



Public Accounts Committee

Annual Report 2011-2012

**Report No. 18
October 2012**

Legislative Assembly
Parliament of Western Australia

Committee Members

Chair	Hon. John Kobelke, MLA Member for Balcatta
Deputy Chair	Mr Tony Krsticevic, MLA Member for Carine (from 12/09/2012) Mr Joe Francis, MLA Member for Jandakot (until 16/08/2012)
Members	Hon. Dr Elizabeth Constable, MLA Member for Churchlands (from 16/08/2012) Ms Rita Saffioti, MLA Member for West Swan Mr Chris Tallentire, MLA Member for Gosnells

Legislative Assembly
Parliament House
Harvest Terrace
PERTH WA 6000

Tel: (08) 9222 7494
Fax: (08) 9222 7804
Email: lapac@parliament.wa.gov.au
Website: www.parliament.wa.gov.au/pac

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Report No. 18

Presented by

Hon J.C. Kobelke, MLA

Laid on the Table of the Legislative Assembly on 25 October 2012

Chair's Foreword

This will be my final opportunity to present a Public Accounts Committee Annual Report to the Legislative Assembly in this Parliament. It is therefore satisfying to report that the 2011–12 financial year has been a period of significant achievement for the Committee. In the past year, we have successfully rolled-out a new model for the follow-up of reports completed by the Auditor General, reported on the delivery of four major infrastructure projects, and completed a major investigation of the processes used in the appointment of Serco to provide non-clinical services at Fiona Stanley Hospital.

The central focus for the work of the Public Accounts Committee has been on questions of accountability for the decisions made by the executive government when it spends money on behalf of the people of Western Australia.

The Auditor General

Our work with the Auditor General has ensured that the scrutiny applied to agencies during the audit process is continued as those agencies implement recommendations made by the Auditor General. Our audit-related work culminates in reports to Parliament, which provide all Members with an insight into the work of government departments and their successes – or, sometimes, failures – at responding to recommendations made by the Auditor General. Under the new process we adopted this year, we also began to make recommendations to the Ministers responsible for the agencies examined by the Auditor General. Often, these recommendations simply require Ministers to report formally to the Assembly on the status of their agencies' responses to the audit reports.

On other occasions, however, it has been necessary for the Committee to be more vigorous in our approach to agencies. During the reporting period, we asked the Western Australian Police to attend a public hearing during which the status of the Firearms Registry was discussed. It became clear that there were significant problems with the Registry. The committee was advised that they were being addressed. At the time that we spoke to WA Police in September 2011, there were approximately 10,000 unlicensed firearms owners in the State, the vast majority of which were as a result of problems with the Registry. By March 2012 – when the Minister for Police responded to our recommendation to provide an update to the House – the number of outstanding unlicensed firearms owners had dropped to around 2,500.

Infrastructure

The delivery of infrastructure projects has been another area in which we have been able to exercise our accountability role on behalf of the Legislative Assembly.

Investment in infrastructure across all sectors of government represents a significant slice of the State Government spending pie each year.

Ministers and Members of Parliament like infrastructure projects. There are clearly political advantages in announcing exciting new projects and in cutting the ribbon on new facilities when they open to the public. Unfortunately, we can sometimes get lost in the excitement of the benefits promised by the project and announcements are made before the projects are fully scoped and costed. This increases the risk that projects will be late or over-budget or that they fail to fully deliver on the promises made.

During the life of this Parliament, we have looked in some detail at infrastructure projects. The Auditor General's report tabled in October 2012, looking at the performance of infrastructure delivery in Western Australia, echoed many observations that we have made during the previous four years. In particular we noted the tendency of projects to be announced with unrealistic budgets, for approval to be given to projects before they are fully defined and costed and for estimated costs to dramatically escalate once business cases had been completed.

Many of the projects we examined for inclusion in our report *Review of Selected Western Australian Infrastructure Projects* fall victim to the same problems. The Ord-East Kimberley Expansion Project, which was initially costed at \$195 million, is now costing \$322 million, a 60 per cent increase. The cost of the Perth City Link increased from \$263 million to \$737 million due to scope and other changes, an increase of 180 per cent. In both projects the initial fifty per cent funding commitments from the Commonwealth have not increased to match the revised cost figures.

Interestingly, despite the improvements made to the Strategic Asset Management Framework and the emergence of the Office of Strategic Projects as strong managers of complex capital projects, the problems remain: projects continue to be late and/or over budget.

While governments may have good reasons for changing a project after the initial announcement, such changes increase the risk of cost escalation and the waste of taxpayers' money.

The Serco contract at Fiona Stanley Hospital

In keeping with our commitment to scrutiny and accountability, the Committee reviewed the Department of Health's processes in selecting Serco to provide non-clinical services at Fiona Stanley Hospital. This was a contract worth \$4.3 billion over 20 years and well beyond the scope and value of anything previously undertaken by the Health Department (DoH). This inquiry constituted the bulk of the Committee's work

during the year and required several hearings with senior members of DoH and over 4,000 pages of evidence from the Department.

Our detailed findings can be found in the report itself, but some of the key issues we identified bear repeating.

Contracting for services is a complex business, and government agencies have generally acquitted themselves quite poorly when they are asked to stop being service delivery agencies and to commence acting as contract management agencies. The most recent example of these problems has been provided by the Department of Housing, which rolled-out a maintenance contracting model that even the Department itself acknowledged was poorly planned, poorly overseen and poorly implemented.

In relation to Health's handling of the Serco contract, we found that the Department had failed to provide enough time to develop the scope of the services it was seeking before embarking on the negotiations for a very complex contract. When the initial RFS was released to the market in February 2010, only 32 per cent of the services (as calculated by their actual values in the final contract) were included in the documentation. The full suite of specifications were only available after 23 March 2010 and even those only included a limited ICT 'services scope' rather than detailed specifications. The actual ICT specifications were only completed in April 2011 – six months after Serco had been selected as the project's preferred respondent.

This is not how we would have expected the tendering process for a \$4.3 billion contract to be handled. As we noted in the report, the risk of hold-up – where one side deliberately slows the contract negotiation process for their own advantage – is a risk for all complex commercial negotiations. Failing to go to the market with completed documentation would have revealed to the market the pressures the Department of Health was experiencing to get a contract in place to meet the hospital opening deadline, thus weakening the State's position relative to the tendering companies and increasing the likelihood that hold-up would occur.

We found another major irregularity in the way in which the Department's commercial advisor was appointed. We concluded that the Department engaged in practices consistent with contract splitting in order to avoid a competitive selection process. This is something that the Department has strenuously denied, but in the absence of an adequate explanation as to why the commercial advisor was selected the way it was, the conclusion stands.

I think it important to note that both the Department of Treasury and the Department of Finance were highly receptive to the recommendations directed to them, indicating some merit to the improvements to government contracting processes identified by the Committee during the course of the inquiry. It was disappointing, however, to note

that the Department of Health was less willing to acknowledge the issues identified by the Committee, as evidenced by its 15 page response to the report's findings.

One of the criticisms often levelled at government contracts – most particularly Public Private Partnerships (of which the contract with Serco is a unique variety) – is that normal accountability mechanisms can be avoided by hiding behind the requirements of 'commercial confidentiality'. In one of my first public roles as Chairman of this Committee I delivered an address to a conference for Public Accounts Committees in which I noted that 'the task of properly investigating and evaluating the outcomes of a PPP represents a difficult task'. This was in part due to the existence of proprietary information and the extreme reluctance of government agencies to release public sector comparators (PSCs).

It was pleasing that Health was the cooperative subject of the Committee's examination, providing documentation and access to people when we requested it. In particular, the Department provided several PSC results and detailed information about the assumptions used to calculate them. Whilst the confidentiality of the information provided was respected, as much detail as possible was placed on the public record, thus helping to contribute to the ongoing debate – both political and academic – about government contracting in general and PPPs in particular.

PAC in the 38th Parliament has been a worthwhile experiment

Following the 2008 election of a minority Liberal Government, the Legislative Assembly agreed to the Public Accounts Committee being 'Opposition controlled'. For four years the Committee has consisted of three Opposition Members and two Government Members. It would be fair to say that everyone involved with the Committee has been required 'to learn on the job'. The Committee has considerable powers to call for documents and people and to examine almost all government actions. Applying those powers judiciously and in the interests of accountability and good governance has been an interesting challenge.

I am of the view that the PAC of the 38th Parliament has been a success; although I appreciate others might not agree. It is a credit to all Members who have served on the Committee that goodwill and a cooperative spirit were maintained. There is much that the Committee does that is not political and all Members were united in the desire to see improvements to accountability and good governance in Western Australia.

I would like to thank all the Members of the Public Accounts Committee over this period. Mr Joe Francis MLA, the Committee's Deputy Chairman for most of the 38th Parliament stood down earlier this year on his promotion to Parliamentary Secretary. Mr Tony Krsticevic MLA has stepped up to fill the role of Deputy Chairman for the remainder of this Parliament, whilst Dr Elizabeth Constable MLA has replaced Mr

Francis on the Committee. I would like to acknowledge Hon Alan Carpenter MLA, who was a Member of the Committee until his resignation from the Parliament in October 2009. Mr Carpenter was replaced by Ms Rita Saffioti MLA who, along with Mr Chris Tallentire MLA, has made valuable contributions to the Committee's work.

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

A very special thank you must go to Mr Mathew Bates who has been both Research Officer and Principal Research Officer to the Committee over the last four years. Mr Bates not only displayed an incredible work ethic and great attention to detail to meet the deadlines of the Committee but has the investigative skills and intellectual firepower to get across very complex and intricate matters. That he can then convey such complex information to the Members of the Committee is an exceptional talent.

HON J.C. KOBELKE, MLA
CHAIR

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Chapter 1

Committee Activities

Introduction

During the course of this reporting period (**Table 1.1**), the Committee:

- Conducted one inquiry;
- Has tabled four reports;
- Held 29 deliberative meetings;
- Has taken evidence from 43 witnesses at 12 formal hearings.
- Has been briefed by 18 witnesses at 11 briefings.
- Followed-up with approximately 45 agencies in relation to their implementation of the Auditor General's recommendations.
- Hosted a Treasury information session on the State Budget for all Members of Parliament following the handing-down of the Budget in May.
- Met with Parliamentary delegations from the Cook Islands and Victoria.

Table 1.1: Summary of activities for the Public Accounts Committee, 1 July 2011 – 30 June 2012

Description	Activity
Briefings	11
Deliberative meetings	29
Formal evidence hearings	12
Witnesses appearing	43
Reports tabled	4
Report findings tabled	56
Report recommendations tabled	15

Chapter 1

Public Hearings

Pursuant to Assembly standing Order 264, the Committee has the power to send for persons, papers and records. During the period 1 July 2011 – 30 June 2012, the Committee conducted 12 public hearings taking evidence from 41 witnesses to assist with its investigations ([Table 1.2](#)).

Table 1.2: Public Hearings of the Public Accounts Committee, 1 July 2011 – 30 June 2012.¹

Date	Name	Title	Organisation
28 July 2011	Mr Reece Waldock	Chief Executive Officer	Public Transport Authority
	Mr Mark Burgess	Managing Director	
	Mr Ross Hamilton	Executive Director, Major Projects	
	Mr Ryan Keys	Acting Chief Executive Officer	East Perth Redevelopment Authority
	Mr Mark Reutens	Chief Finance Officer	
31 August 2011	Mr Francis Bright	Regional Economist	Department of Agriculture and Food
	Mr Noel Wilson	Manager	
	Mr Terry Hill	Executive Director	
7 September 2011	Mr Lyndon Rowe	Chairman	Economic Regulation Authority
	Mr Bruce Layman	Director, References and Research	
	Mr Greg Watkinson	Chief Executive Officer	
7 September 2011	Mr Stephen Brown	Acting Deputy Commissioner	Western Australia Police
	Mr Greg Italiano	Executive Director	
	Mrs Michelle Fyfe	Acting Assistant Commissioner	
	Mr Craig Ward	Assistant Commissioner	
	Ms Trudi Angwin	Assistant Director	
	Mr Tim Downing	Acting Assistant Director	
25 October 2011	Mr Timothy Marney	Under Treasurer	Department of Treasury
25 October 2011	Mr Kim Snowball	Director General	Department of Health
	Ms Nicole Feely	Chief Executive, South Metropolitan Area Health Service	
	Mr Andrew Joseph	Director, Financial Policy Framework	
	Mr Wayne Salvage	Executive Director, Resource Strategy and Infrastructure	
	Mr Brad Sebbes	Executive Director, Fiona Stanley Hospital	
30 November 2011	Mr David Campbell	Chief Executive Officer	Serco Australia
	Mr Timothy Catterall	Director, Strategy and Business Development	
	Mr Ian Quarrie	Director, Strategy and Business Development	

¹ Note that this list does not include Hearings held with witnesses in closed sessions.

Chapter 1

Date	Name	Title	Organisation
	Mr Andrew Prince	Director	Serco Healthcare Consulting, United Kingdom
12 January 2012	Mr Wayne Salvage	Acting Executive Director, Resource Strategy and Infrastructure	Department of Health
	Mr Andrew Joseph	Director, Financial Policy Framework	
	Mr Brad Sebbes	Executive Director, Fiona Stanley Hospital	
3 April 2012	Mr Kim Snowball	Director General	Department of Health
	Mr Brad Sebbes	Executive Director, Fiona Stanley Hospital	
	Mr Wayne Salvage	Acting Executive Director, Resource Strategy and Infrastructure	
	Mr Andrew Joseph	Acting Director, Budget Strategy	
24 April 2012	Mr Kim Snowball	Director General	Department of Health
	Mr Brad Sebbes	Executive Director, Fiona Stanley Hospital	
	Mr Wayne Salvage	Acting Executive Director, Resource Strategy and Infrastructure	
	Mr Andrew Joseph	Acting Director, Budget Strategy and Management	
24 April 2012	Ms Anne Nolan	Director General	Department of Finance
	Mr Rodney Alderton	Executive Director, Government Procurement	
	Mr Graeme McLean	General Manager Planning and Practice, Building Management and Works	

Chapter 1

Briefings

In addition to gathering evidence during formal hearings, the committee received a number of informal briefings. The briefings were used to gain information in relation to the committee's inquiries as well as other matters (**Table 1.3**).

Table 1.3: Non-private Briefings held by the Public Accounts Committee, 1 July 2011 – 30 June 2012

Date	Name	Position	Organisation
20 July 2011	Mr Donald Chulung	Business Proprietor	Wanna Work
	Mr Richard Beeck	Business Proprietor	
20 July 2011	Mr Brad Williams	President	Kununurra Chamber of Commerce and Industry
	Mr John Gault	Executive Officer	
20 July 2011	Cr Fred Mills	President	Shire of Wyndham East Kimberley
	Mr Gary Gaffney	Chief Executive Officer	
20 July 2011	Mr Stuart Dyson	Project Director	Moonamang Joint Venture
21 July 2011	Mr Geoff Strickland	Chief Executive Officer	Ord Irrigation Cooperative
21 July 2011	Mr Franklin Gaffney	Chief Executive Officer	Miriuwung Gajerrong Corporation
	Ms Edna O'Malley	Vice Chairperson	
10 August 2011	Mr Allan Dawson	Chief Executive Officer	Independent Market Operator
2 November 2011	Mr Colin Murphy	Auditor General	Officer of the Auditor General
	Mr Glen Clarke	Deputy Auditor General	
21 March 2012	Mr Gary Sturgess	NSW Premier's ANZSOG Chair of Public Service Delivery	Australia and New Zealand School of Government
28 March 2012	Mr Colin Murphy	Auditor General	Officer of the Auditor General
	Mr Glen Clarke	Deputy Auditor General	
2 May 2012	Mr Lyndon Rowe	Chairman	Economic Regulation Authority
	Mr Greg Watkinson	Chief Executive Officer	

Reports tabled

The Committee tabled four reports during the period 1 July 2011 – 30 June 2012. They were as follows:

- Report No. 13: *Public Accounts Committee Annual Report 2010 – 2011*
- Report No. 14: *Review of Selected Western Australian Infrastructure Projects*
- Report No. 15: *Review of the Reports of the Auditor General*
- Report No. 16: *Building Foundations for Value: An analysis of the processes used to appoint Serco to provide non-clinical services at Fiona Stanley Hospital – Western Australia's largest ever services contract*

Work in progress

The committee is continuing to examine a selected number of infrastructure projects in order to determine whether anticipated outcomes are being achieved. These outcomes include the achievement of budgetary estimates and project delivery schedules. Much of this work is focused on determining the extent to which projects are being delivered in compliance with the requirements established in the Strategic Asset Management Framework (SAMF).

Auditor General follow-up

In 2011–2012, the committee continued to interact with several dozen agencies regarding their implementation of recommendations made by the Auditor General. The reporting period was particularly noteworthy because the committee's first report examining agency compliance was tabled in the Parliament under a new follow-up process. This resulted in a significantly more streamlined approach being taken with agencies, in addition to a number of recommendations for agencies to report additional information to the Legislative Assembly about the progress of implementation.

The committee also held a hearing with Western Australia Police to discuss the problems with by the Firearms Registry. The Auditor General has previously reported on the deficiencies of the registry and the committee examined WA Police in order to gain a better understanding of how the deficiencies were being addressed.

It is anticipated that at least two Auditor General follow-up reports will be tabled in the 2012–2013 financial year.

Chapter 1

Post-budget briefing

The committee hosts the Department of Treasury's post-budget briefing each year to familiarise Members of Parliament with the Budget Estimates Papers. This year, a series of questions on notice were taken and the committee facilitated the distribution of answers to those who attended the briefing.

Chapter 2

Financial Statement

The Public Accounts Committee does not have its own formal budget and is funded out of the budget of the Legislative Assembly. Approval for major expenditure is required on a case-by-case basis and is entirely at the discretion of the Speaker.

The Committee's expenditure for the financial year 1 July 2011 – 30 June 2012 (in accordance with Standing Order 276) is provided below (**Table 2.1**):

Table 2.1: Expenditure items, 1 July 2011 – 30 June 2012

Expenditure Item	\$
Advertising	2,081.00
Travel	56,160.00
Protocol	1,134.00
Printing	0
Miscellaneous	349.00
TOTAL	59,724.00

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.

