

PUBLIC ACCOUNTS COMMITTEE

Eighteenth Report — “Annual Report 2011–2012” — Tabling

MR J.C. KOBELKE (Balcatta) [10.27 am]: I present for tabling the eighteenth report of the Public Accounts Committee entitled “Annual Report 2011–2012”.

[See paper 5508.]

Mr J.C. KOBELKE: This will be my final opportunity to present a Public Accounts Committee annual report to the Legislative Assembly in this Parliament. It is therefore satisfying to report that the 2011–12 financial year has been a significant period of achievement for the committee. In the past year, we successfully rolled out a new model for the follow-up of reports completed by the Auditor General. We reported on the delivery of four major infrastructure projects and completed a major investigation of the processes used in the appointment of Serco to provide non-clinical services to Fiona Stanley Hospital. The Public Accounts Committee’s central focus has been on questions of accountability for the decisions made by executive government when it spends money on behalf of the people of Western Australia. Work with the Auditor General has ensured that the scrutiny applied to agencies during the audit process is continued as those agencies implement recommendations made by the Auditor General. Our audit-related work culminates in reports to Parliament, which provides all members with insight into the work of government departments and their successes, or sometimes failures, at responding to the recommendations made by the Auditor General. Under the new process we adopted this year, we also began to make recommendations to ministers responsible for the agencies examined by the Auditor General. Often these recommendations simply required ministers to report formally to the Legislative Assembly on the status of their agency’s responses to the audit reports. On other occasions, however, it has been necessary for the committee to be more vigorous in our approach to the agencies. During the reporting period, we asked WA Police to attend a public hearing during which the status of the firearms registry was to be discussed. It became clear that there were significant problems with the registry. The committee was advised that these problems were being addressed. At the time we spoke to WA Police in September 2011, there were approximately 10 000 unlicensed firearm owners in the state, and the vast majority of these were as a result of problems with the registry. By March 2012, when the Minister for Police responded to our recommendations to provide an update to the house, the number of outstanding unlicensed firearm owners had dropped to around 2 500.

I turn now to infrastructure. The delivery of infrastructure projects is another area in which we have been able to exercise our accountability role on behalf of the Legislative Assembly. Investment in infrastructure across all sectors of government represents a significant slice of the state government’s spending pie each year. Ministers and members of Parliament like infrastructure projects. There are clear political advantages in announcing exciting new projects and in cutting the ribbon on new facilities as they are opened to the public. Unfortunately, we can sometimes get lost in the excitement of the benefits promised by the project, and announcements are made before the projects are fully scoped and costed. This increases the risk that projects will be late or over budget, or that they will fail to fully deliver on the promises made. During the life of this Parliament we have looked in some detail at infrastructure projects. The Auditor General’s report—tabled only a week or so ago—looking at the performance of infrastructure delivery in Western Australia echoed many of the observations we have made over the last four years. In particular, we noted a tendency for projects to be announced with unrealistic budgets; for approval to be given to projects before they had been fully defined and costed; and for estimated costs to dramatically escalate once business cases had been completed. Many of the projects we examined for inclusion in our report, “Review of Selected Western Australian Infrastructure Projects”, had fallen victim to the same problems. I will give two examples. The Ord–East Kimberley expansion project, which was initially costed at \$195 million, will now cost the state \$322 million—a 65 per cent increase. The cost of the Perth City Link project increased from \$263 million to \$737 million due to scoping and other changes—an increase of 180 per cent. In both projects, the initial 50 per cent funding committed by the commonwealth government has not increased to match the revised cost figures. Interestingly, despite the improvements made to the strategic asset management framework and the emergence of the Office of Strategic Projects as strong managers of complex capital projects, the problem remains: projects continue to be late and/or over budget. Although governments may have good reasons for changing a project after the initial announcement, such changes increase the risk of cost escalation and the waste of taxpayers’ money.

I turn now to the Serco contract at Fiona Stanley Hospital. In keeping with our commitment to scrutiny and accountability, the committee reviewed the Department of Health’s processes in selecting Serco to provide non-clinical services at Fiona Stanley Hospital. This was a contract worth \$4.3 billion over 20 years, and well beyond the scope and value of anything previously undertaken by the Department of Health. This inquiry constituted the bulk of the committee’s work during the year and required several hearings with senior members of the Department of Health and more than 4 000 pages of evidence from the department. Our detailed findings can be found in the report itself, but some of the key issues we identified bear repeating. Contracting for services is a

complex business, and government agencies have generally acquitted themselves quite poorly when they are asked to stop being service delivery agencies and commence acting as contract management agencies. The most recent example of these problems has been provided by the Department of Housing, which rolled out a maintenance contracting model that even the department acknowledged was poorly planned, poorly overseen and poorly implemented. In relation to Health's handling of the Serco contract, we found that the department had failed to provide enough time to develop the scope of the services it was seeking before embarking on the negotiations for a very complex contract. When the initial request for submissions was released to the market in February 2010, only 32 per cent of the services—as calculated by their actual value in the final contract—were included in the documentation. The full suite of specifications were made available only after 23 March 2010, and even those included only a limited ICT “services scope”, rather than detailed specifications. The actual ICT specifications were completed in April 2011—six months after Serco had been selected as the project's preferred respondent. This is not how we would have expected the tendering process for a \$4.3 billion contract to be handled. As we noted in the report, the risk of hold-up—where one side deliberately slows the contract negotiation process for its own advantage—is a risk for all complex commercial negotiations. Failure to go to the market with completed documentation would have revealed to the market the pressures the Department of Health was experiencing to get a contract in place to meet the hospital's opening deadline, thus weakening the state's position relative to the tendering companies, and increasing the likelihood that a hold-up would occur.

We found another major irregularity in the way in which the department's commercial adviser was appointed. We concluded that the department had engaged in practices consistent with contract splitting in order to avoid a competitive selection process. This is something that the department has strenuously denied, but in the absence of an adequate explanation as to why the commercial adviser was selected in the way it was, the conclusion stands. I think it is important to note that both the Department of Treasury and the Department of Finance were highly receptive to the recommendations directed to them in our report, indicating some merit to the improvements to government contracting processes identified by the committee during the course of the inquiry. It was disappointing, however, to note that the Department of Health was less willing to acknowledge the issues identified by the committee, as evidenced by its 15-page response to the report's findings.

One can perhaps understand that, having been caught out, the Department of Health did not want to acknowledge what I think was very clearly demonstrated by the report; but if its negative response was more to do with the fact that it did not understand the critical issues that had been raised, then I think that is an even bigger problem in respect of Health, the huge budget it has to administer and the critical services that are paid for. Another issue that the committee did not actually look into also relates to this. The company that won the tender for this work—about \$1.3 million worth, through a process that was clearly not the proper process—is called Paxon Group, and it works out of the same office as a company called Stamfords Advisors. Paxon is owned by Mr Michael Palassis, and Stamfords is owned and controlled by his father, Mr Stan Michael Palassis. Stamfords has a record such that Dun and Bradstreet recommend that people not do business with them. Just last Friday, in the District Court, Stan Michael Palassis was found guilty of intent to defraud and was fined \$4 000; that case relates, I believe, to the Medical Board of Australia. The office that has done all the financial work for a \$4.3 billion contract has a very poor record in respect of its dealings, and the principal—not the person advising directly, but the principal of Stamfords—has now been found guilty of intent to defraud. These things simply cannot be swept under the carpet. However, I will continue. As I said, it was disappointing to note that the Department of Health was less willing to acknowledge the issues identified, and we hope that it will perhaps look to the report to find value as it goes into further contract negotiations.

One of the criticisms often levelled at government contracts—most particularly public–private partnerships, of which the contract with Serco is a unique example—is that normal accountability mechanisms can be avoided by hiding behind the requirements of commercial confidentiality. In one of my first public roles as chairman of this committee, I delivered an address to a conference for Public Accounts Committees in which I noted that the task of properly investigating and evaluating the outcomes of a PPP represents a difficult task. This was, in part, due to the existence of proprietary information and the extreme reluctance of government agencies to release public sector comparators. It was certainly pleasing that the Department of Health was the cooperative subject of the committee's examination, providing documentation and access to people when we requested it. In particular, the department provided several public sector comparator results and detailed information about the assumptions used to calculate them. Although the confidentiality of the information provided was respected, as much detail as possible was placed on the public record, thus helping to contribute to the ongoing debate—both political and academic—about government contracting in general and public–private partnerships in particular.

The establishment of the Public Accounts Committee in the thirty-eighth Parliament has been a worthwhile experiment. Following the 2008 election of a minority Liberal government, the Legislative Assembly agreed to the Public Accounts Committee being “opposition controlled”. For four years, the committee has consisted of three opposition members and two government members. It would be fair to say that everyone involved has

contributed to the committee and we learnt our way through that different situation. The committee has considerable powers to call for documents and people, and to examine almost all government actions. Applying those powers judiciously and in the interests of accountability and good governance has been an interesting challenge. I am of the view that the PAC of the thirty-eighth Parliament has been a success, although I appreciate others might not agree with me. It is a credit to all members who have served on the committee that goodwill and a cooperative spirit have generally been maintained. Much that the committee does is not political, and all members expressed a desire to see improvements to accountability and good governance in Western Australia.

I would like to thank all the members of the Public Accounts Committee over this period. Mr Joe Francis, MLA, was the committee's deputy chairman for most of the thirty-eighth Parliament, and stood down earlier this year on his promotion to parliamentary secretary. Mr Tony Krsticevic, MLA, has stepped up to fill the role of deputy chairman for the remainder of this Parliament, and Dr Elizabeth Constable, MLA, has replaced Mr Francis on the committee. I would like to acknowledge Hon Alan Carpenter, MLA, who was a member of the committee until his resignation from the Parliament in October 2009. Mr Carpenter was replaced by Ms Rita Saffioti, MLA, who, along with Mr Chris Tallentire, MLA, has made a valuable contribution to the work of the committee.

I would also like to offer my thanks to those staff members who have worked for the committee over the last four years. It is a long list, but it is important to acknowledge the work of Ms Katherine Galvin, Ms Isla Macphail and Dr Loraine Abernethie. I express thanks and appreciation to Mrs Alice Jones, who came on board to assist the committee with its Serco inquiry earlier this year and, despite the enormous complexity of the task, immediately set to work providing very valuable advice and insight. I also give Mr Foreman Foto our thanks, as he has been an important part of the support staff since July last year.

A very special thanks must go to Mr Mathew Bates, who has been both research officer and principal research officer to the committee over the past four years. Mr Bates displayed not only an incredible work ethic and great attention to detail to meet the deadlines of the committee, but also the investigative skills and intellectual firepower to get across very complex and intricate matters. That he can then convey such complex information to the members of the committee is an exceptional talent. To both the members of the committee and our staff, I convey my personal very sincere thank you for their efforts.

Mr J.J.M. Bowler: Member, I thought you might have given me thanks for negotiating the fact that you got to be chairman, and also mentioned the member for Bassendean, sitting in front of you, whose idea it was!

Mr J.C. KOBELKE: They do say success has many fathers, and if the member for Kalgoorlie is one of them—congratulations!

MR C.J. TALLENTIRE (Gosnells) [10.43 am]: It is my pleasure to rise to speak to the Public Accounts Committee's "Annual Report 2011–2012". I acknowledge the way in which this committee has functioned with, I think, a high degree of bipartisanship. That has worked really well with this committee, which, after all, interrogates the public service—the job of elected representatives of the people of Western Australia. In doing that, I think we can leave aside our various political allegiances, and in that way the Western Australian public can be reassured of good accountability and that value for money is always the consideration when the committee analyses various projects and carries out its inquiry responsibilities.

One of the major reports we tabled was that of the inquiry into the Fiona Stanley Hospital facilities management contract—a \$4.3 billion contract over 20 years. It was a major piece of work and a project that involved us in the very detail of how this form of contracting is carried out, and it raised a number of issues. It was very pleasing to see that the government response from the Departments of Treasury and Finance was acceptance of the findings and recommendations of our inquiry. One of our recommendations related to issues around the capabilities of companies that contract for this kind of work—bearing in mind that with a major project like the Fiona Stanley Hospital facilities management contract there are some 28 different services to provide. There was a real question about whether the marketplace actually had companies that had the capability to provide all those services. We made recommendations on this point, and it was pleasing to see that the government response was an acceptance of our recommendation that it really needed to examine the capability and check on the ability to deliver the mix of services being sought through the proposed contract structure.

Another recommendation discussed a problem around the lack of competition. We all know that there needs to be competition for these sorts of arrangements to work properly, but what do we do when the process leads to three companies—then decreasing to two—actually being part of the final tender process? What is the role of government when there is a lack of competition? We made recommendations that were accepted by the government. Indeed, I note that the Department of Finance will draft a new appendix to its "Procurement Practice Guide: A Guide to Products and Services Contracting, for Public Authorities" that will address this issue; so that is important.

There is an issue of the scrutiny of commercial advisers when we have these very complex arrangements, and the forms of public–private partnership for which public sector comparators are being developed. An enormous amount of work needs to go into looking at things like discount rates, and calculations around the risk and the transfer of risk. These are very complex areas, so naturally government gets expert advice that it brings in from outside, but what about the quality of those commercial advisers? We made certain recommendations on that point, and government again accepted our recommendations, or it certainly noted them. I know that the Under Treasurer, in a response to our committee, particularly mentioned that Treasury had reviewed and validated the public sector comparator analysis undertaken and checked that it was consistent with national and state guidelines; though, in the future, I think this will be done in a much more rigorous fashion.

A further recommendation was made around the Department of Treasury needing to ensure —

... the asset beta used for projects with significant information and communications technology (ICT) elements reflect the risk associated with ICT projects when calculating discount rates.

We all know that when it comes to contracting-out ICT, there is enormous potential for budgets to be blown, for the companies involved to suddenly find reasons for new versions of systems to be acquired, and for all sorts of new work to be developed. It is very expensive, and it seems that the public purse ends up paying enormous amounts. The government has accepted our recommendations on that as well, which is pleasing to see.

Another important inquiry we held was into the expansion of the Ord–East Kimberley. That project, as mentioned by our chairman, has fallen into the trap of having a dramatic increase in its scale, and therefore in costs. It has now increased to \$322 million of state government funding; the original estimate was more in the region of \$195 million. There has been a 60 per cent increase in the scale of the budget and the project. We have gone from looking to bring into play 7 500 hectares of land to something in the order of, potentially, 15 200 hectares. That is an increase, but it remains to be seen whether all those hectares will be brought into play. It could mean that we are paying \$322 million for a project that is really of a much smaller scale. There is a series of cost blow-outs with major projects. That is a concern. It is something that the Public Accounts Committee has focused on.

The importance of the committee taking a collaborative approach is something we have tried to maintain and respect. It is something that would be a good model for the future as well, when it will continue to be the case that we will need to scrutinise major investments. The support we received from the staff of the Public Accounts Committee was outstanding. I, too, want to acknowledge the work of our principal research officer, Mathew Bates. His work and his research were outstanding. On the Serco inquiry, the work of Alice Jones was absolutely fantastic as well. We have been well supported in our research and endeavours. That has added to the quality of our reporting. I have been very happy to be a member of the Public Accounts Committee. Finally, I want to acknowledge the chairmanship of the member for Balcatta, as he has guided us and made sure that we stayed focused on making sure that Western Australian taxpayers receive value for money.