley Hospital on time in April 2014. That the negotiation process went on longer than the Department of Health had anticipated strengthened Serco's negotiating position. It is regrettable that we are left with real doubts over the level of competition involved with the awarding of this contract. The quality of the financial advice provided to the Department of Health in negotiating and assessing the value of its contract is called into doubt due to the way in which the financial adviser Paxon was appointed to do this work.

I wish to use one example to illustrate the complexities faced in seeking to judge whether taxpayers will be getting value for money from this contract. Treasury set aside \$160 million as capital expenditure for the purchase of the fittings, furnishings and equipment required for the set-up and running of Fiona Stanley Hospital. This money was then transferred to recurrent expenditure following the signing of the Serco contract. This contracting arrangement had a \$380 million net debt impact over the period up to 30 June 2015. Serco, in turn, has to borrow to finance this equipment. It borrows on the commercial market at a higher interest rate than that paid by the state. In nominal terms, it costs the state \$170 million more under the Serco contract. Such a comparison does not take into account risk transfer to Serco or the change in value of money over time. For that, we need to go to a net-present-value calculation. Using the discounted values, the Serco contract is supposedly \$10 million to \$30 million cheaper than the government purchasing equipment itself. The committee was not able to determine in the time available whether this really provides value for money to the Western Australian taxpayer.

I will make one little aside. When we visited Forth Valley Royal Hospital in Scotland, for which Serco runs a number of the services but by no means all of them, we were told that the Scottish health department bulk purchases its medical equipment and it gets better value for money. It said that with respect to Forth Valley Royal Hospital, it had saved £8 million by that direct purchase over what it anticipated the cost of medical equipment would be.

The report contains 55 findings and makes eight recommendations. The evidence provided to the committee in both public hearings and in confidential documents was more than 4 000 pages and has been of great assistance to our work. I am most appreciative to all those agencies and individuals who have assisted the committee with information, particularly the Department of Health, which responded on numerous occasions to our requests for attendance at public hearings and the provision of documents, many of which it requested be kept confidential. The committee has not questioned whether there is a real need for these documents to be kept confidential but has sought to maintain to the greatest extent possible the confidentiality sought by the Department of Health. The volume of the material provided and the complexity of such a large contract required a great deal of work from our research staff and committee members. It is best left to government members to explain why they were not able to support the adoption of the report. I am most appreciative for the many hours of hard work by our principal research officer, Mr Mathew Bates, and research officers Alice Jones and Foreman Foto. They put in an incredible effort to sift through and analyse such a wide range of complex information. Thanks to their dedication and professional commitment to the work of the Public Accounts Committee, I believe this is a quality report that will make a valuable contribution to the accountability and transparency of state finances. I commend the report to the house.

MR C.J. TALLENTIRE (Gosnells) [11.19 am]: I rise to offer my support for this excellent report of the Public Accounts Committee entitled "Building Foundations for Value: An analysis of the processes used to appoint Serco to provide non-clinical services at Fiona Stanley Hospital — Western Australia's largest ever services contract". I will begin by saying that as a member of the United Voice union and as someone who holds some definite views on the privatisation of hospital services, at the direction of our chairman, I had to be very careful to set aside my personal views and do the fundamental work of the Public Accounts Committee; that is, to assess the value-for-money arguments around the contract that is being developed between the Western Australian Department of Health and Serco Australia.

The ACTING SPEAKER (Ms L.L. Baker): Members, I draw your attention to the fact that we have someone on their feet giving a speech on a committee report. Member for Wanneroo, I do not think this house needs to hear you muttering over the top of this member any longer. I personally do not need to hear it.

Mr C.J. TALLENTIRE: The value-for-money arguments are those that we examined through this report. Having said that, we were really only able to confine ourselves to looking at the processes that were used, and we were able to tap into certain aspects of the whole bidding process. I would like to begin by looking at the changes in costs associated with various services—28 different services in this \$4.3 billion contract, which is the biggest contract the state has ever signed up for. We had prices presented for various services in the request for submissions phase, and then we had the price that was presented in the final contract with Serco. It is very interesting to analyse the changes that have occurred in the pricing between the request for submissions and the final contract. What do we see when we look at those changes? That information is presented in table 2.4 of the report. We see that the cost of the cleaning contract went up dramatically, by 214 per cent; that represents a remarkable difference between the initial price that Serco put to the Department of Health and the eventual final contract price. When we look at other tables in the report—table 5.2, for instance—we see that within this \$4.3 billion contract, the cost of the cleaning contract is probably in the top five services in the value of the contract. When we look at the most sizeable aspects of the 28 services, the cleaning contract is in the top five. Help desk services is a smaller component of the overall \$4.3 billion contract, but we can nevertheless see that there was a 209 per cent increase in price between the original request for submissions and the final contract. Overall, we have seen a total contract price increase of 18 per cent between the original request for submissions amount and the final contract amount. That is a dramatic increase, but when we break it down into individual components, there are some spectacular differences.

I turn now to the issue of hold-up. The chairman touched on this, but I think this is really about power transfer. It really concerns me that when we enter into an agreement like this, the company that realises that it is the company most likely to gain the eventual contract and get the nod as the preferred bidder becomes incredibly powerful in the negotiations. Of course government wants to stick to deadlines; commitments have been made. There is the actual infrastructure—that magnificent \$2.3 billion hospital that is close to completion—and naturally the government wants to have the services contracts all ready when that building becomes operational. What do we find? We see the pressure that the contractor—in this case, Serco—can apply. It is absolutely enormous. The academics that we spoke to in the United Kingdom who are looking at the whole issue of public-private partnerships and private financing initiatives have found that the issue of power transfer, otherwise known as hold-up, is absolutely enormous and is often subject to abuse. That is of real concern and the report touches on it in finding 10, which was that the Department of Health was vulnerable to the practice of hold-up during contract negotiations with Serco. I think there is a lesson for us here; when it comes to any infrastructure in the future, we have to take steps to guard against the risk of hold-up.

I turn now to the issue of the evaluation of the various bids that were put in. Of course we cannot declare who the other bidders were, but it seems that a reasonably robust process was used in the assessment of the bids. However, it needs to be said that some of the assessments raised questions about the quality of some of the commitments that were made, so that the comparisons being made between bidders were often off a fairly low base. The other issue is around the appointment of Paxon Consulting Group. As the chairman said, contract splitting went on. The company that was to provide financial advice in determining the best value for money was given a series of contracts, but I do not think the Department of Health provided the level of oversight that we would expect on the work of this financial adviser. I know it is difficult for an agency that wants to contract-out for that sort of expertise, but we nevertheless need to have quality advice and in this case it is questionable whether that was achieved. Perhaps we would have been much better off if one of the big consulting firms had been used. There were definitely some problems with the use of Paxon in this case, and the contract splitting that went on.

I also want to touch on the issue of the public sector comparator, how it was determined and the discount rates used. I know from the discussions we had in the United Kingdom that it has been decided there that the public sector comparator is often a fairly invalid tool that does not help as much as might be hoped. There are probably two main reasons for that. One is the difficulty in achieving a decent discount rate. Her Majesty's Treasury uses a standard discount rate of six per cent. We have included in the report information on how the discount rate was achieved here, but it seems to be a means of skewing the outcome of the public sector comparator. The other means of skewing the public sector comparator is risk transfer. We discuss in the report how the transfer of risk is open to all sorts of interpretation. There are some services where the risk is transferred to the contractor, but there are also a number of services where the risk actually stays with the state of Western Australia, and that is where the public sector comparator can be skewed.

I am also concerned about the issue of value for money in terms of the interest rates that Serco is able to gain for its purchase of assets. There is no doubt about it: the Department of Health would have had access to far more favourable interest rates than Serco, so that is going to have a dramatic impact on the cost competitiveness of the Serco bid.

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In the time remaining to me I will say that this project highlights how major infrastructure projects could be done better through closer adherence to strict process, and how we need to make sure that privatisation is not seen to be a silver bullet for value for money. Privatisation can, in fact, create a more costly outcome, so we need to accept that.

Dr K.D. Hames interjected.

Mr C.J. TALLENTIRE: It is not a public–private partnership in the true sense, but there is outsourcing of work to Serco, which has gained the contract.

I conclude by acknowledging the assiduous work of our staff: Mathew Bates, Alice Jones and Foreman Foto. I thank them for the excellent work they have done. There are many lessons we can learn from this contract, and I fear that we have not achieved best value for money for the state of Western Australia.

MR A. KRSTICEVIC (Carine) [11.29 am]: I would like to make a few observations about the Public Accounts Committee inquiry into the decision to award Serco Australia the contract for the provision of 28 hard and soft non-clinical services at Fiona Stanley Hospital. Before I start, I give my sincere thanks to the hardworking staff of our committee: Mathew Bates, our principal research officer; and Foreman Foto and Alice Jones, our research officers. They have done an outstanding job under difficult and complex conditions.

The inquiry commenced on 8 September 2011 and has taken more than nine months to complete. It has been a massive undertaking and has consumed a large amount of parliamentary resources. I would hate to put a dollar figure on the inquiry, but more than 4 000 pages were supplied from the Department of Health alone, 37 individual submissions were received and we held a large number of public hearings. To be honest, on reflection I would be surprised if this inquiry was not politically motivated to look after the interests of Dave Kelly and his union mates at United Voice. I have to say that I feel sorry for the people of Bassendean, who are losing a good member of Parliament to make way for a union boss who I doubt will put the interests of his constituents ahead of himself.

I strongly encourage members to read all the material that is publicly available on this inquiry. The report is the chairman's draft, which is not supported by me or the member for Jandakot. We believe that the material presented does not give a fair representation of what was given to us over the last nine months. The Labor members of the committee have no choice but to grasp at straws and promote conspiracy theories so that they can justify the massive use of parliamentary resources on this committee to undertake these sorts of inquiries. I am particularly concerned about the disclosure and selected use of closed evidence to push a particular agenda without the benefit of presenting the full picture to the house.

I learnt a number of interesting things during the course of this inquiry and would like to share some of my observations with the house today. Firstly, it is interesting to note that the public sector comparator concluded that the Serco contract would be 18 per cent cheaper than doing the same work with government employees, and that there was no evidence to suggest that the public sector comparator or its inputs were deliberately manipulated to achieve that particular outcome. The main criticism that Labor members of the committee seemed to have about this project was the appropriateness of the panel that was used to choose its commercial adviser. The Department of Health chose to use the project management service panel, which allows for the analysis of options for financial service, cost–benefit analysis, lifecycle costs, investment analysis and risk analysis, which to me seems to fit the skill set required to get the job done. It has been suggested that, generally, the audit services and financial audit advice panel would have been more appropriate to select an adviser. It is also interesting to note that two firms on the project management services panel were later included in the specialist public–private partnership commercial adviser panel established in 2010. It is also important to acknowledge that Paxon Consulting Group is listed on both panels as being ready, willing and able to provide high-level advice to the Department of Health. As such, the professionalism, ability and quality of advice provided by Paxon has never been questioned, albeit that this seems to be the main line of attack. Had the Department of Health used the audit services and financial advice panel to engage Paxon, this inquiry would have been completed in a matter of months. It is worth noting that Paxon has been directly or indirectly engaged in this project since 2007. Paxon was engaged at different parts of the process as the different components of the project were reviewed. Paxon's expertise was sought if it was deemed necessary. This approach was appropriate in the early stages as it was not clear how far the project would proceed. I think it is also important to note that Paxon has been involved in about 17 public sector comparators to date, so it has a high level of expertise in this area. It should also be noted that the report states that all the procedures around the procurement process were run and documented in an appropriate way, and that the Department of Health's use of a market-sounding exercise was consistent with international best practice for the procurement of complex and costly projects. It also used the robust request for submissions process.

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The facilities management services contract outlines the level of performance expected of Serco and documents the penalties that will be incurred if Serco's performance falls below the agreed standard in any given area across a range of services. It may see 100 per cent of its monthly payments abated. Service failure could also lead to contract termination or the removal of individual services from Serco's control. Serco could be made to bear the full cost of any contract changes. Benchmarking and value testing is also a critical element of the contract.

There is no doubt in my mind that the Department of Health has entered into a solid and robust contract, giving the state value for money and the best possible protection and peace of mind in service delivery at Fiona Stanley Hospital. Importantly, the department has learned from international experiences and adapted this learning into the contract negotiations. It is very important to make sure that the Department of Health closely monitors the performance measurement regime and negotiates changes with Serco should it fail to provide the necessary performance assurance.

I would also like to talk a little about the supposed contract splitting and Paxon's involvement in this area. The Department of Health gave evidence, and when it was confronted with the contract splitting allegation, it wrote to the committee and firmly and categorically rejected any implied or explicit suggestions that it engaged in contract splitting for these purposes. The department indicated that only the contract signed with Paxon Consulting on 9 April 2012 directly related to the process of procuring non-clinical support services under a facilities management contract, and that the other two contracts were unrelated. That is an important point to make, because the chairman's report has made some assumptions. Let us look at what the contracts were for. Initially, there was an allegation that three contracts were split, but when we look at the approval request, we see that one of the contracts under suspicion was to do with radiation oncology services at Royal Perth Hospital, the South West Health Campus and Fiona Stanley Hospital, so it is debatable how that could come into play in that allegation. Another contract related to procuring lifts for the building and for the mechanical, electrical and hydraulic central plant, which was more to do with the construction of Fiona Stanley Hospital than the services itself; and the third contract was to do with building services. When we look at this contract and Paxon's involvement with Fiona Stanley Hospital, in terms of both construction and the services provided, we see that the state is spending over \$6 billion and Paxon's involvement was \$1.3 million at best. The contracts that Paxon received were for \$4 962.50 in June 2009, \$84 000 in July 2009, and \$3 500 in August 2009. It was not until 2010 that things started coming into play in a bigger way in those three contracts I mentioned, which highlighted some concern, supposedly. It is interesting to note that I do not share those concerns from the point of view of contract splitting. I have the highest regard for Paxon's ability to do the job. It is also important to note that Paxon was on both panels. Had the Department of Health used what was deemed to have been the appropriate panel, it still could have chosen Paxon if the contracts were under \$150 000. That is important to note.

I will quickly talk about Serco and the outstanding work it does. Serco has contracts around the world. It does hospitals and obviously it has lots of contracts around Australia. For example, in Hong Kong, Serco looks after the hospital authority. Serco supports a computerised maintenance management system in 17 hospitals in Hong Kong. Serco also provides a range of services for the Prince of Wales Hospital in Hong Kong. I will not go through all those hospitals, because Serco operates around the world, but in May 2001 it was awarded the Wishaw General Hospital contract for the maintenance of all electrical and mechanical services, building fabric et cetera; Serco covers a whole range of services there. In 2009 Serco started a contract with Plymouth Hospital and it provides a full range of soft facilities management services. It has had a contract with Leicester Royal Infirmary Hospital since August 1996, and the Cornwall out-of-hours GP service since 2006 and was recently re-awarded the contract for another five years. Forth Valley Royal Hospital was mentioned. Serco also has a contract with the Norfolk and Norwich University Hospital. When we talk about the public sector comparator, Serco is 18 per cent cheaper and offers a good service, so members can see that Serco has the experience and expertise to deliver at this high level; therefore, I expect Serco to have a quality bid and to know how to manage the process and to be able to deliver that. In terms of other public sector comparators and savings, I think the figure of between one per cent and 11.7 per cent was mentioned. In its contract with the Bathurst, Orange and Associated Health Services in New South Wales, Serco achieved a saving of 11.7 per cent. Serco is an international company delivering services throughout the world and Australia. I have not even started to list all the contracts Serco has throughout Australia, including Western Australia. It is not as though we hear about Serco in a negative way in the newspapers or the media.

MS R. SAFFIOTI (West Swan) [11.39 am]: I want to inform anyone who is watching that I do not have a bad collagen implant; I had an allergic reaction to something last night.

I want to speak to the Public Accounts Committee's sixteenth report, "Building Foundations for Value", which the committee has worked on for a period of time. It is a very thorough and detailed report and, as the member for Balcatta outlined, we heard a number of submissions and received a number of documents. There are a number of key findings in this report. I heard what the member for Carine said, and I expect the member for Jandakot will go a bit further. The committee tried to look at the process in which the decision to outsource, to

privatise, was made and also some of the key steps in that process and whether the state was receiving value for money. Of course, the committee should have done that because this was and still is the biggest ever services contract awarded in Western Australia. We needed to go through the process by which the decision was made and how it was justified.

There are some key findings of this report, and I want to go through them. The first is about the contract splitting. Finding 25 says that, from the available evidence, there was contract splitting. The table on page 55 of the report outlines the number of contracts that went to the Paxon Consulting Group over a period. It is very hard to try to defend that. We are talking about the biggest ever services contract in the state's history. Why the government would go out with little bits and little bits to try to develop the case for contracting-out is just beyond me. I think it is pretty clear from all the evidence that the contract was split.

The second issue in relation to the contracting process is that in many instances work had commenced before the contract had been signed. Again, that is not what we want to see in the public sector. We do not want to see a situation in which we have work commencing before contracts are signed with the consultant.

Another point I want to make is about previous work that this company had done and the justification that that gave it a sort of leg up or allowed it to be more quickly across the issues. It is a pretty dangerous precedent when people are selected because they might have been doing something with that government agency a number of years ago. In my belief, it really reduces the competitive process in the contracting-out.

One of the key issues is that the majority of the committee found that there is evidence to suggest there was contract splitting. The second issue I want to raise is about the changes in the costs, as were outlined by the member for Gosnells. In table 2.4, there are some significant changes to bid prices between Serco's initial request-for-service response and the final contract. The member for Gosnells outlined that cleaning was the largest, but there were significant variations across the services. Again, this is far from what we want to see through a contracting-out or privatising process, in particular in cleaning, in which there was a 214 per cent change in the bid price. There are some reasons behind that—for example, a change in the scope in some parts of the hospital. But, still, we have seen significant increases in the bid price.

The third component I want to talk about is key performance indicators and the significant changes made to KPIs throughout the process. On page 29, table 2.6 shows clearly that in cleaning, for example, there were significant changes in the standards that Serco had to meet over time. For example, if we go to the cleaning service attendance time in non-urgent areas, we see that there is a 100 per cent increase—that is, the standards have been dropped over that period. There have been significant changes to the KPIs over the time. Again, that is not what we want to see. Basically, when people want to bid for a contract, they must all be on a level playing field. What we saw is that the company got a contract, and then the standards that it was first expected to deliver deteriorated significantly over time. Again, that is something that we do not want to see.

There are a number of parts to the public sector comparator, of course. There is the raw cost, there are the risks and there is the competitive-neutrality element. In particular, in relation to the raw cost, it all comes down to how good the analysis was of how much it would cost for those services to be provided by the public sector. I think the member for Balcatta outlined some of those concerns. Risk transfer is a very problematic area in all public sector comparators. The reality is that I do not believe all risks can be fully transferred—even the risks that are outlined—because, at the end of the day, the government has to deliver that service. The idea that all these risks will be fully transferred is to me just not plausible. I have seen time and again that we can never fully allocate those risks that are defined and other risks; we just cannot do that.

I want to talk briefly about competitive neutrality too. As part of the public sector comparator process, we have to disadvantage the government bid in a sense by the taxes that the private sector will have to pay. In this case, the value of that was \$69.7 million. We are basically saying that the private sector has to pay this tax but the government does not have to pay that tax; therefore, we need to artificially inflate the cost of the government service provision. I have a real problem with that in health services contracts. I can understand it with government trading enterprises providing commercial services when they are competing with the private sector daily, but I have a fundamental problem with how we do that, because, basically, we are artificially increasing the cost of government service provision. I must agree with the Premier in one instance. When he talked about Hale House, he said that government should buy, own and not rent because government does not pay tax. Why is it right to do that with Hale House but not in this instance? Why do we artificially increase the cost of government service provision in this instance? Of course it is cheaper for government because it is not paying tax. So I have a fundamental problem in this instance. As I said, over decades, competitive neutrality has been applied, in particular when there is commercial provision of goods and services and when there is competition with GTEs.

The last thing I want to comment on is, in a sense, the size of the contract and the 28 services that are being contracted out or privatised. Quasi-government is created through a process, so we have created another

bureaucracy and department, and it is too big to fail. The fact that there were not many bids at the end of the process shows that not a lot of companies around the place can go in and deliver all these services. When government creates a privatising or contracting-out contract that is so big, do we make it too big to fail? That is a fundamental question for government: is it too big to fail? If something goes wrong, who steps in? Government will have to step in because there is no other competition in the marketplace. So we have a situation in which we are basically creating, in a sense, another government department, and the real benefits of contracting-out are not being achieved because we are just creating another bureaucracy. I think that is a significant issue. The size of the contracting-out in this situation is so significant that, should something go wrong, the implications would be catastrophic to the operation of the hospital. I said “should something go wrong”. It is a global marketplace, and decisions made around the world will impact what happens in Perth every day. We have seen it time and again when what we believe to be sound operations in our city are affected by bad decisions made by companies around the world. Basically, we are exposing some of the operations here to what is happening in some of the most uncertain economies in the world. I think there is a problem—is it too big to fail?

MR J.M. FRANCIS (Jandakot) [11.48 am]: I start by placing on the record that both the member for Carine and I voted from the start against this committee witch-hunt, and again yesterday we voted against adopting this report. The primary reason for my objection to the Public Accounts Committee conducting this inquiry was that I believed at the start, as I still do now, that the resources and expenses poured into this Labor dirt-digging exercise could have been far better used doing something far more worthwhile. Labor could have used its powers for good instead of evil; it could have done something that would have resulted in making real change for good instead of trying to upturn every grain of sand in the Department of Health looking for an angle that the United Voice union could distort into a dirty, sleazy political campaign.

I accept that there is a philosophical difference between the Labor and Liberal Parties on the issue of outsourcing some services from the public sector; I accept that, even though the actions of the previous Labor government on this issue of so-called privatisation were almost identical to what this government has done. I remind people that Fiona Stanley public hospital is exactly that—a public hospital; it is publicly run and publicly owned, with doctors and nurses employed by the public Department of Health. I suspect the ALP may have a policy of opposing contracting in opposition, but supporting it in government. As a Liberal, I believe business can do some things more efficiently than government, and provide better value for money with a higher service level than a bureaucracy can.

That leads me to the big question: what is the Labor Party’s policy on the future of the Fiona Stanley health contract? Under its previous leader, Labor Party policy—bowing to United Voice—was that if it won the next election it would do everything it could to rip up that contract; the current Leader of the Labor Party has not declared what he is going to do with that contract. But the facts are the facts, and if this contract is ripped up after the next election, the immediate cost to the taxpayer will be \$60 million in termination costs. The Labor Party does not want to talk about it, but the Serco contract will provide services at Fiona Stanley equal to or higher than current standards in public hospitals, and it will save taxpayers \$25 million a year over 10 years—\$250 million. Add that to the \$60 million for cancelling the contract, and it makes \$310 million. At the same time, the state Labor Party is screaming blue murder about state debt. It will also delay the opening of this very important public health asset for years, adding tens of millions of dollars to the cost.

The Labor Party has also failed to talk about how health service workers will be in a position equal to or better than they are now if they are employed by Serco rather than the public sector. In measures of wages and conditions, people are better off working for Serco. The Labor Party and United Voice should be suggesting to their members—the lowest-paid workers in the health system—that they line up to work for Serco; instead, they are misleading the lowest-paid workers as part of a misguided union campaign because they know that, with dwindling union membership, the day is coming when the only place they will be able to recruit members will be the public sector.

The report claims that the contract was signed prematurely—that the government rushed into the contract due to political pressure—but on the other hand it claims there were delays in signing the contract. I am proud to be part of a government that just gets on and gets things done.

Government members: Hear, hear!

Mr J.M. FRANCIS: I could only imagine the delays and cost overruns that would have resulted if a Labor government had been in charge of this process.

I do not want to dwell on the motivation of the Labor Party to undertake this inquiry, but I do note that former MLA Alannah MacTiernan and the member for Bassendean have already publicly highlighted the influence unions hold over the Australian Labor Party. It is worth noting the recent comments of Joe McDonald, the assistant secretary of the Construction, Forestry, Mining and Energy Union—the wealthiest union in the Western

Mr John Kobelke; Mr Chris Tallentire; Acting Speaker; Mr Tony Krsticevic; Ms Rita Saffioti; Mr Joe Francis

Australian Labor movement—when venting his anger at the federal member for Brand, Gary Gray. Joe McDonald said —

He should pack up and piss off. If the union movement puts a politician in, they shouldn't forget where they came from and if they do then we should piss them off and put someone else in.

Exactly how much did this inquiry cost the taxpayers of Western Australia? Not including the costs of the Department of Health—the director general and senior public servants giving evidence; public servants who would have been better off just getting on with their job and running the health department and working solidly to open this hospital—it has racked up somewhere over \$140 000 just in committee costs. I took the liberty of putting a question on notice to the Speaker during the estimates hearings to confirm the costs of this inquiry. He replied, on notice, that the approximate cost of staff hours spent on the inquiry, the cost of catering for staff members, witnesses and committee members during the hearings, the cost of the public advertisements of the inquiry, the costs of travel to England, and the costs of the postage, stationery and couriers for the inquiry to date are \$140 000. The reply continued that since the commencement of the inquiry, committee staff have completed other work in addition to the inquiry. The timesheets the committee staff submit do not itemise the breakdown of work spent on the inquiry as opposed to other items; however, their best estimate is approximately 2 000 hours. A calculation has been performed in relation to the figure of 2 000 hours to arrive an approximate cost of \$100 000 in wages for committee staff. This figure is for salary payments, overtime payments and travel payments that the staff members have estimated to attribute to this inquiry; this figure does not include superannuation or other costs.

Two Labor members and a staff member travelled to the United Kingdom on a dirt-digging mission to try to rack it up on Serco; the business class airfares to the United Kingdom over the summer break cost \$25 274. They thought it appropriate, while being so prudent with taxpayers' money, to stay at a five-star hotel—namely, the Radisson Blu Edwardian Hampshire; it sounds nice—where they racked up \$8 500 in hotel fees. They stayed at the Radisson Blu in Edinburgh at a cost of \$1 100—I am sure it was nice. It cost \$35 000 to travel to the United Kingdom to dig up dirt on Serco.

I conclude by saying that this will go down as the most expensive taxpayer-funded Labor dirt-digging exercise in the history of the state, and I hope Labor members are proud of it.