

**STANDING COMMITTEE ON
ESTIMATES AND FINANCIAL OPERATIONS**

MISCELLANEOUS PROCEEDINGS

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 23 NOVEMBER 2009**

SESSION TWO

Members

**Hon Giz Watson (Chair)
Hon Philip Gardiner (Deputy Chair)
Hon Liz Behjat
Hon Ken Travers
Hon Ljiljanna Ravlich**

Hearing commenced at 3.53 pm**O'BRIEN, HON SIMON****Minister representing the Minister for Health,
Parliament House,
sworn and examined:****FLETT, DR PETER****Director General, Department of Health,
sworn and examined:****CLOGHAN, MR DANNY****Acting Executive Director, Finance and Corporate Division, Department of Health,
sworn and examined:**

The CHAIR: On behalf of the committee, I would like to welcome you to this afternoon's meeting. Before we begin, I am required to ask you to take either an oath or affirmation. If you wish to take an oath, please indicate that to Lisa and she will offer you a Bible.

[Witnesses took the oath or affirmation.]

The CHAIR: You will have signed a document entitled "Information for Witnesses". Have you read and understood this document?

The Witnesses: Yes.

The CHAIR: These proceedings this afternoon are being recorded by Hansard. A transcript of your evidence will be provided to you. You can assist the committee and Hansard by please quoting the full title of any document you may refer to during the course of this hearing, and please be aware of the microphones and try to speak directly into them. I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the committee take your evidence in closed session. If the committee grants your request, any public and media in attendance will be excluded from the hearing. Please note that until such time as the transcript of your public evidence is finalised, it should not be made public. This prohibition does not, however, prevent you from discussing your public evidence generally once you leave this hearing. Do members have any questions?

Hon KEN TRAVERS: As you are aware, we are here to discuss the use of \$24.9 million of restricted funds to meet the cash flow requirements of metropolitan public hospitals. Could you give the committee an explanation of the process by which it came to be that you used those restricted funds for those purposes, and a time line about how we arrived at that circumstance?

Dr Flett: Yes. I will start off by explaining, as a background to this, that during the financial year 2007-08, the Department of Health had a net operating deficit of \$33.8 million. We were able to meet that deficit; however, by doing so, we effectively exhausted the Western Australian Department of Health discretionary cash balance, so we went into 2008-09 without any extra cash. Throughout 2008-09, it was a busy year; it was the year during which increasing cost demands presented, particularly in the country, but not only there. By March of that financial year, it was obvious that we had a forecast deficit of around \$230 million. In April, we applied to the EERC, indicating that amount. The \$230 million was made up of two components, one being \$180 million and the other \$50 million. The \$50 million was a component of commonwealth funds that had been passed to the state, but not to the Department of Health, billed by Treasury. We requested that

\$230 million; we received from the EERC, on 1 April, \$180 million. We effectively were faced with a shortfall of \$70 million overall. That shortfall was an issue that we pointed out to the EERC at the time and we asked whether we could use, if needed, some commonwealth funds that we were holding as well.

[4.00 pm]

We received direction that the funding we would get would be as described, with the \$70 million shortfall and, no, we could not use the commonwealth funds. Come June, I was most concerned because I was facing a situation whereby I effectively was running out of funds. What that actually meant was that I could neither meet the creditors, nor pay salaries. The amount of \$70 million sounds like a lot of money but, in fact, health spends \$13 million every 24 hours. That is the cost of running health. In fact, about six or seven days' worth of funds were required. Not that I am making light of that, but that was the relationship of it all. So I had a problem and my problem was one of: stop paying salaries; stop paying creditors; use the commonwealth funds; which I had been instructed I could not use; or, the fourth option, use what was called "special purpose funds". Special purpose funds are a range of funds held by the hospitals. The total amount at any one time runs between \$90 million and \$100 million. There a range of reasons why the funds are held, for research, fund raising issues, programs they have had. Sometimes they are as a result of dealings with companies with regard to research the companies have asked them to do and so forth. The people who use them go into them on an irregular basis to take some out. They tend to grow, as they have for many years, with interest and due to the way they are used. All these funds exist in one single account. Although they are held with each individual knowing what they are, as far as banking is concerned, they are held in one account only. Some of the funds are classed as restricted and some others are not restricted. During that last 15 days after we had gone back to EERC in June asking for the extra funds—which we did in the second week of June asking for the extra \$70 million—it was refused, so I had a huge problem whereby I could not use the commonwealth funds. The only other source of funds I was able to use were these SPA funds. With some reluctance, I made a decision to use those funds. Then for probably the last two weeks of June, I had daily meetings with the finance people of the department about managing these funds. What I mean by that was to minimise the amount of call that we would have on these SPA funds. Also by "managing" I mean managing the creditors. Although this is not seen as appropriate behaviour, I did it because it was either that or not pay salaries. For nine days, I used funds from the SPA fund and it got us through that financial year. We paid back the full amount on 2 July with interest. Those are probably the events that occurred over that period.

Hon KEN TRAVERS: Did you seek ministerial approval at any time? If you did, can you outline the process you went through with respect to your interactions with the minister?

Dr Flett: When we were at the point of having to make a decision on the use of these funds, I informed the minister what I intended to do and he was supportive of my action, yes.

Hon KEN TRAVERS: On what date did you first indicate to the minister you intended to use these funds?

Dr Flett: I cannot tell you that date. I do not have that date in my brain to tell you. It would have been around 10 June when we were refused the EERC availability because already at that stage I was alerted that I would have a problem, so it would have been on or around that date.

The CHAIR: Would you prefer to take that question on notice so that you can give that date precisely?

Dr Flett: Yes, I will attempt to do that.

[*Supplementary Information No B1.*]

Dr Flett: I am quite confident that I spoke to him on 10 June, the day of the EERC, but I am happy to confirm that.

Hon KEN TRAVERS: Did you provide any written briefing notes to the minister about it, or was it all done verbally?

Dr Flett: It was a verbal discussion because he was with me at the EERC meeting, so it was post that.

Hon KEN TRAVERS: Did you ever provide any written documentation to the minister's office about what you were proposing?

Dr Flett: No; I did not.

Hon KEN TRAVERS: Obviously, we have been talking about cash in terms of the appropriation. Does this have any impact on when you appropriated costs within the health department or will the expenditure be appropriated as of last year? Will none of it be now appropriated this year as a result of this manouevre?

Dr Flett: As a result of this manouevre, what funds we had to pay back to the SPA accounts came out of this year's budget. When we received our budget for 2009-10 we then used funds for that, and that is how we paid it back. Effectively, on 2 July we had already used up, if you like, that \$70 million.

Hon KEN TRAVERS: \$70 million?

Dr Flett: That is what I said.

That was the total amount. The figure we are talking about—the so-called restricted funds—was \$24.8 million.

Hon KEN TRAVERS: You have already basically appropriated an additional \$70 million into this year, which was, in effect, expenditure from last year.

Dr Flett: It is from last year, and has been carried forward into this year's budget. Effectively, on 1 July, we had that figure carried forward, yes.

Hon KEN TRAVERS: Were there any other expenditures that you deferred accruing, so that they did not occur last year and accrued after 1 July this year, as part of the management of your finances?

Dr Flett: I cannot tell you the detail here of the individual moneys that we may have been able to push across. I can supply that to you, I am sure. But, mostly, we were unsuccessful in doing that for obvious reasons because many of them were small businessmen who needed to be paid, so there was little deferral of costs. I can certainly supply you with that detail if that is what you are asking.

Hon KEN TRAVERS: One of the issues with accrual accounting is, when you accrue the actual expenditure. In theory, even if you accrued it last year, from an accrual accounting point of view, it should go into your last year's budget. I understand that the point at which you formally accrue an expenditure is often a variable commodity. I am asking whether, as part of your budget management strategies, you deferred the accrual of any expenditure last year and pushed it into this financial year because you ran out of funding last year. Was that one of the strategies you adopted when you were trying to manage your budget last year?

[4.10 pm]

Dr Flett: There are some. I can give you that information but I have not got it here; yes.

[*Supplementary Information No B2.*]

Hon KEN TRAVERS: When you appeared before this committee, along with Mr Leaf on 18 June, we asked you a number of questions about your budget circumstances, which, listening to the evidence you have given us now, is quite different, to put it plainly. I was wondering if you could give us an explanation as to why that would be the case.

Hon SIMON O'BRIEN: Madam Chair, perhaps it might help Dr Flett, in responding to the question, if the honourable member might indicate some way where he has found an incongruity or an inconsistency.

The CHAIR: Member, could you indicate the part of the hearing you want to refer to?

Hon KEN TRAVERS: Yes. I asked a number of questions about whether or not you would be requiring to draw down any additional funds on the Treasurer's Advance Authorisation Bill. You and Mr Leaf did not indicate to us that you had a need for, as we have now discovered, an additional \$70 million worth of expenditure over and above the \$180 million-odd that was provided to you back in March or April by the EERC. That would be my first example. You did not identify to the committee at that point that you actually had \$70 million of expenditure that you knew you were going to incur and did not have the funds to pay for it at that point. That is my first one. I am happy to go through a couple of the other pieces of evidence that you gave to the committee.

Dr Flett: I recall that question. I also recall at that stage, perhaps naively, thinking that we still may be able to resolve the issue with Treasury. It was a looming problem but one which at that stage—it was only in the last 10 days or so, or perhaps less, that it was a problem, that was something insurmountable. You can accept or reject that but that was my belief at that stage.

Hon LIZ BEHJAT: While he is looking for that, I am looking at *Hansard* from 18 June as well. Hon Ken Travers said —

I have a final quick question. Can the Department of Health guarantee that it has sufficient financial controls in place to ensure that the department is not using cash advanced by the commonwealth for purposes other than those specified by the commonwealth when the advance was made?

Mr J.W. Leaf: Yes.

That is commonwealth moneys, not the special purposes account moneys we are talking about today. I think he did clarify that in *Hansard*.

Hon KEN TRAVERS: Except I was asking him about the Treasurer's advance then, but I was happy to come to that other point later.

I asked you some questions which you took as supplementary information C5. Without reading all of it, I asked you, under the Treasurer's advance authorisation, how much you had actually drawn down and whether you required any further funding. I asked —

... how much the department has drawn down from the Treasurer's advance as of today's date, and what the total drawdown from the Treasurer's advance for this financial year is expected to be; and I would like a break-up of what each of those drawdowns were for.

Again, no advice was given that you were actually in a position where you were short of cash and you were about to run out of finances.

Hon SIMON O'BRIEN: Were they questions taken on notice?

Hon KEN TRAVERS: Yes. That one was.

Hon SIMON O'BRIEN: Presumably you received the answers in due course.

Hon KEN TRAVERS: The answers did not provide any additional information about the difficulties the department was facing with respect to the cash —

Hon SIMON O'BRIEN: Thanks for clarifying that. We do not have *Hansard* in front of us to know necessarily what the member is referring to, or the tone of the answers.

Hon KEN TRAVERS: In that respect, can you guarantee that none of this was commonwealth money?

Dr Flett: I can guarantee none of this was commonwealth money.

Hon KEN TRAVERS: In future, can I assume that if we ask general questions about things like controls and refer to commonwealth control, we need to, as a committee, get into a position where we list every possible option with respect to controls to get an understanding of what the finances of the health department are? One of the difficulties I have as a committee member—and members alluded to it—I asked a question about whether or not there were controls in place for commonwealth funds. I would have thought that if the department was looking at that point of using restricted funds—you are technically correct, you have answered the question that I asked. But in terms of the way that this committee operates, in terms of the way in which we may need to operate in the future, if we do not get exactly specifically the correct terminology, can we expect to be not given a correct answer? The reason I raise that is because what that starts to raise is that we will be sitting in committee for an awfully long period of time at estimates if we have to go through every one of those questions. It was clear my questions were about: did you have sufficient controls in place? That was on 18 June. Then, less than 12 days later, it was demonstrated that you did not, according to the auditor, have sufficient controls in place. Yes, technically your answer was absolutely right—I asked about commonwealth funds—but I would have thought that would extend to restricted funds as well; some indication if you were looking at using restricted funds outside of their purpose.

Dr Flett: I was not at any stage attempting to mislead you or be evasive. That was never my intention. I do not operate like that. Secondly, there were always in my mind two very clear sources—one was commonwealth and the other was SPA. It was not until after we had been given direction of the non-use of commonwealth that we even remotely thought of SPA. As I pointed out, I agreed to that with some reluctance as well. I appreciate your point of view. I would say again there was never an intention to mislead you on that. I do not operate like that.

Hon KEN TRAVERS: I guess it is not about misleading but it is about how we as a committee operate with agencies and whether or not, when we ask a general question like that, we need to go through every possible permutation and combination of possibilities. I think it was clear what we were driving at. I am happy to move on from there.

Can you assure us that you did not exceed the appropriation that was provided by Parliament to you for last year?

[4.20 pm]

Dr Flett: In answer to your question, clearly at the end of that financial year we had a deficit, so we did exceed the appropriation by that amount.

Hon KEN TRAVERS: So what is your view about the purpose of Parliament appropriating funds, then, if the department is going to incur expenditure beyond what we appropriate?

Dr Flett: I find that a difficult question because in Health I am in a situation where there are some costs that I can control, but demand I cannot control. As a result of the demand and costs incurred in that financial year, we overran our budget. Now, clearly that is not something that I or anyone set out to do, but we are experiencing demand, the likes of which—and we will in the future—we have never experienced before because of the ageing population. That is going to be a huge problem. In Health we are going to have to manage costs around that demand.

Hon KEN TRAVERS: I understand that issue, but that is an issue for yourselves and your minister to determine. In fact, this year the Parliament gave a record amount of money to the government under the Treasurer's Advance Authorisation Bill to spend additional money over and above the money that had already been appropriated by the Parliament to the health department. It was over and above the annual appropriation that, these days, provides for an automatic Treasurer's advance. Then on top of that we gave a record amount of additional funds. That is the limit by which the Parliament has appropriated funds. Any expenditure beyond that, in my view, is completely illegal. That is then an issue for the government and yourselves to determine how they allocate that

Treasurer's advance authorisation. I accept that you have gone to the government and said, "We need more money." The government then needs to make a decision as to whether or not health is its priority or some other expenditure under the Treasurer's advance authorisation, but the obligation on you as a department is not to exceed the amount that has been appropriated by the Parliament to you or authorised to you under the Treasurer's Advance Authorisation Bill. I do not expect you to answer the question about priorities. That is an issue that the minister might want to explain—why other elements of the TAA were given—why the Treasurer's advance authorisation was used to fund other expenditure rather than health expenditure, but what I am looking for is an assurance that in the future we will never see this occur again—the expenditure over and above what is appropriated by Parliament in the first instance and also the improper use of these restricted funds.

Dr Flett: So, in other words, you are telling me that in future, irrespective of what budget is handed down to me, I can never go over that budget and run a health service of \$5 billion. Is that what you are saying?

Hon KEN TRAVERS: Can I ask you a question, then? Have you ever sought legal opinions as to whether or not the expenditure over and above your appropriation is legal?

Hon SIMON O'BRIEN: Has the committee?

Hon KEN TRAVERS: No, I am asking if the department has. Maybe it is something the committee should do.

Dr Flett: No, I have not.

Hon KEN TRAVERS: The point I am making is that your obligation is to go to the minister of the Crown and say, "I am going to run out of funds on 23 June if you don't give me sufficient funds."

Dr Flett: Which I did.

Hon KEN TRAVERS: Yes, in that sense I think you did exactly what you were required to do and exactly as your job was.

Dr Flett: I could do no more.

Hon KEN TRAVERS: Absolutely. It is when the government refuses to give you that additional funding. Then, you are absolutely right, that is when you have got to shut down the services. It is not your fault. The government chose to appropriate money under the Treasurer's advance to other purposes over and above health. Now, I do not think you can expend money that you have not been given either an appropriation or a Treasurer's advance authorisation for. Then it is no longer your issue. It is a political issue for the minister and his colleagues in cabinet, along with the Treasurer, to determine whether or not Health is a big enough priority over and above the other areas of government expenditure. That would be my view of the world. I would like to know if you have sought any legal opinions about this matter.

Dr Flett: No, I have not had any legal opinions about this matter, but I also find it difficult, one, as a doctor and, two, as head of the health department, for you to say to me I would just have to shut down services. That is, from my perspective, an impossible task. That is closing the doors of the emergency departments of all the hospitals across the state.

Hon KEN TRAVERS: I guess my question back to you, then, is: should we just not bother to appropriate and just allow the health department to spend whatever it needs on health every year? Why go through an appropriation process; why have a Treasurer's advance authorisation; why do we not just have a standing appropriation that the health department can spend whatever it wants? But I agree with you. I think the issue here —

Dr Flett: No, I am not suggesting that, by the way, at all. I believe we need far greater financial rigour across Health than we have had before, so I would never argue with you on that point at all. I am fully aware, and we are working to install far greater rigour than we had before, with modest success at the moment. So I would never consider anything alternative to that.

Hon KEN TRAVERS: Can I make it clear? I would be attacking the Treasurer if they did not give you the funds to continue to operate until 30 June, but that is a political decision of the government, not a decision that should be taken departmentally. If you have run out of funds with the money that has been appropriated to you, then, yes, whether it is Health or any agency, they should stop incurring and accruing expenses. But then that is a question about priorities for government, as to whether or not they set this as a priority. If I was sitting around the cabinet table, I would be saying, "Health is our number one priority. We have got to fund that ahead of all other government services and agencies."

Hon LIZ BEHJAT: Dr Flett, I just want to go back to the opening comments that you made that in 2007-08 you came in with a \$33.8 million deficit.

Dr Flett: Yes.

Hon LIZ BEHJAT: That is right. So that was a deficit in that year.

Dr Flett: It was a deficit. We actually had funds—cash—to meet that deficit, which we were able to bring together at the end of the financial year on 30 June to have, if you like, balanced books.

Hon LIZ BEHJAT: So it is not unusual that you would end the year on a deficit. I know it was before your time, and I accept that, but in perhaps the eight years before that, would there have been times when the budget was in deficit as well in the Department of Health?

Dr Flett: I understand that was the case in previous years.

Hon LIZ BEHJAT: So it is not an unusual thing, is it?

Dr Flett: No, it is not.

Hon LIZ BEHJAT: Okay. Thank you.

Dr Flett: Could I add something? What was unusual was that this year we had no cash reserves to address that deficit. That was the problem.

Hon LIZ BEHJAT: Because the cupboard was bare.

Dr Flett: Correct.

Hon LIZ BEHJAT: Nothing was left behind; that is what it was. I just want to confirm the \$24.9 million. You did say that—I think it is an interesting figure—every 24 hours \$13 million is expended by the Department of Health.

Dr Flett: Yes.

Hon LIZ BEHJAT: So in the overall picture in your budget of \$5 billion, this amount that was spent represents a very, very small —

Dr Flett: About six days; \$24 million is two days, basically.

Hon LIZ BEHJAT: So it is a very small part of your budget, and that was all fully repaid with interest back into that account.

Dr Flett: Yes, 2 July.

Hon LIZ BEHJAT: Great. The extract from the Auditor General report that we are reading says that the department drew off \$24.9 million of restricted funds.

Dr Flett: Yes.

Hon LIZ BEHJAT: Whose words are those—"restricted funds"—the Auditor General's? We talk about the special purpose account, and I would think that what you have used those moneys for probably was a special purpose, and they were put back with interest. He talks about "restricted". This is semantics, I think.

Dr Flett: The special purpose accounts fall into restricted and non-restricted funds. So we drew down on the small amount of the other unrestricted funds, plus \$24.9 million of restricted funds.

So we selectively as well as we could drew down on unrestricted funds in the first instance. I would add we were on a knife edge from day-to-day; we were trying so hard not to get to that point.

[4.30 pm]

Hon LIZ BEHJAT: So you probably would have thought it is far better to wear the headline of “I dipped into the special purpose account”, than “I can’t pay my bills” and people’s wages do not get paid and things like that. You took, really, what you thought was the proper course of events to do that to meet your commitments.

Dr Flett: That was the situation. It was the issue of with the big company suppliers, if we had not paid, they immediately stop supply. From a hospital perspective because we now run the hospital in a very tight way of just-in-time supply to minimise cost exposure as well, that would have been a serious problem added to which, to stop paying salaries, well, the obvious consequence of that. Most people have debt to manage on a fortnightly basis with their salaries. I just personally had real problems dealing with this as best to do it. I actually considered the possibility of talking to the higher earning people of the staff and say, “Our salaries stop.” That was clearly, when I thought about it, an impossible task because to be selectively not paying people when in fact there was, from the point of view of salaries, a big amount that we would have to have stopped paying. I have never been in a situation like this before and I hope that I am not ever put in that situation again.

Hon LJILJANNA RAVLICH: Dr Flett, is the health budget sustainable?

Dr Flett: The current budget?

Hon LJILJANNA RAVLICH: Yes.

Dr Flett: The current budget: we have an extremely tight, tight budget at the moment—extremely tight. I would say if by “sustainable” you mean “have we got adequate funds” —

Hon LJILJANNA RAVLICH: Yes.

Dr Flett: We will need to be going back to ask for more funds for this financial year based on our current budget.

Hon LJILJANNA RAVLICH: Okay, I would have assumed that was the case, given that you have already used a part of this year’s budget to deal with this repayment back into the account, so that makes sense. How much are you expecting to be asking EERC for this time around? What is the magnitude of the ask?

Dr Flett: Look, I am not evading your question here, but to be absolutely honest, to give you a figure four months into this financial year is quite hard. What I could say is that it could be—and these are broad figures, obviously, at this stage—in the vicinity of somewhere between \$100 million to \$200 million. But to be more accurate would be difficult, especially because we have brought in many changes to the management of health that were not in place this time last year. We are cost trending down at the moment, so if we were to work on a cost today, it may well be quite different in six months’ time. That would be the best I could give you at the moment.

Hon LJILJANNA RAVLICH: Would it be fair to say that over the forward estimates you will be looking for anywhere between \$500 million-plus for your operational expenses? In other words, over the forward estimates, how much extra are you likely to be seeking from EERC on an annual basis?

Dr Flett: Hmm.

Hon LJILJANNA RAVLICH: Because you have already indicated this year you are likely to go—it is a fair question.

Dr Flett: I appreciate what you are saying. I am just thinking —

[Conferring with other witnesses.]

The CHAIR: Dr Flett.

Dr Flett: Sorry about the pause, I have just had to have a bit of a think about this. Look, that figure could be right; I just do not have any certainty around it. We are in ongoing negotiation with Treasury with regard to setting the budget bill for 2010-11, so over the forward estimates that could be right.

Hon LJILJANNA RAVLICH: Can I just ask you, Dr Flett, what is your year-to-date expenditure?

Dr Flett: At this point in time?

Hon LJILJANNA RAVLICH: Yes.

Dr Flett: At this point in time, if you are asking me what the deficit is that we are running at at the moment, it is \$70 million.

Hon LJILJANNA RAVLICH: And have you done the projections for the remainder of the financial year?

Dr Flett: Well, we have but, as I described before, we are projecting because it is not a straight-line spend, but that we have had an increase in costs but now it is plateauing and in fact dropping back month-on-month, the projections—I could not annualise them accurately because it would be different from month to month. That is why I said to you my projection would be somewhere between \$100 million to \$200 million; that would be my estimate at this stage. I think clearly if it remained at \$70 million, if you then annualised it, that would be around about \$200 million. I do not expect it is going to be that because our rate of spend, as a result of a number of tightened controls we have, is reduced.

Hon LJILJANNA RAVLICH: Dr Flett, you are the highest paid director general across government, are you failing WA taxpayers by not being able to contain and manage your budget?

Dr Flett: I do not think I am failing it; no. I have been in this job now 18 months and the first being in an acting role. I came and inherited a health service where there were no financial controls in it; not in the form that I understood; I am from the private sector. We have been working over this last, more recently six months, but 12 months, but more recently very hard six months to substantially modify the reporting and management process of the finances on a monthly basis. I would expect that the way the system will be managed, and the accountability more particularly of the senior executives who manage it is quite different now and even will be more so in the future than it has ever been in the past.

Hon LJILJANNA RAVLICH: But it would be fair to say, Dr Flett, that you have been in the job for 18 months and only most recently you have gone and got an extra \$100 million from EERC. We are in a situation where clearly, given the Auditor General's report, the use of a restricted fund to meet cash-flow requirements was used, you have had difficulty paying your creditors, you have looked at how you might make some savings in relation to senior executive salaries, so on and so forth. So does that reflect somebody who is in control of their agency and the finances of it? I mean, where is the problem? That is really what I am saying. If the problem is not with you in terms of your administration of this huge agency, is it your chief financial officer who is not up to the mark or is there a systemic problem across the agency?

[4.40 pm]

Dr Flett: There is probably fault at every level. I am not standing back to say I am not at fault. However, it is clear to me that much of the management across health is management that has never experienced serious financial problems in the way that we are experiencing them now. Health has really rolled on from year in and year out. As I have spoken to people—I have spoken to a lot of

people—about changing the way things are to be done at every level, many of them look back and say, “Here we go again; I remember that back in 1980 and 1990 we had this problem”, and they just feed it back, and then they give the handout and say, “Don’t worry; the government will come good. So we have a systemic attitudinal thing in the public service that has been there for the last 40 years or more. I will add one other thing—this is a failing of the public service—these people have got a job for life. In private, if you do not stump up and perform, you lose your job. In the public service, if you do not stump and perform, nothing happens.

The CHAIR: A bit like a US banker!

Dr Flett: If that means that you think I should lose my job —

Hon LJILJANNA RAVLICH: That is not what I said.

Dr Flett: In fact, in the private sector, if I had not performed in the way that has occurred in the public sector, I probably would lose my job. But, having said that, in the private sector, by this stage we would not be in this situation, because I would have had the right response from people. I have run very big organisations in health in the past, and I understand the levers that need to be pulled. So I know what needs to be done. The frustration is identifying the levers to others who do not seem to quite know what needs to be done.

Hon KEN TRAVERS: In the private sector, you would have sat down with your board and discussed this matter and got a resolution. In your case, the board is the cabinet. You and the board would have sorted out what you were going to do before the end of the year. What happened on this occasion was that the board said you cannot have any more money, and you were left—I understand your difficulty—with this problem of how to provide the services when your board has not come to any arrangement with you to pay for them.

Hon LJILJANNA RAVLICH: I will finish on this. Dr Flett, I just want to know, have you had discussions with your minister about the question of the long-term sustainability of health, and your difficulty in achieving that sustainability?

Dr Flett: Yes, I have. I have had many, many discussions with the minister on this subject, and he, like me, remains concerned about the issues of health. The issues of health in this state are no different, I would add, to those in any other state or any other country. It is a huge problem. The National Health at the moment made an announcement that they expect to reduce spending by 10 per cent in the UK. The costs in health are reaching non-sustainable levels. This is a worldwide problem. A lot of it is driven by technology and demand, plus the fact that we are making it worse for ourselves because we are keeping people alive. The 85-year-olds now are the greatest greying cohort of the population.

Hon LJILJANNA RAVLICH: What has been the minister’s response, apart from being empathetic with you?

Dr Flett: I know that he has spoken on more than one occasion with the Treasurer on this. We have had meetings with the Under Treasurer on this. We meet with him on a monthly basis. We discuss the financial status of health. There is a reporting process as well. The minister has been very involved in this issue.

The CHAIR: Hon Phil Gardiner. Thank you for your patience!

Hon PHILIP GARDINER: Thank you, Madam Chair. If you have been in the job for 18 months, you were not responsible for framing the 2008-09 budget.

Dr Flett: No. I inherited that budget.

Hon PHILIP GARDINER: You inherited that budget. I think that has some materiality in this, because if there were no financial accounting measures and financial controls, then you would have had an even greater difficulty in trying to ensure what the appropriation was month by month to

hold it in place, I presume. That would have been very difficult. So, you get to March, and you are minus \$230 million. If I had a variance of \$230 million, even if that is—how many days is that?

Dr Flett: That would be about 18 days.

Hon PHILIP GARDINER: Okay—I would have been concerned at that number being over, but I can see that it is unfair for the accountability issue to be placed on you. It really comes back to the political area, because, politically, someone should have been aware and should have said, “There was a \$230 million deficit running up in health; how are we going to cover the deficit?” That is what any other business would have said. So I am sensitive to the fact that you are on the mat here, because you really did not have any options, and I suspect you were shielding others in trying to find a way through at the very end in those last few days of June. So, back to the accountability for the budget, then. In the budget now for 2009-10, have you started to try to get back to a zero-based budget and frame it up in that way, or are you just taking what was there last year and adding inflation?

Dr Flett: We have actually, among other things, had health services go back to a zero-based budget.

Hon PHILIP GARDINER: Okay. So you are building it up from the bottom again?

Dr Flett: That is the only fundamental way we can get to the bottom of the problems. This has been a huge effort. I mean, it as almost as if I was asking them to reinvent the wheel.

Hon PHILIP GARDINER: Exactly! I appreciate the problem you have got.

Dr Flett: Simply put, in the private sector, this is just routine—a zero-based budget. It is just like getting out of bed each day.

Hon PHILIP GARDINER: Yes. So that is the first part of the accountability. The second part of the accountability is the issue that you referred to before—of people being there for life and not being accountable for performance so that they can be fired or relocated or re-appropriated or something like that. Hon Ljiljanna Ravlich raised, I think, whether you had discussed that with the minister. Have you got a pathway to try to solve that particular issue, recognising, I suspect, that it is a political pathway that you have got to get through? Is that correct?

Dr Flett: Yes. I might add, however, that we are now at the midyear review time, and we are identifying some key issues that need to be addressed at this point.

Hon PHILIP GARDINER: So that comes back to another question from Hon Ljiljanna Ravlich, or it might have been Hon Ken Travers, about where we are at the current time. You said it was \$70 million negative. I presume that would have been at the end of October. I presume you would have balanced the month to the end of October. Would that be correct?

Dr Flett: Yes, they are October figures.

Hon PHILIP GARDINER: Am I correct, then, that you started off with minus \$70 million, given the payments that you were trying to defer making in this financial year to cover the previous financial year’s payments, plus the \$24 million for the special purpose grants? You started off with a negative \$70 million from day one?

Dr Flett: Yes, we did that. We have had a budget, but it is a very tight budget, and that budget would have covered some of that, minimally. So from that point on, we have then, in running the health services, accumulated across the whole area—it just happens to be \$70 million.

Hon PHILIP GARDINER: Okay.

[4.50 pm]

Dr Flett: Last month it was \$60 million. It has increased by \$10 million in this last month. It just happens to be that.

Hon PHILIP GARDINER: Fair enough, but when you framed the budget back on 22 April—roughly I think it was the cut-off time—you would not have been budgeting to start off with minus \$70 million on 1 July 2009. So, in a way that \$70 million still reflects the negative starting point, does it not?

Dr Flett: Yes, it does. It was carried forward, if you like, absolutely; yes.

Hon PHILIP GARDINER: Okay. I think I have covered the accountability issue. You were in a transition phase during 2008-09 in your time of being there to try and sort things out or improve things. In my view, it comes back to you acting unilaterally almost, because I suspect that there are some hidden problems here. I am reluctant to go into where those might be, but I suspect that you are taking the rap on this when it is really a political issue, because cabinet or someone should have been saying, “We’ve got a problem with health. We’ve got a problem with the department. The chap who’s managing it hasn’t been able to get it in place by the proper time. We’ve got to appropriate additional funds so that the department can keep on running.”

Hon KEN TRAVERS: I wish I was as eloquent as you in putting those points forward.

Hon PHILIP GARDINER: That is not eloquence, I can tell you!

Hon SIMON O’BRIEN: Madam Chair, have any of the witnesses got a role to play here. perhaps by being asked some questions?

The CHAIR: I think we are getting there, minister.

Hon SIMON O’BRIEN: I have not heard any for the last 10 minutes or so. Maybe these speeches could be saved for the house, because it is very difficult, I should think, for witnesses to have to sit here and not know if they are being asked a question or being asked to adopt a point of view that is being foisted upon them. For the last few members’ contributions, that is what we have had.

Hon PHILIP GARDINER: I know; I take account of that. Sorry, minister; thank you.

The CHAIR: Is there a question, member?

Hon PHILIP GARDINER: I will not go into one other area. I think I have established, based on the single-word answers that I have been receiving, thank you, where the position is at.

Hon KEN TRAVERS: Just following on from that, I just want to make sure I have got it right. At this point in time, on a year-to-date basis, you are already in deficit to a total of \$140 million. That is made up of the \$70 million that was paid back in July and also as a result of overruns and expenditure.

Dr Flett: No.

The CHAIR: Perhaps Dr Flett can just clarify that again. I think I understand it.

Dr Flett: At the moment our deficit position at this point in time is, to be exact, I think, \$70.8 million.

Hon KEN TRAVERS: Right.

Dr Flett: That is what we have.

Hon KEN TRAVERS: Yes.

Dr Flett: Seventy million dollars came through into this financial year. We were given a budget, albeit a small, very tight budget. That budget covered that \$70 million, if you understand.

Hon KEN TRAVERS: Go on.

Dr Flett: The \$70 million that was carried forward is not a figure in its own right; it is distributed across the area health services. There might be \$10 million here and \$5 million there and all the rest of it. Each of these area health services are then allocated their own personal budget from that, which is appropriated in each financial year. So they would then start off with part of their budget

taken by what has been carried forward. So that is how it would be. Now we are four months into this next financial year, and because the budget has been such a tight budget, we have exceeded it by \$70.8 million at this point in time, which is spread across, then, effectively all those individual south, north and country health services and so forth.

Hon KEN TRAVERS: And that is the point I was trying to understand. That \$70 million equates to approximately the \$70 million that you had to pay back.

Dr Flett: It just happens to be that figure. If you had asked me this a month earlier, the figure I would have told you was \$60 million.

Hon KEN TRAVERS: But this is what I am trying to understand. That was paid back on day one. I would assume that most organisations would have an annual figure, but in July they expect to spend so much, August, September, October.

Dr Flett: Sure; that is correct.

Hon KEN TRAVERS: If you take that \$70 million that you had to pay back on day one out of the equation, are you then saying that you are running approximately on budget for this year on a year-to-date basis? On what you would have expected to have spent in the first four months of the financial year, are you now running on budget if you take away that original \$70 million you had to pay back on day one?

Dr Flett: That would be the case, yes.

Hon KEN TRAVERS: That is a positive story. You should be proud of it. If you are running to your year-to-date budget, that is good. That is what I want to hear at these committees from agencies.

Dr Flett: I guess you could look at it also from another point of view that when we were at this very difficult point last financial year in June, the figure moved between \$60 million and \$70 million, as moneys do depending almost on what time of the day you look at the demand. That was very similar to the 1.5 per cent that we were addressing at that time. Yes, you could look at it in a variety of ways.

The CHAIR: I am conscious of the time.

Hon KEN TRAVERS: I just have a couple of quick ones, and I am happy for this to be taken on notice. In terms of the account, you say you have got your one account, which has both restricted and unrestricted funding in it. Are you able to give us a breakdown of that account of how much was in it at the time that you took the money out prior to 30 June, how much of it was restricted, how much of it was unrestricted, and also a list of restrictions that were—I know you cannot say you took that \$24 million from these areas of restrictions—occurring and how much money was in each subset for each of those areas that were restricted?

Dr Flett: I can give you a summary. The problem is we took the money out of one bank account, so we just do not know where you are taking it from. There are literally hundreds of subunits that make up these SPAs—little bits here and there. There might be \$50 000 in one and \$10 000 in another and so forth. They are all sort of listed. To get to that level would be impossible of how that would be affected, because they do not each exist as individual bank accounts. It is only one bank account into which all this —

Hon KEN TRAVERS: But you must have a ledger somewhere that lists all of those specific items and whether or not they are restricted and why they are restricted.

Dr Flett: Yes.

Hon KEN TRAVERS: That is what I am after.

Mr Cloghan: There are actually 1 206 different accounts.

Hon KEN TRAVERS: Ledger items?

Mr Cloghan: Yes. Some are restricted and some are unrestricted. The total amount as at 30 June was \$96.6 million, of which \$74.4 million was restricted.

Hon LJILJANNA RAVLICH: So everything that was unrestricted you basically pulled out?

Mr Cloghan: Yes.

Hon LIZ BEHJAT: So it was not \$24.9 million in total that was unrestricted?

Dr Flett: There was \$24.9 million that was restricted and the other was unrestricted.

Hon LJILJANNA RAVLICH: Just as well because otherwise you would have taken 80-something out of it.

Hon KEN TRAVERS: Hang on. You are saying that \$96.4 million was in the account, of which only \$70.4 million was restricted.

Dr Flett: Yes.

Hon KEN TRAVERS: So that means that there was still \$22.2 million —

Dr Flett: Unrestricted.

Hon KEN TRAVERS: — that was unrestricted. Why did you not use that rather than the \$24.9 million?

Dr Flett: We did; we used that as well.

Hon KEN TRAVERS: You used that as well.

Dr Flett: Yes.

Hon KEN TRAVERS: I thought this was on 30 June those figures you just gave me.

Mr Cloghan: Yes.

Hon KEN TRAVERS: At the close off of 30 June?

Mr Cloghan: Yes.

Hon KEN TRAVERS: Would you not have already spent it, so therefore it was not there on 30 June?

Mr Cloghan: The total amount that came out of the unrestricted was the \$24.8 million and the balance, a total of \$57 million, came out of SPA accounts, but of that only \$24.8 million was restricted funds.

[5.00 pm]

Hon PHILIP GARDINER: Was only \$24.8 million was restricted funds that you took out?

Dr Flett: Yes.

Hon PHILIP GARDINER: Of the total of \$57 million that you accrued?

Dr Flett: Yes.

Hon LJILJANNA RAVLICH: That is what was used.

Hon KEN TRAVERS: After having used the other \$24.8 million.

Hon PHILIP GARDINER: Could you just give me what difference in definition is between “restricted” and “unrestricted”, please? Just the definition, not amount.

Mr Cloghan: The only way I can answer that question, without going through each of restricted accounts, is to say that the wording of the account is in such a form as those funds are restricted for the purposes to which those funds went in.

Dr Flett: To be applied.

Hon PHILIP GARDINER: To be applied. This is what I was hesitant to get into earlier: when you were drawing on the restricted funds, was there any authority that you had to get to actually draw on each of those individual funds to actually draw it out; or, did each of those 1 200 items have trustees, or something such as that, that you had to get approval from to draw the money down and use?

Dr Flett: I sought advice from the then finance people, and their advice was grey; in other words, it was not clear as to if there was or was not authority available with that. It was not absolutely clear.

Hon KEN TRAVERS: I know it sounds as though there is a lot of them, but I would certainly like to see what the different ledger line items were, what they were for, and what their restrictions were. Is that possible?

Dr Flett: Yes, we can do that. There are 1 200 of them.

Hon LJILJANNA RAVLICH: Can I just ask a question of Dr Flett?

The CHAIR: I want to check this, because that is potentially —

Hon SIMON O'BRIEN: Thank you for your consideration, Madam Chair. I was just seeking some advice as to whether or not that was a realistic question, and perhaps the member is not aware that it is not as if there is a button that can be pressed and it just dumps out the list of 1 206 items. I will just check, but I understand it actually would take a fair bit of time —

The CHAIR: Would you like to confer on that for a minute? I am concerned that that might cost us another few million dollars. I just want to hear what they say.

Hon SIMON O'BRIEN: Madam Chair, I understand that although there is one account, in the sense of one repository of funds literally of the cash, the 1 206 or so other special-purpose accounts are quite separate entities. What is more, they are not even held at one central location, in the sense of that they may apply to a different area health service or whatever. The bottom line is, in response to your query, it would be quite extraordinarily time consuming, I understand, for what seems to be a simple question to be complied with. I am just wondering if the minister—we are not refusing the information, of course.

Hon KEN TRAVERS: Can I say, I am not to —

Hon SIMON O'BRIEN: If the minister wants to couch the question differently, perhaps, in light of that.

Hon LIZ BEHJAT: The member, not the minister.

Hon KEN TRAVERS: The minister in waiting.

Dr Flett: Rather than to harvest every one, which, to do that, we would have to go across all the hospitals, and, within the hospitals, all the departments, and it would be a major exercise, would it be possible to give you, perhaps, some examples of it across the range of different SPAs, so that you get a feeling for the sort of things they are for, which would be so much easier for us.

[Supplementary Information No B3.]

Hon KEN TRAVERS: I would be happy with that, but I guess that raises the next question for me: if all the money sits in one account and there are a whole range of these, effectively, separate ledgers, what controls do you have in place to ensure that the money is only being spent on the purposes for which it is restricted? That is the question that is raised in my mind, that you are not able to easily print off the amount in each account and that it is restricted and that is the purpose for which it is to be used, what internal controls do you have to ensure that the money that is restricted is only used for the purposes for which it is restricted?

Dr Flett: The controls are very tight. They were investigated in 2007. I am just reading here: prior to the introduction of the Financial Management Act 2007, the accounts had no particular regulation covering them. Since then, they have been subject to regulation under the guidelines of the specific-purpose accounts in Treasury instruction T1801.

The clinicians all know that, and they guard them with great care. They all know the importance of them. There are duplicate signatories to the management of them, and so forth. After the investigation of some recent years ago, it is my understanding that it is very, very strictly and tightly managed at an area level, because it is clinicians, and maybe surgeons or physicians or whatever, and they might be drawing these funds for anything from research to travel, to going to conferences and such like. There are a multitude of uses that can be applied to these. But around them all are rules that are based on that, depending on the type of fund. I have a list here of eight subgroups of funds that exist. It is rather complicated, but I could give you an example of each one of those and you would see then what I mean.

Hon KEN TRAVERS: At the local level there are strict controls on it.

Dr Flett: Yes.

Hon KEN TRAVERS: But at head office level you can still go in and sweep money out of that overall account?

Dr Flett: Well, we did that, and, as I say, with some—having been on the other side and worked as a consultant in the health department, I was conscious of the importance of this. It was done with reluctance, because I was uncomfortable in that role. I had no alternative.

Hon LJILJANNA RAVLICH: Would you do it again?

Dr Flett: Would I do it again? No, I would not do it again. I would probably be far more threatening with the people I deal with who manage the funds.

Mr Cloghan: I will just help you in terms of the audit opinion, where the Auditor General said the controls were inadequate. He made that statement because of the ability of management to go in and reap those funds. That is essentially the reasons why he said that management was able to override those controls, therefore the controls are inadequate.

Hon KEN TRAVERS: What have you done to fix that?

Mr Cloghan: We hope not to use them in the same way again.

Dr Flett: From my perspective, there would be an absolute rule that they are not to be touched.

Hon KEN TRAVERS: But is that a control, or is that just a commitment from you, and the next director general comes in and says, “I’ve got a tough time; I’m not brave enough to take on my political masters yet, so I’ll use these funds again because they seemed to do it okay a couple of years ago, although it was a bit of a political problem at the time.”

Dr Flett: I would think it is a matter of health finance putting in place clear guidelines to the management.

Hon KEN TRAVERS: I still have a question about the legality of it. If they are there for a specific purpose and you sweep them and take them for another purpose, my question is whether that is legal or not.

Dr Flett: It was not stated as being illegal by the Auditor General.

Hon KEN TRAVERS: I know, but I am wondering whether you have taken any advice on whether it is legal or illegal.

Dr Flett: No, I have not.

Hon LIZ BEHJAT: Surely if it was illegal, the Auditor General would have pointed it out, and he did not.

Hon KEN TRAVERS: Can I just make one comment, Madam Chair? The comment I was looking for in the *Hansard* of 18 June 2009 was after I had asked whether you had expected to draw down further funds from the Treasurer's advance before the end of the financial year. Mr Leaf stated —

But I am happy to say that the Department of Health is not seeking to draw on the Treasurer's advance beyond the \$110 million that was provided to the Department of Health on 1 April.

In light of what we now know, that statement was not strictly accurate when it was given.

Hon LIZ BEHJAT: It was not the Treasurer's advance. It was not commonwealth funds, and it was not the Treasurer's advance.

Hon KEN TRAVERS: The department was still seeking money from the Treasury at the time that answer was given.

The CHAIR: I do not think there was a question in that that I could tell.

Hon LIZ BEHJAT: Here is a question: what is \$24.9 million as a percentage of the department's overall budget? I am not good at maths.

Dr Flett: It is about 0.5 percent.

The CHAIR: I need to make some further comments in closing. The committee will forward any additional questions it has, if there should be any, to you via the minister in writing in the next couple of days, together with a transcript of the evidence, which will include the questions that you have taken on notice. If members have any unanswered questions, I ask them to submit them to the committee clerk at the close of this hearing. Responses to these questions will be requested within 10 working days of receipt of the questions. Should the agency be unable to meet this due date, please advise the committee in writing as soon as possible before the due date. The advice is to include specific reasons as to why the due date cannot be met.

Finally, on behalf of the committee, I thank you for your attendance this afternoon. We will close this hearing now.

Hearing concluded at 5.11 pm