Public Accounts Committee

Review of Selected Infrastructure Projects

Report No. 21
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Legislative Assembly
Parliament of Western Australia

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Review of Selected Infrastructure Projects

Report No. 21

Presented by

Hon J.C. Kobelke, MLA

Laid on the Table of the Legislative Assembly on 15 November 2012

Chair's Foreword

Since the commencement of this 38th Parliament, the Public Accounts Committee has dedicated a great deal of time to examining the delivery of infrastructure in Western Australia. For a Committee intended to assist with oversight and accountability for government expenditure, examining infrastructure projects has provided us with many opportunities to contribute to the discussion about the way in which government spends money.

There can be little doubt that infrastructure delivery can be a challenging business for any government. There can be political pressures associated with announcing projects at the right time of the political cycle. There are also obligations to choose the right project to respond to the needs of the community; and often there is pressure to fund iconic structures that make lasting contributions to the State's civic architecture. All too often, the various pressures can conspire to create outcomes that are less than optimal. Sometimes, this means that a project goes over budget or is completed behind schedule. In more serious cases it might mean that the resulting piece of infrastructure falls below expectations because it fails to meet the needs of the community.

In Western Australia we are very lucky to have a detailed suite of policies – the Strategic Asset Management Framework (SAMF) – that should guide departments and governments through the process of developing infrastructure proposals and then, ultimately, making investment decisions. Applying SAMF helps to answer questions about the need underpinning a project and requires agencies and governments to consider a range of options before selecting a preference for how best to respond to that need. SAMF goes further, and provides advice and guidance about the best contracting methods and the procedures that should be followed as the procurement process continues through delivery, commissioning and operation.

In 2009, the Economic Audit Committee, which was established by the Barnett Government in 2008, endorsed the important role of SAMF in minimising risks to the State. In particular, it noted that if projects are approved by Cabinet without the benefit of a detailed analysis in compliance with the principles established by SAMF, it would increase the risk that decisions would be made on the basis of less than full information.

Prophetically, the Audit Committee went on to note that 'Cabinet may decide to proceed with a poorly evaluated project that has an excessively low estimated cost or an overly optimistic completion date when more extensive analysis would have given a clearer picture of the risks associated with the project'.

We see the truth of this simple statement from the Audit Committee reflected in the projects that we examined in order to prepare this report.

The Perth City Link has escalated in cost from $236 million to its current estimate of $737 million when the land development aspects of the project are included. Almost all of the increases in cost can be attributed to changes to the scope of the project after it had been approved or to further refinements to estimated costs.

A similar story exists for the State Government's contribution to the Ord-East Kimberley Expansion Project. The State's share of the cost started at $195 million when first proposed for Commonwealth assistance. This increased to $220 million and now to $322 million. Just like the Perth City Link, the increase can be attributed to the detailed engineering estimates only being available after the project had been approved. The scope of the project was also expanded post approval in response to the recognition that the amount of land being made available under the original scope would not be sufficient to meet the government's objectives.

In both cases, it is reasonable to ask whether the government – indeed, any government – would have proceeded with the proposals had they known that in order to achieve the projects' objectives significantly more money than initially estimated would need to be spent.

Finally, that leaves the decision of the government to locate Perth's new stadium at Burswood. This is a unique situation because the government had the benefit of the detailed report completed by Mr John Langoulant, which did many of the things that SAMF requires of agencies: it examined the need for a new stadium and then considered the various options for where a new stadium could go. The Langoulant Report ranked Burswood last out of the four short listed options and noted that it would be the most expensive location in addition to providing the least satisfactory transport access.

With the cost of the all-important transport solution not yet available, it is not possible to tell how large the cost escalation may end up being when this project is finally completed.

HON J.C. KOBELKE, MLA
CHAIR

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Chapter 1

New Perth Stadium

Background

The current Liberal-National Government and previous Labor Government have both accepted the need for a new and contemporary stadium in Perth. The then Labor Government announced in February 2008 that it would build the stadium at Kitchener Park while the current Government announced in June 2011 that the stadium would be built at Burswood Peninsula, one of the four sites examined as an option by the Major Stadia Taskforce (the Taskforce). Both Governments have acknowledged and used the study by the Taskforce as a basis for their respective decisions.

The Taskforce, chaired by Mr John Langoulant, was established by Government in 2005 to review the existing major football (all codes) and cricket stadiums in Western Australia and develop plans to serve the needs of the Western Australian public and major sports over the next 15-20 years.[1] It further established that Perth needed a new, iconic, multi-purpose sports stadium, of a standard that can compete with other Australian capitals and with the rest of the world for large scale state, national and international sporting and cultural events, putting Perth on the competitive stage [2]

It was clear that the existing stadia infrastructure was inadequate, with fundamental issues affecting Perth's three major stadia of Subiaco Oval, Members Equity Stadium (MES) and the WACA Ground. Broadly, these related to each facility's capacity, ongoing capital and maintenance costs, amenity and safety.[3] Each sporting code had also either signalled for or had been seeking capital funding from Government to develop their respective facilities.

The Taskforce concluded that the city needed a multi-purpose 60,000 seat outdoor stadium, capable of expanding to 70,000 seats. This facility would also be capable of meeting the sporting and entertainment needs of a rising population driven by strong growth and unprecedented prosperity. The Taskforce also noted that Perth was the only Australian state capital without a major contemporary stadium reflecting best practice design and engineering.

1 Department of Sport and Recreation, *The Stadium and the City Volume 2*,p. A-8.
2 Department of Sport and Recreation, *The Stadium and the City Volume1*, p.2.
3 Ibid., p. 5

Chapter 1

Options analysis reflecting the Strategic Asset Management Framework (SAMF) principles and procedures

The Strategic Asset Management Framework (SAMF) is the basic project management framework that should guide the planning and delivery of major infrastructure projects in Western Australia, including the new stadium. SAMF is a set of 11 policies and guidelines which are designed to improve public asset management and capital investment. We have previously reported that the framework is generally designed to ensure value for money outcomes for infrastructure procurement and is generally accepted as providing a robust framework for project planning and delivery.[4]

It is important that we critically examine the decision-making processes used to procure the new stadium against SAMF to determine the likelihood that the asset will deliver value for money for the people of Western Australia.

We are satisfied that the Taskforce developed and delivered its study in a manner consistent with applicable processes of SAMF. This especially related to establishing the need for a new stadium, and generating and evaluating the best options to deliver the facility. The study examined and compared four sites against critical criteria which included total costs to deliver a suitable stadium on each site, public transport connectivity, capacity and scope for reconfiguration of seats for different sporting and entertainment events.

The Taskforce recommended a 60,000 seat, multi-use stadium which could host Super 14 rugby and international cricket, rugby and soccer events and incorporated a 22,000 seat reconfigurable lower tier of seats. The stadium would also be capable of being expanded to 70,000 seats. This was also revealed as the most financially viable and self-sustaining option, and was deemed to be capable of meeting the requirements of the hirers. The Taskforce called this Option 1. All other options were determined to require some level of on-going Government financial support.

The Taskforce then undertook a comprehensive comparative analysis of the most suitable site for the stadium. It shortlisted four sites, namely East Perth Power Station, Kitchener Park, Burswood Peninsula and Subiaco Oval, and rated each location as set out in the table below, relative to capacity and reconfiguration features described under Option 1.

4 Public Accounts Committee, *Inquiry into project planning and funding applications for major Western Australia Infrastructure projects*, 18 November 2010, p. xix.

Table 1.1: Comparison of Short-listed Sites for Multi-use Major Stadium

	East Perth	Kitchener Park	Burswood	WAFC Subiaco Oval
Capacity	60,000	60,000	60,000	55,000
Assumed Construction Completion	Sep 2011	Sep 2012	Mar 2013	Sep 2012
Total Construction Costs at Completion (excluding reconfigurable seats)	$796m	$824m	$1,122m	$641m
Ability to Cater for all Sports (AFL, Cricket, Rugby)	√√√	√√√	√√√	X
Cost of Rectangular Sports Solution	$25m	$25m	$25m	$318m–$456m
Total Development Cost at Completion	$821m	$849m	$1,147m	$959m–$1,097m
Iconic Status/Landmark	√√√	√√	√√√	X
Urban Regeneration Capability	√√√	√	√√	√
Transport/Connectivity	√√	√√	X	√
Major Event Capability	√√	√√	√√√	√
Ability to Expand Capacity to 70,000 seats	√√	√√	√√	X
Development Timeframe (Years)	4	5	5.5	5
Legend: √√√= Excellent, √√ = Good, √ = Moderate, X = Low				

This site option analysis ranks Burswood as the most expensive location with an estimated total development cost at completion of $1.147 billion. Subiaco Oval is estimated to cost between $959 million and 1.097 billion; Kitchener Park, $849 million; and East Perth, $821 million. It would take 5.5 years to deliver the asset at Burswood compared to 5 years at WAFC Subiaco and Kitchener Park and 4 years at East Perth.

The Taskforce attributed the large costs at Burswood to significant upgrade in the transport infrastructure required and the cost of dealing with the local site conditions i.e. building on reclaimed land and on a site previously used as an industrial dump. We were advised that with regard to the current proposal, contamination will be resolved via raising the site level, which is necessary to deal with flooding, and building a cap over the contaminated land. This will effectively mean that treatment will be limited to contaminated water, rather than treating and removing contaminated fill.[5] Further, underground parking for cars has been reduced from 3,000 to 250 bays.

The ability and cost to deliver a transport solution which would enable 50-70 per cent of people attending major events to use public transport was also rated across the four sites. On this score, Burswood was ranked the least, compared to Subiaco Oval which

5 Mr Richard Mann, Executive Director, Department of Treasury, *Transcript of Evidence*, 26 September 2012, p. 4.

was rated moderate, while East Perth and Kitchener Park were considered good. We examine the transport solution in greater detail below.

Further, the Taskforce indicated that if either Burswood or East Perth were selected as the preferred site, costs would have to be borne to reconfigure Subiaco Oval as the home and training ground for the West Coast Eagles (WCE). There would be more costs for establishing an administrative and training facility at a location to be agreed – potentially to reconfigure the existing Subiaco Oval, if either Burswood or East Perth were selected as the preferred site.[6]

The Taskforce concluded that while Burswood offered an opportunity to develop a much more expansive sports and events precinct, comparable to Sydney and Melbourne's Olympic Parks, which would enable Perth to bid for major competitive multiple-sport events, it would be delivered at a cost. The analysis clearly ranks Burswood the lowest of the four site options.

We have reported that risks associated with project delivery are reduced if projects proceed only after they have been fully scoped. This reduces the incidence of scope creep and design changes during construction. We have reported instances of this dilemma, including at the Perth City Link Project which has blown-out from an initial projected cost of $263 million in October 2008 to $737 million as of December 2011.[7]

The Auditor General has also repeatedly highlighted the problems of capital works projects that are based on initial unrealistic timelines and budgets, and limited understanding of what a project would involve.[8] His audit report on the Fiona Stanley Hospital fully amplifies this dilemma, where, between 2004 and 2007, the capital budget for the project grew from $420 million to $1.76 billion as the project's scope was better defined.

We are concerned that full project scoping for delivering the stadium at Burswood only commenced after the announcement. A project definition plan on the stadium was only completed and announced in September 2012. It projects the cost of delivering the stadium and its precincts at $902.4 million, compared to $700 million announced in June 2011 by the Premier. It excludes a significant element to the delivery of the stadium – the transport solution. A separate project definition plan is still being developed for the transport elements. Under the circumstances, no one is able to say with certainty what the total costs, time frames and risks to deliver the stadium and its supporting infrastructure will be.

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6 Department of Sport and Recreation, *The Stadium and the City, Vol. 1*, p. 56.

7 Public Accounts Committee, *Review of Selected Western Australian Infrastructure Projects*, Legislative Assembly, Perth, I December 2011, p. 39.

8 Auditor General Western Australia, *Fiona Stanley Hospital Project*, 23 June 2010, p. 4.

The Auditor General emphasises the benefits of rigorous application of SAMF, notably reduced risk of cost and time variances. One of his latest reports examines the causes of cost and time overruns involving a cohort of 20 major capital projects in the State. His finding that 90 per cent of the variances in project budgets occurred during the evaluation phase of projects when the project business case was developed and project scope and costs were more accurately defined, is revealing, but unfortunately characteristic of most major projects in the State. He reports that variances also occur because announcements about budget and timelines are made before project evaluations are completed.[9] We fear that this trend continues unabated on the part of Governments in Western Australia and the public misses opportunities to secure value for money in major infrastructure assets like the new stadium.

The Auditor General recognises that changes to project scope, costs, and/or schedules can happen. However, he recommends that where these changes occur, the Department of Treasury and the Department of Finance should ensure that the project definition plans subsequently developed should include sufficient evidence to confirm the chosen investment option, as detailed in the business case, remain valid.[10] When Government decided to locate the stadium at Burswood, it was important to engage the two departments and establish the validity of the site as the most suitable at that stage. This opportunity was lost together with the findings and recommendations of a due diligence study carried out by the Taskforce.

Why Burswood?

Given the principles and procedures set out in SAMF, the options analysis undertaken by the Taskforce, and the recommendations by the Auditor General and the Committee of Public Accounts regarding the need for rigorous planning in the procurement and delivery of major infrastructure projects, a question remains as to why Government settled for Burswood, the site ranked least favourable by the Taskforce. We examine the reasons presented by the Government and seek to establish whether the reasons conform to the advice given by various authorities regarding procurement of major infrastructure projects.

Government has given a range of reasons for locating the stadium at Burswood, including that the site is an unconstrained, Government-owned, green field and the development of the stadium on this location would create an entry into the city. According to the Minister for Sport and Recreation, there will be active and passive recreation associated with the facility 365 days of the year. 'It will be a new vibrant entry statement to the city. When we look at it, we will have Kings Park at one end of

9 Auditor General Western Australia, *Major Capital Projects*, 17 October 2012, pp. 7 - 8.
10 Ibid. , p. 10.

the city and we would have another outstanding recreation park book-ending the other end of the city.'[11]

During the announcement, the Premier is reported to have said that, 'The Stadium will be the centre-piece of an emerging eastside precinct at the gateway to Perth and is within walking distance of a range of transport options, including footbridges, ferries and trains.'[12]

While these explanations are plausible, we take issue with the fact that the announcement was made without the benefit of any study providing comprehensive information about this decision. What we do know is that Burswood was the least preferred location for the Taskforce. It was demonstrated to be the most expensive option largely because of the transport solution that would be required, complex engineering issues associated with the fact that the site is a flood plain and a contaminated former dump site.

Up to this stage there is no indication that either the AFL or the Federal Government will make any significant contribution towards the cost of the construction of the stadium. The neighbouring Burswood Casino is not expected to contribute financially or otherwise, to the project either.

Clearly, there were major information gaps regarding the viability and wisdom of this site option relative to other shortlisted locations at the time of the announcement. It is clear that Government, once again, made this announcement without detailed information. Even the President of the Royal Australian Institute of Architects WA, Mr David Karotkin weighed in, saying the process that led to the selection of Burswood was of concern. He is quoted as saying, 'Although there are a number of options, each with merit, it seems the only full and proper review undertaken to establish a preferred site option is the Langoulant Report, which recommended Kitchener.'[13]

Transport

The transport component of the site is perhaps the most significant cost factor and determinant of the value for money quality of the stadium. While Government has presented Burswood as an unconstrained site, the location is beset by significant transport connectivity challenges.

The Taskforce recommended a stadium that would be based on a strategy that delivers 50-70 per cent of its patrons by public transport.[14] It tested each of the shortlisted

11 Hon Terrence Waldron, MLA, Minister for Sport and Recreation, Western Australia, Legislative Assembly, *Parliamentary Debates* (Hansard), 25 September 2012, p 6416a – 6416a.

12 Ben Harvey and Gareth Parker, 'Lack of detail clouds $700 m Burswood deal', *West Australian*, 29 June 2011, p. 1.

13 Gareth Parker, 'No guarantee of cheaper footy: Barnett', *Western Australia*, 30 June 2012, p. 10.

14 Department of Sports and Recreation, *The Stadium and the City, Vol. 1*, p. 52.

sites against a range of criteria for the transport element, including the maximum number of people who can access the venue by public transport. It found that for Burswood, because of its topography as a peninsula, transport access is restricted to a single road, Victoria Drive, which has limited connections to the arterial road network. It further found that the site's isolation between the river and the freeway/rail corridor, means opportunities for access to the stadium from adjacent suburbs is constrained and only achievable through the construction of new linkages. Significant amounts of new parking would need to be constructed to meet the demands of the new stadium at Burswood. The rail line that serves the site is also constrained in its capacity. While the development of the transport infrastructure at the peninsula would benefit other land users, the Taskforce concluded that it came at a significant financial cost.[15]

At the time of the announcement in June 2011, we were told that the stadium would cost a total of $700 million while its transport component would be $300 million. Government only later undertook a detailed study fully costing the stadium and its precincts. A detailed project definition plan published in September 2012, places the total works costs of the stadium and its precincts at $902.4 million. This is $202.4 million more than the figure announced by the Premier in June 2011. Details of the transport component of the project are being compiled and will be known at the end of the year, when a separate project definition plan process will be completed. If the Langoulant Report is to be relied on the cost of delivering an efficient transport component is likely to be in excess of $300 million.

The proposed transport solution is planned to be delivered through the following transport infrastructure:

- the development of a three platform station at Belmont Park with capability to accommodate nine-car train sets;
- a new footbridge across the Swan River to allow pedestrians to access public transport in the CBD;
- an expansion of the existing pedestrian component of the Windan Bridge;
- associated minor road modifications; and
- the construction of a dedicated bus station for stadium events.

We had previously been advised that the Perth City Link project will include a platform capable of accommodating nine-car train sets being built at Perth City station along Roe Street.[16] However, officials from the Public Transport Authority told us that this is

15 Ibid.

16 Mr Richard Mann, Executive Director, Strategic Projects, Department of Treasury, *Transcript of Evidence*, 26 September 2012, p. 10.

not included in the current works program and would require major modifications to the Barrack Street Bridge and issues associated with the heritage nature of the site would need to be settled.[17] These issues further highlight the complex nature of the transport solution associated with locating the stadium at Burswood.

The Langoulant Report may have seemed ambitious in recommending that the percentage of stadium patrons travelling by public transport could be raised to 60 per cent. The current Burswood proposal initially hoped for 72 per cent to travel by public transport and then upped this to 83 per cent.[18] This is a big ask in a city as car dominated as Perth.

The procurement model

The new stadium will be procured under a type of Public Private Partnership (PPP) known as a design, build, finance and maintain (DBFM) model. The state will make a significant up-front financial contribution in addition to private sector finance. The State will contract a single entity to design, build and maintain the facility, possibly for 25 years following completion of the construction.[19] The entity will, indicatively, be responsible for financing approximately 40 per cent of the total capital cost of the asset.

Although the government has made a commitment to procure the stadium using a PPP model, this decision is still subject to the private bids being compared against a Public Sector Comparator (PSC). A PSC represents a means through which the cost of private sector delivery of the asset can be compared against the best estimate of the cost of delivery by the public sector. In theory, should the private bids prove to be more expensive than the public sector alternative calculated in the PSC, the government would be advised to proceed with a traditional government procurement model. This would necessitate the restart of the procurement process and would add substantial delays to the estimated completion of the stadium.

International experience suggests that the likelihood of the procurement process being re-run in the event that the PSC is cheaper than the PPP bids is quite low.

Conclusion

Reflecting SAMF principles, taskforce options analysis, the Committee and Auditor General's repeated recommendations emphasising the need for Government to

17 Mr Ross Hamilton, Executive Director, Major Projects, Public Transport Authority, *Transcript of Evidence*, 17 October 2012, p. 9.

18 Department of Sport and Recreation, *The new Perth Stadium: Project Definition Plan,* September 2012 , p. 27.

19 Mr Timothy Marney, Under-Treasurer, Department of Treasury, *Transcript of Evidence*, 26 September 2012, p. 12.

rigorously plan and evaluate major infrastructure projects, the question is ,'Will Burswood represent the best value for money for WA?' The answer is we do not know.

The consequences of the Government decision committing to Burswood without full information regarding the scope, cost, time frames and risks to deliver the asset relative to other sites are yet to unravel. A clearer picture as to the magnitude of these issues may emerge when the project definition of the transport component of the stadium is known by the end of this year.

Chapter 2

Ord-East Kimberley Expansion Project

Background

The Ord–East Kimberley Expansion Project (the Expansion Project) is an ambitious project consisting of two separately funded elements – a $322 million expansion of the Ord River Irrigation Area (ORIA) to include approximately 15,000 hectares of new agricultural land in the Ord River Valley and a package of social infrastructure developments in the East Kimberley totalling $195 million. The Western Australian Government is providing funding for the $322 million ORIA expansion and the Commonwealth Government is funding the social infrastructure developments.

As with our previous examinations of the Expansion Project, it is the infrastructure elements funded by the State Government that have been our focus. Since our previous report on the Expansion Project, it has undergone significant changes including an increase in scope and a matching increase in budget, from $220 million to the current estimate of $322 million. This has largely come about as a result of the inclusion of two additional areas for agricultural development: the Knox Plain and Ord West Bank. Under the original proposals from 2009, these areas were not included in the Expansion Project and were instead slated for possible future development.[20]

The initial proposal in 2008 was for both the State and the Commonwealth to commit $195 million. While the costs have escalated the Commonwealth's contribution has remained at $195 million.

Scope changes have resulted in an increase to the project's budget

Since our last report, the estimated cost of the project has increased from $220 million to $322 million.[21] According to the Expansion Project's Executive Director, Mr Peter Stubbs, the increase in cost can be accounted for by an expansion of the project's scope and the completion of detailed design work to accurately cost the delivery of the infrastructure. When the project was initially announced, the $220 million budget was assigned before any of this detailed work had been completed.[22]

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20 Department of Regional Development and Lands, *Ord East Kimberley Development Plan*, December 2009, p. 27 & 40.

21 The Department of Regional Development and Lands on its website states the budget has been revised to $311 million; however, this figure does not include $11 million of funding from the Department of State Development to cover the cost of approvals and other legal expenses.

22 Mr Peter Stubbs, Executive Director, Ord-East Kimberley Expansion Project, Department of Regional Development and Lands, *Transcript of Evidence*, 24 October 2012, p. 2.

DRDL accounted for the increased budget in the following way:

- The construction of the workers' village.
- Commitment to the Aboriginal Development Program (ADP), at a cost of $10 million, which had not been included in the original project budget.
- A 12 kilometre extension to the irrigation channel and support road to allow for the extension of the irrigation area into the Knox Plain.[23]
- Modification to the existing M1 irrigation channel to increase water flow to facilitate the expansion into the Knox Plain.

Changes to the scope were made to address concerns about the project's lack of scale

Last year, we noted that the ambitions of the Expansion Project may not be achieved because of a concern about the lack of scale in the irrigation area. We noted that one of the key objectives of the project was to develop a sustainable, long-term agricultural industry in the East Kimberley to provide a viable economic basis for the region going forward. We also noted, however, the concern about the size of the expansion: only an additional 7,700 hectares of irrigated agricultural land was being made available as a result of the project, and we noted that this did not appear to be of sufficient size to allow for the viable establishment of any one of the three most suitable crops: sugar cane, cotton and rice.

We questioned how the project would meet its objectives if it did not allow for the establishment of a viable new crop in the region and suggested that this could only be achieved if the amount of land being made available was increased.

According to Mr Stubbs, through 2011 it was becoming evident to the State Government that scale was 'critically important to attracting investment' and that unless the irrigation infrastructure was appropriately sized, there was a risk that the Knox Plain would become 'stranded' and therefore constrained in terms of its future development potential.[24] There were other considerations, too, including the State's obligations to the Miriuwung-Gajerrong people under the Ord Final Agreement which, according to Mr Stubbs, would be better met through the 'triggering' of development in the Knox Plain.[25]

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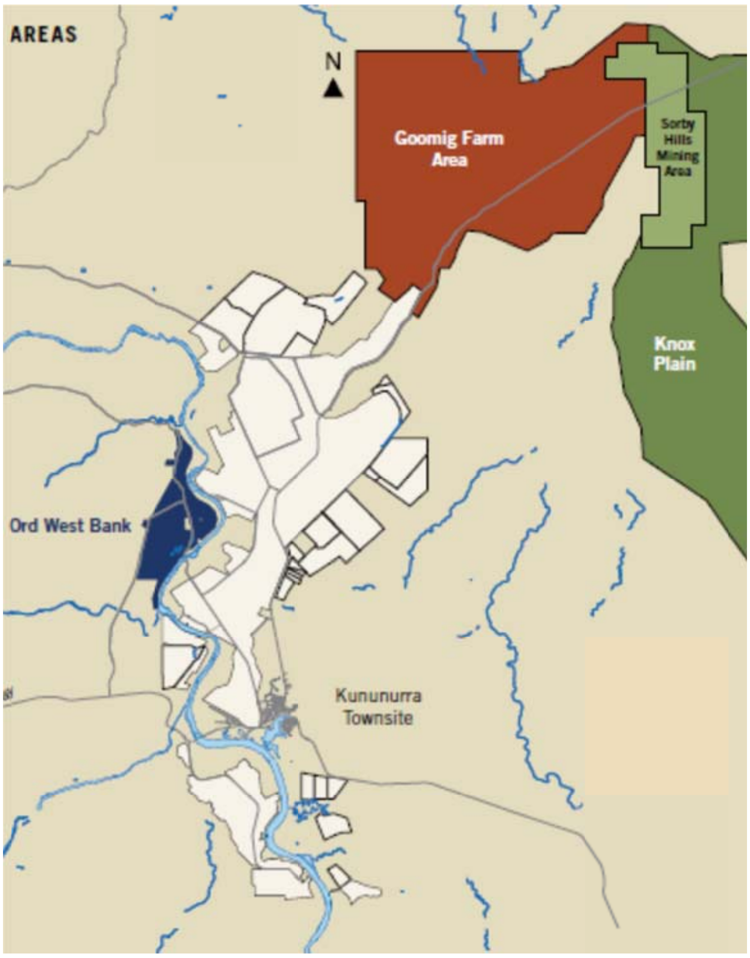
23 Mr Peter Stubbs, Executive Director, Ord-East Kimberley Expansion Project, Department of Regional Development and Lands, *Transcript of Evidence*, 24 October 2012, p. 2.

24 Mr Peter Stubbs, Executive Director, Ord-East Kimberley Expansion Project, Department of Regional Development and Lands, *Transcript of Evidence*, 24 October 2012, p. 3.

25 Mr Peter Stubbs, Executive Director, Ord-East Kimberley Expansion Project, Department of Regional Development and Lands, *Transcript of Evidence*, 24 October 2012, p. 3.

Figure 2.1: The three land releases currently being offered to the market (source: DRDL).



As a result of these considerations, in November 2011 the State Government approved the additional $91 million required to extend the M2 irrigation channel and its associated support road by 12 kilometres. In addition, there will now be in excess of 70 kilometres of drainage infrastructure constructed. The decision to expand the scope of the project to deliver the irrigation infrastructure has allowed an initial 6,000 hectares of land in the Knox Plain to be offered to the market. Also being offered is 1,700 hectares in the Ord West Bank, in addition to the originally proposed 7,400 hectares being offered in the Goomig Farm Area.[26] It is ultimately expected that over 20,000 hectares of land will be available in the Knox Plain development if land is made available on the Northern Territory side of the border.[27]

26 Landcorp, *The Ord-East Kimberley Expansion Project*. Available at: http://www.landcorp.com.au/ordlandrelease/Areas-Landing-Page/ Accessed on 12 Nov 2012.

27 Mr Peter Stubbs, Executive Director, Ord-East Kimberley Expansion Project, Department of Regional Development and Lands, *Transcript of Evidence*, 24 October 2012, p. 5.

Chapter 2

Land sale process

In November 2011, two separate RFP and EOI processes were commenced. One of the tender documents calls for proposals for the Goomig Farm Area and the adjacent Knox Plain; the other document calls for proposals to develop the Ord West Bank.

Proponents are invited to submit proposals for:

- both the Goomig Farm Area and Knox Plain;
- the Goomig Farm Area; or
- Knox Plain.

The State's preference is for proposals that deal with both the Goomig Farm Area and Knox Plain.[28] A successful proponent for the Knox Plain will be required to design and subsequently fund the construction of the necessary road and irrigation infrastructure to support the development.[29] However, for the Goomig Farm Area, road, irrigation and drainage infrastructure is already being delivered under the Ord Expansion Project.[30]

For the most part, the land is being offered to proponents on a leasehold basis. If proponents wish to bid for more than 50 per cent of the land, they will only be able to do so under a leasehold arrangement. Smaller land users will be given the option of purchasing smaller parcels of land, but large landholders will be offered 50-year leases. According to Mr Paul Rosair, DRDL's Director General, these long-term leases provide certainty to financiers that would otherwise be missing from shorter-term leases.[31]

Conditions have been attached to the land in an effort to ensure that the economic and social outcomes of the Expansion Project will be realised. These conditions include:

- Within one year of taking up the lease, the proponent must have cleared 50 per cent of the land.
- Within two years of taking up the lease, the proponent must have cleared 90 per cent of the land.

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28 Landcorp, *The Ord East Kimberley Expansion Projct Request for Proposal Interactive Process: Goomig Farm Area and Knox Plain*, 28 May 2012, p. 2.

29 Landcorp, *The Ord East Kimberley Expansion Projct Request for Proposal Interactive Process: Goomig Farm Area and Knox Plain*, 28 May 2012, p. 28.

30 Landcorp, *The Ord East Kimberley Expansion Projct Request for Proposal Interactive Process: Goomig Farm Area and Knox Plain*, 28 May 2012, p. 24.

31 Mr Paul Rosair, Director General, Department of Regional Development and Lands, *Transcript of Evidence*, 24 October 2012, p. 9.

- Within three years of taking up the lease, the proponent must have cropped the land with crops approved by the Minister for Lands.[32]

In terms of assessing their capabilities, proponents are required to submit detailed information about their organisation, including key people and their experience as well as the organisation's experience at delivering agricultural projects and associated infrastructure.[33] Finally, as the development of a long-term and sustainable economic base is one of the key project objectives, proponents will also be assessed against the quality of proposals for local processing of crops.[34]

According to the Minister for Regional Development, there has been interest in the land from Chinese companies in addition to interest from Australian corporations and local East Kimberley farmers.[35] The media statement by the Minister for Regional Development and Lands anticipated completion of the tendering process by mid-2012[36]; however, the Committee has been informed by Mr Stubbs that the process will be completed by the end of the year.[37]

Crop types

Last year, we noted that the search for a suitable base crop in the Ord River Irrigation Area was ongoing, although we concluded that three types of crop stood the best chance of emerging as commercially viable crops in the future: cotton, sugar and rice. According to the Minister for Regional Development, the government is currently considering three submissions from proponents covering options for the cropping of sugar, cotton or sandalwood.[38]

Concluding remarks

This remains a complex project to consider. On the one hand, it exists to tackle problems of Indigenous disadvantage in the East Kimberley through the development of a viable and sustainable economic base built on agriculture. On the other hand, it is an infrastructure project that has experienced cost increases in response to changes in scope once the project had been approved and was underway.

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32 Mr Peter Stubbs, Executive Director, Ord-East Kimberley Expansion Project, Department of Regional Development and Lands, *Transcript of Evidence*, 24 October 2012, p. 9.

33 Mr Peter Stubbs, Executive Director, Ord-East Kimberley Expansion Project, Department of Regional Development and Lands, *Transcript of Evidence*, 24 October 2012, p. 12.

34 Mr Peter Stubbs, Executive Director, Ord-East Kimberley Expansion Project, Department of Regional Development and Lands, *Transcript of Evidence*, 24 October 2012, p. 17.

35 Hon Brendon Grylls MLA, Minister for Regional Development and Lands, Western Australia, Legislative Assembly, *Parliamentary Debates* (Hansard), 29 May 2012, p. 179.

36 Hon Brendon Grylls MLA, (Minister for Regional Development and Lands), *EOI and Request for Proposals close for 15,000 ha irrigable agricultural land*, Media Statement, 9 March 2012.

37 Mr Peter Stubbs, Executive Director, Ord-East Kimberley Expansion Project, Department of Regional Development and Lands, *Transcript of Evidence*, 24 October 2012, p. 9.

38 Hon Brendon Grylls MLA, Minister for Regional Development and Lands, Western Australia, Legislative Assembly, *Parliamentary Debates* (Hansard), 16 October 2012, p. 6891a.

Chapter 2

We can certainly understand the reasons for expanding the scope once the project was being delivered. As we observed last year, the amount of land being made available under the original proposal was too small to provide the type of scale needed for proponents to develop viable agriculture businesses in the East Kimberley. This potential shortcoming should, however, have been apparent when the proposal for the project was being considered by the government. That it was not apparent is probably a reflection of the fact that the rigorous processes required by the Strategic Asset Management Framework (SAMF) were not applied to the Expansion Project. It meant that the government made its decision to back the project on the basis of less than full information – a situation SAMF is intended to prevent – and endorsed a project it thought would deliver on its aims for a budget of $220 million.

The Expansion Project budget has now increased to $321 million, and although it might now be better placed to deliver on its aims, we must conclude on a similar question to that which we ended last year's review with – would a greater number of sustainable Indigenous jobs have been created by investing the money in alternative projects?

Chapter 3

Perth City Link

Background

This report represents the third occasion in which we have written about the Perth City Link (PCL) project. The project entails the sinking of both the Fremantle Rail Line on its western approach into the Perth Train Station and the adjacent Wellington Street Bus Station (WSBS). This will release both the land upon which the WSBS stands and upon which the railway line currently runs—together with adjoining under-utilised land—for urban renewal, and connect the Central Business District (CBD) with Northbridge for the first time in more than 100 years. Removing the barrier created by the public transport infrastructure will enable more commercial and residential development north of the city, particularly along Roe Street moving to central Northbridge.

The previous times that we have written about the project, our focus has been on outlining the cost increases that were directly attributable to the changes in scope made to the project once it had been approved for funding. Last year, we noted that a premature scope of the project had been used as the basis for a funding submission to the Commonwealth Government. As a result, a project that was initially thought would cost $468 million increased to $609 million. The Commonwealth Government did not, however, adjust the size of its funding contribution to match the overall increase in the estimated cost of the project. In effect, this has meant that the Commonwealth's contribution has remained capped at $236 million, leaving the State Government to cover the entire impact of the cost increases.

Scope changes result in cost escalations

Last year, we asked the Public Transport Authority (PTA) to outline in some detail the reasons for the cost increases. It is worthwhile repeating these reasons again this year, particularly in light of a recent audit report investigating major capital projects completed by the Auditor General. In terms of the major changes in scope to the project, the following five alterations were highlighted by the PTA at hearing:

- The addition of a new platform on the Roe Street side of the Perth Train Station. The platform was added to the project scope in recognition that more capacity would be required at the station than was initially identified.[39]

39 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 4.

- The construction of additional track on the north side of the station to accommodate the new platform. This will require extensive engineering works on the Barrack Street Bridge, in addition to alteration of an existing child care centre.[40]

- The construction of a new pedestrian underpass allowing the complete integration of the underground station with the Perth Train Station.[41]

- The expansion of the underground bus station from 12 bays to 16 and an increase in the length of the bus tunnel and the number of bus layovers. This expansion was justified on the grounds of allowing for 'sensible future growth'.[42]

- Increasing the engineering strength of the underground components to allow for buildings of up to 30 storeys to be constructed overhead.[43]

The project is currently on-time and on-budget

At a public hearing in October 2012, Mr Reece Waldock, the Director General of the Department of Transport, told us that the project was approaching the half-way point and was running to time and budget.[44] By October 2012, approximately $184 million had been spent on the rail components of the project out of a total budget of $360 million. By contrast, the WSBS works, which are at a much earlier stage, have so far seen expenditures of only $4.4 million out of a total budget of $249 million.[45]

PTA believes the alliance contracting model is working well

In two earlier reports investigating infrastructure delivery, we have acknowledged that alliance style procurement arrangements are appropriate for certain high-risk projects. We also acknowledged, however, a study by the University of Melbourne, which found that alliance projects often experience significantly higher cost increases once projects are underway.[46] Given the findings of the University of Melbourne study, it is pleasing to note that the PCL project has not suffered from any cost increases since the scope of the project was locked in.

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40 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 4.

41 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, pp. 4–5.

42 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 5.

43 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 5.

44 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 17 October 2012, p. 2.

45 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 17 October 2012, p. 13.

46 Public Accounts Committee, *Inquiry into Project Planning and Funding Applications for Major Western Australia Infrastructure Projects*, Legislative Assembly, Perth, 18 November 2010, pp. 83–94.

The PTA also highlighted some of the benefits that have come about as a result of the use of the alliance contract. In particular, one of the key risks that the project has been facing is the limited clearance between the existing twin-bore tunnels of the Joondalup train line and the newly constructed dive structure for the Fremantle rail line tunnel. The reference design which the PTA took to market allowed for 700 mm of clearance between the two tunnels. Although the PTA was clearly comfortable with this limited degree of separation, consultation with the Rail Alliance partner – John Holland – has resulted in a different type of overhead electrical system being selected for the tunnels.[47]

The reference design made use of a catenary contact wire system as used in the existing Transperth network, including the existing rail tunnels. However, a redesign has since taken place and a solid conductor rail system will be used instead.[48] This system has been used in Europe for a number of years and will integrate with the existing Transperth train fleet. The main difference between the two systems relates to how much vertical space is required. Under the traditional catenary arrangements, the electrical wires hang from supporting infrastructure below the roof of the tunnel, whereas a solid conductor rail system is attached directly to the roof of the tunnel.

This design allows the tunnels to be of a significantly smaller diameter because the electrical infrastructure is taking up less space. As a result of the smaller tunnels, the separation between the existing Joondalup line and the new Fremantle tunnels has been increased to 1,200 mm[49] reducing the associated engineering risks.

Some risks have been realised

One of the key risks that the PTA was seeking to manage through the use of the alliance contract was the risk of disruption to existing passenger services as a result of the works being undertaken. Unfortunately, in early 2012 a fire in an electrical transformer was caused by works associated with the project. This resulted in significant disruption to passenger services and was a day described by Mr Waldock as 'Black Tuesday'[50]. According to Mr Waldock the fire was caused by a contractor error wherein 'what should have happened did not happen'.[51] The disruption resulted in the following penalties being applied to John Holland:

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47 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 17 October 2012, pp. 3–4.
48 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 17 October 2012, pp. 3–4.
49 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 17 October 2012, p. 4.
50 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 17 October 2012, p. 14.
51 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 17 October 2012, p. 14.

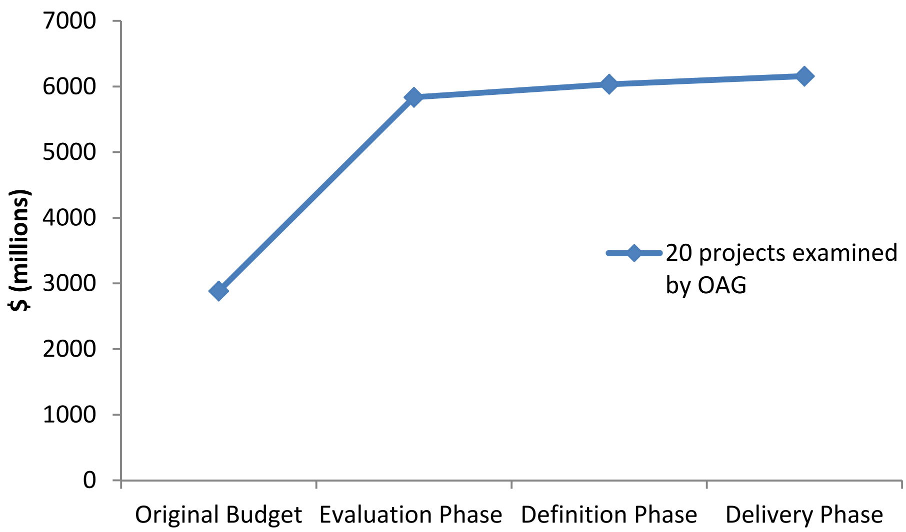
- $213,000 for the disruption to each of the train lines;
- $67,000 for the cost of providing replacement bus services; and
- $41,000 in direct costs to the PTA for which John Holland must reimburse.[52]

The importance of the Auditor General's recent findings

In an October 2012 audit report, the Auditor General found that ninety per cent of the cost increases for the projects he examined occurred between the approval of the original budget and the completion of the evaluation phase.[53] The evaluation phase is the second of the six stages of the Strategic Asset Management Framework (the government policy under which infrastructure projects should be procured). This finding matches our own conclusions about how projects are typically procured. All too frequently, projects are approved before they have been fully scoped, which means that governments make public commitments to projects before they have gained an understanding of what the projects might actually cost.

In his report, the Auditor General includes a highly revealing chart displaying the aggregated cost movements of the 20 projects he examined. It is worthwhile reproducing the chart here because it highlights the same problem encountered with the PCL. Namely, the project was approved before it had been fully and adequately scoped, meaning that the cost of the project increased by some 30 per cent between its initial announcement and the commencement of construction.

Figure 3.1: Increase in project cost by project management framework stage (aggregated for 20 projects examined by the Auditor General) (Source: Auditor General)



52 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 17 October 2012, p. 3.

53 Auditor General for Western Australia, *Major Capital Projects*, October 2012, p. 22.

Concluding remarks

The PCL project serves as a good example of a project approved by government on the basis of scoping and cost estimates that ultimately appear to have been unrealistic. Even though the project is now meeting its revised budget and schedule, the fact remains that the initial approval provided by government was for a project approximately $140 million cheaper than what the project will eventually cost. In other words, government made a decision about the project without the benefit of full information. As with most infrastructure projects exceeding their budgets, this situation could have been avoided if the project had been fully scoped prior to approval.

Chapter 4

Land Sale to Crown Limited

Background

In August 2012, the State Government announced that agreement had been reached with Crown Limited – the operators of the Crown Perth Casino – to sell 5.8 hectares of land at the casino site for $60 million. The purpose of the sale was to enable Crown Limited to construct a new hotel adjacent to its existing casino and hotel assets. The following information has been made available about the transaction:

- The land was valued by the Valuer-General (through the Western Australian Land Information Authority) at $95.25 million.[54]
- The land will be sold to Crown Limited for an agreed price of $60 million.[55]
- A discount of between $30 million and $35 million was agreed between the State Government and Crown Limited.
- The discount was intended to off-set the costs of 'identifying and remediating any contamination affecting the site or additional development costs associated with deep piling'.[56]

Given the sale of the land involved a sizeable discount, the Committee resolved to seek additional information on how the discount was calculated and determine the extent to which the discount served as a subsidy to Crown Limited.

The Hotel Investment Incentive Package

In 2011, the State Government released a 'Hotel Investment Incentive Package' to tackle the capacity constraints which are negatively impacting on the attractiveness of Perth as a destination for tourists and business travellers. This outlined the problem afflicting hotel investment in Western Australia, highlighted the strong occupancy rates and room yields, and summarized some of the incentives being offered to attract hotel investment in Western Australia. The rollout of these incentives was to be overseen by a steering group, which would determine a land release process, and would also

54 Hon. C.J. Barnett, Premier, Western Australia, Legislative Assembly, *Parliamentary Debates* (Hansard), 11 September 2012, p. 5597c.

55 Hon. C.J. Barnett, Premier, Western Australia, Legislative Assembly, *Parliamentary Debates* (Hansard), 9 August 2012, p. 4740b.

56 Hon. C.J. Barnett, Premier, Western Australia, Legislative Assembly, *Parliamentary Debates* (Hansard), 11 September 2012, p. 5597c.

determine how private investors would participate. The incentives endorsed by the State Government include:

- Releasing crown land for hotel development through expressions of interest;
- Granting longer-term crown leases for short stay accommodation developments where appropriate;
- Determining concessional lease payments for crown land on the Valuer General's advice that specifically promote hotel accommodation developments;
- Discounting crown land values for hotel developments on a 'case by case' basis in consultation with the Department of Regional Development and Lands, and other relevant agencies;
- Considering leasing crown land for hotel use at a peppercorn rate;
- Designating the use of land under Government control, crown land, properties and/or buildings for future hotel use or conversion;
- Allocating funds for the provision of infrastructure upgrades to facilitate hotel accommodation development on a 'case by case' basis; and
- Providing flexible plot ratio bonuses for hotel developments.

Given the existence of a government policy intended to promote hotel developments, two questions immediately arise from the sale of the land at Burswood to Crown Limited: first, was the discount negotiated with Crown Limited a subsidy in the form of an incentive, and, second, if so, how was the subsidy calculated?

We revisit these questions in later parts of this chapter.

Crown Limited's entitlement to purchase the land

The *Casino (Burswood Island) Agreement Act 1985* allows that the Minister for Racing and Gaming can recommend that up to 10 hectares of land adjacent to the existing Burswood land parcel be 'granted or leased to the Trustee on terms and conditions approved by the Minister'.[57] In other words, Crown Limited, as the Trustee, is entitled to purchase up to 10 hectares of the land surrounding the existing casino site. Crown Limited formally advised the government of its intention to exercise its entitlement to the land on 13 January 2012.[58]

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57 *Casino (Burswood Island) Agreement Act 1985* (Western Australia).

58 Hon. C.J. Barnett, Premier, Western Australia, Legislative Assembly, *Parliamentary Debates* (Hansard), 11 September 2012, p. 5597c.

How Crown land is sold in Western Australia[59]

The Minister for Lands is empowered under section 74 of the *Land Administration Act 1997* (LAA) to determine the price of and sell Crown land by public auction, public tender or private treaty. RDL officers have delegated powers to perform this function subject to certain conditions. The Minister for Lands (or delegated RDL officers) are involved in the sale of every lot of Crown land through administrative processes including the execution of a binding contract of sale and transfer of land document. However, while the LAA provides the only statutory means for selling Crown land and transferring the fee simple of Crown land, it may be that from time to time the Minister and RDL (under delegation) may give effect to a decision made elsewhere, such as Cabinet or the Premier, for the land to be sold.

RDL's role in valuing Crown land is prescribed in the *Land Administration Regulations 1998* (LAR) under regulations 4 and 12. Regulation 12 requires the Minister when determining the price of any Crown land to obtain and have regard to the advice of the Valuer-General as to the market value of the land. A number of exceptions are listed; for example, if the value is estimated to be less than $1,000. Regulation 4 specifically requires delegates of the Minister (i.e. RDL officers) when transferring or conveying Crown land in fee simple to obtain and have regard to the advice of the Valuer-General as to the market value of the land.

The Valuer-General provides valuations in accordance with the *Valuation of Land Act 1978*. Under the Act, the Valuer-General is independent and cannot be directed by any party as to the method or the outcome of a valuation. The Valuer-General operates within Landgate which is the trading name of the Western Australian Land Information Authority. Landgate is a statutory authority with commercial powers established under the *Land Information Authority Act 2006* and is accountable to the Minister for Lands.

Interestingly, the proposed new major stadium at Burswood is to be partly constructed on land to which Crown Limited has an entitlement. As a result, the treatment of this stadium land was negotiated with Crown Limited in conjunction with the negotiation for the sale of the land for the new hotel.[60]

The exact value of the discount being offered to Crown Limited is unclear

Given that the Valuer-General has valued the land at $95.25 million, and that the land is being sold to Crown Limited for $60 million, it would seem that the discount being offered is $35.25 million; however, the cost of remediating the land has been estimated by the Valuer-General at $30 million.[61]

The estimated cost for the remediation was made on the basis of the estimated costs for remediating land at the new Burswood Stadium site. In 2007, remediation for the stadium was estimated to cost $49 million; by 2012 remediation for the stadium land

59 Ms Joyce Gadalon, Department of Regional Development and Lands, Electronic Mail, 12 September 2012.

60 Mr Peter Conran, Director General, Department of the Premier and Cabinet, *Transcript of Evidence*, 26 September 2012, pp. 9–10.

61 Mr Peter Conran, Director General, Department of the Premier and Cabinet, *Transcript of Evidence*, 26 September 2012, p. 3.

was estimated at $30 million. Crown Limited itself also offered the view that remediation would be in the vicinity of $30 million. It was on the basis of these estimated costs that a recommendation was made that the size of the discount offered to Crown Limited be in the vicinity of $30 million.[62]

The major stadium proposed for land adjoining this hotel site will also be built on contaminated land with similar geotechnical issues. The Committee was told by the Office of Strategic Projects that they were not proposing to remediate the land where a $900 million stadium is to be built. The current proposal is to 'cap and load' the site and then pile for the built structure. This would be more a case of additional construction costs to be incurred on a contaminated site and not a site remediation cost.

This then leaves an unexplained $5 million gap in the size of the discount offered to Crown Limited. A comment made by the Premier in the Legislative Assembly in August 2012 may go some way to explaining the gap. The Premier noted that there was 'a commercial negotiation between Burswood Entertainment Complex and the state government over the value. Burswood was not willing to pay, initially, anywhere near $60 million.'[63]

Given the Premier's statement, it seems reasonable to surmise that the additional $5 million discount came about as a result of the commercial negotiations and may not be attributable to direct costs associated with site remediation.

Is the discount a subsidy?

Although most public statements from officials and members of the government have attributed the cost of site remediation as being responsible for the discount offered to Crown Limited, Mr Peter Conran, the Director General of the Department of the Premier and Cabinet, suggested at a public hearing that the discount involved 'a mixture of issues'.[64] Mr Conran was then asked if he knew the value of the subsidy offered to Crown Limited for the tourism benefit arising from the hotel. He did not have an answer to this question.[65]

An important question becomes immediately apparent from this exchange: was the $35 million discount offered to Crown Limited a subsidy intended to promote the development of a new hotel in Perth, or was it merely a discount offered to cover routine costs – i.e. site works – associated with property development?

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62 Mr Peter Conran, Director General, Department of the Premier and Cabinet, *Transcript of Evidence*, 26 September 2012, p. 4.

63 Hon. C.J. Barnett, Premier, Western Australia, Legislative Assembly, *Parliamentary Debates* (Hansard), 9 August 2012, p. 4740b.

64 Mr Peter Conran, Director General, Department of the Premier and Cabinet, *Transcript of Evidence*, 26 September 2012, p. 6.

65 Mr Peter Conran, Director General, Department of the Premier and Cabinet, *Transcript of Evidence*, 26 September 2012, p. 7.

If it is the latter – a mere off-set of ordinary commercial costs – it is necessary to point out that multiple property developments take place in Western Australia each year, that they all contribute economic benefits to the State, and that most receive no discount to cover their development costs.

If the discount is a subsidy, many questions are relevant. Not the least of which is why the discount was not offered under the auspices of the 'Hotel Investment Incentive Package' managed by Tourism WA. The question is relevant because of the widely accepted distortionary nature of government subsidies. When one company receives a subsidy and another company does not, the market for the good or service produced by the companies is distorted in favour of the company receiving the subsidy. Despite their distortionary nature, however, subsidies are sometimes necessary to address market failures. It could be reasonably argued that Perth's hotel development sector is currently the subject of a market failure, given the inability of developers to economically supply new hotel rooms in an environment where demand for such rooms is high.

Accepting the necessity for a subsidy is a separate matter to accepting the manner in which it has been provided. In order to minimise the distortions created by the subsidy, we would have expected a much greater level of transparency regarding both the total amount of the subsidy and how it has been calculated. As it stands, however, we do not know if the discount is $30 million or $35 million and not do we know the exact 'mixture of issues' that led to its calculation.

In many respects, the 'Hotel Investment Incentive Package' is a sound example of transparent subsidies in action: it publicly articulates its objectives; outlines how the subsidies might be provided; and stipulates open and public competition – through the use of expressions of interest – from interested hotel developers.

None of these things is true in the case of the subsidy offered to Crown Limited: the objectives of the government in offering the subsidy have not been clearly articulated; the manner in which the subsidy has been calculated is vague, contains 'a mixture of issues' and the subsidy might be $30 million or it might be $35 million; and there has been no competition with respect to sale of the land because Crown Limited – as trustee for the Burswood site – has an entitlement to purchase the land.

Although the State Government might have a preference for the supply of new hotel rooms in Perth, it should have no preference as to which company supplies those rooms. Given the way in which it has provided the subsidy in this case, it might be concluded that Crown Limited was the subject of a preferential subsidy from the State Government.

Concluding remarks

Subsidies are not, in and of themselves, inappropriate. Sometimes, it is necessary for government to provide support to certain industry groups if wider benefits are to be experienced by the community as a whole. We would expect, however, that there be greater transparency in the way in which the subsidy is calculated, particularly when the government's decision to build a new major stadium on adjacent land is a controversial part of the mix. The government needs the approval of the Crown Limited to build this stadium as the proposed alignment will sit within land subject to the provisions of the *Casino (Burswood Island) Agreement Act* 1985.

Furthermore, Crown Limited will gain a very significant financial benefit from the hundreds of thousands of potential patrons the new stadium will draw to its door each year. Crown has indicated that it will not contribute anything to the cost of the stadium despite the benefit it will derive from it. Whether a 'quid pro quo' was a consideration in settling on the discount and the price of the land is not known.

Appendix One

Committee's functions and powers

The Public Accounts Committee inquires into and reports to the Legislative Assembly on any proposal, matter or thing it considers necessary, connected with the receipt and expenditure of public moneys, including moneys allocated under the annual Appropriation bills and Loan Fund. Standing Order 286 of the Legislative Assembly states that:

The Committee may -

1 Examine the financial affairs and accounts of government agencies of the State which includes any statutory board, commission, authority, committee, or trust established or appointed pursuant to any rule, regulation, by-law, order, order in Council, proclamation, ministerial direction or any other like means.

2 Inquire into and report to the Assembly on any question which -

a) it deems necessary to investigate;

b) (Deleted V. & P. p. 225, 18 June 2008);

c) is referred to it by a Minister; or

d) is referred to it by the Auditor General.

3 Consider any papers on public expenditure presented to the Assembly and such of the expenditure as it sees fit to examine.

4 Consider whether the objectives of public expenditure are being achieved, or may be achieved more economically.

5 The Committee will investigate any matter which is referred to it by resolution of the Legislative Assembly.