PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO CONTRACTS ENTERED INTO BETWEEN CONSOLIDATED CONSTRUCTIONS PTY LTD AND MAIN ROADS WA AND THE PUBLIC TRANSPORT AUTHORITY

TRANSCRIPT OF EVIDENCE TAKEN
AT PERTH
ON WEDNESDAY, 2 JUNE 2004

SESSION 1

Members

Mr J.B. D'Orazio (Chairman)
Mr M.G. House (Deputy Chairman)
Mr J.L. Bradshaw
Mr A.J. Dean
Ms J.A. Radisich

Committee met at 9.35 am

PERSICHITTI, MR NICK
Accountant, PPB Ashton Read,
Level 1, 5 Mill Street,
Perth, examined:

The CHAIRMAN: Welcome to the Public Accounts Committee. The committee hearing is a proceeding of the Parliament and warrants the same respect that proceedings in the House itself demand. Even though you are not required to give evidence on oath, any deliberate misleading of the committee may be regarded as contempt of Parliament. Have you completed the "Details of Witness" form?

Mr Persichitti: Yes.

The CHAIRMAN: Do you understand the notes attached to it?

Mr Persichitti: Yes.

The CHAIRMAN: Did you receive and read an information for witnesses briefing sheet regarding giving evidence before the committee?

Mr Persichitti: Yes.

The CHAIRMAN: Would you please state the capacity in which you appear before the committee?

Mr Persichitti: I am appearing on behalf of Simon Read, who is the former voluntary administrator of Carr Civil Contracting.

The CHAIRMAN: Excellent. Have you made a written submission to the committee?

Mr Persichitti: No.

The CHAIRMAN: You know that we are conducting hearings about Consolidated Constructions. That has an effect on this as Carr Civil was a major subcontractor. We have heard a fair amount of evidence about both Carr Civil and Consolidated. Obviously, we want to concentrate on Carr Civil today. Can you give us a bit of background on how you see the firm, what its standing was like and, more importantly and if you are aware of it, what its financial position was like at the time of taking the contract for the Marble Bar road?

Mr Persichitti: Carr Civil had a pretty short life span. It had been operating for only a couple of years. It expanded significantly during those couple of years. From memory, the turnover in the first couple of months was a couple of hundred thousand dollars, then it jumped to a couple of million dollars and then, pro rata for the rest of the year, it jumped up to something like $8 million or $9 million in turnover. There was a rapid expansion of the business. It appears from the records we have looked at that the company's financial position was okay towards the end of the last financial year, but problems with creditors and that became an issue in November or December.

Mr M.G. HOUSE: Was that of last year?

Mr Persichitti: Yes, last year.

The CHAIRMAN: Are you sure it was that late? It appeared that some of the contractors we spoke to at Marble Bar were not being paid much earlier than that. I am talking about October.

Mr Persichitti: It may have been before that that payments to creditors were becoming overdue. We have only looked at the records of the company. We have not audited or verified those at all. But payments to creditors became significantly overdue in the October/November/December period. The records indicate they were substantially overdue.

The CHAIRMAN: From your investigations, would that be attributed to the Marble Bar road or others works that Carr Civil had done?

Mr Persichitti: We have not really investigated the cause of the deficiency at that time, but the director has indicated that it is predominantly from the Marble Bar contract and also some other smaller contracts.

The CHAIRMAN: I know; the principal has already indicated that. However, from the evidence we have, it appears that only $1.2 million is outstanding from that road. There seems to be $3 million or even more outstanding. That indicates that it is not all from that road.

Mr Persichitti: Yes, that is correct.

Mr M.G. HOUSE: What about the Harding River dam job?

Mr Persichitti: That is also another one.

Mr M.G. HOUSE: What was the dollar loss on that to Carr Civil? Do you know?

Mr Persichitti: It is still in progress. I do not know the dollar loss, but it is not accounting on a job-by-job basis, so it is difficult for us to go back and look at which contracts have resulted in the loss, as I am aware.

Mr M.G. HOUSE: Was Carr letting things dovetail one over the other so that it is hard to isolate one job from the other?

Mr Persichitti: Yes. All costs are just grouped together; it is not that we can go back and say that Marble Bar make X amount loss or that that contract made a loss. That is why we have not been able to identify exactly what contract it is that -

Mr M.G. HOUSE: The Harding River dam job and the Marble Bar road job were being done almost at the same time -

Mr Persichitti: Yes.

Mr M.G. HOUSE: - and it is hard to differentiate the costs attributed to each. Is that what you are saying?

Mr Persichitti: Yes.

Mr M.G. HOUSE: Did Carr have any big jobs going at the same time?

Mr Persichitti: Not that I am aware of. It had other, regular work, which were medium jobs that appeared to be reasonably profitable.

The CHAIRMAN: Did you not have a look at its cost structures?

Mr Persichitti: Not historically, no.

The CHAIRMAN: How can Carr be so far out on two jobs? The principal is telling us that he was out by over $1 million on the costing of the Marble Bar road alone. It would seem that there is a problem either in management or in costing. Do you have any comment?

Mr Persichitti: No; we have not looked into those areas.

The CHAIRMAN: The other accusation made by some of the members of the public was that your company, as the administrator, was trying to convince the creditors to take the deal that was being offered. What comment would you make about that?

Mr Persichitti: As voluntary administrator, our role is to look at the best interests of creditors. We endeavour to get creditors a better return than they would receive from an ordinary liquidation. That is the spirit of a voluntary administration. Before Consolidated went under, the director had already intended to inject additional capital into the company to try to resuscitate it.

Mr M.G. HOUSE: Who did?

Mr Persichitti: The director - Blayney.

Mr M.G. HOUSE: Where was he going to get that from?

Mr Persichitti: From his personal assets and from family funds.

Mr M.G. HOUSE: Had he intended to do it or had he done it?

Mr Persichitti: I believe he took the first step. He sold some shares and injected that into the company. He held off from the second step because Consolidated went under and it would have been pointless to do it.

The CHAIRMAN: Yes, it was pointless, but what about all the creditors who are now going to miss out on a whole pile of money?

Mr Persichitti: He is still putting that money now in the deed of company arrangement. He could have just walked away and said, “Fine look, I have gone under, here are the assets, there you go creditors” but he has said, “Here are all the assets, and on top of that, the money that I was going to put into the company I will now put into the deed of company arrangement for the benefit of creditors”. All the creditors have been taken away. They ought to get a better run because additional cash is there. Creditors are theoretically better off taking the deed of company arrangement.

The CHAIRMAN: What is your estimated return to the creditors?

Mr Persichitti: I cannot recall. There was a wide range. From the top of my head, I think it was about 10c to 30c into the dollar, but that will be spread over a couple of years, obviously. It will depend on the return from Consolidated.

Mr M.G. HOUSE: Tell us what the current situation is. I was a bit confused. Mark Blayney gave evidence to us last week. My understanding is that that he is still operating. I could not understand how he could differentiate this job and pay 10c in the dollar to get that figure under administration, and still be able to operate and go forward with a new arrangement. Just explain that to me.

Mr Persichitti: The company went into administration and creditors accepted a deed of company arrangement. The terms of the deed of company arrangement were that something we call a creditors’ trustee is entered into. The effect of that is that all the assets and liabilities of the company up to the date of the deed are transferred to a trust, of which we are the trustee, and Mark continues. Carr Civil goes back to being a normal company, and has a clean slate, with virtually no assets or liabilities. It can start afresh. All assets created up to that date will be dealt with by us in the creditors’ trust and distributed to creditors.

Mr M.G. HOUSE: I wonder whether my bank will let me do that!

The CHAIRMAN: Do the creditors accept whatever they get, and can Carr Civil go on and start making money and keeping the profits?

Mr Persichitti: Carr Civil, yes.

The CHAIRMAN: It seems a pretty cosy arrangement. The only people who miss out are the poor creditors.

Mr Persichitti: Not necessarily. If the company had gone into liquidation, the creditors would not have received the benefit of the additional funds the director has injected. There was nothing stopping him from setting up another company and starting up again anyway.

The CHAIRMAN: It appears that Carr Civil was already in trouble when it took on this job. From your perusing of the books, is it a reasonable assumption that at the time it got this job, which was July-August, its financial position was already in a tenuous state?

[9.45 am]

Mr Persichitti: From the records of the company - I am just looking at the June 2003 accounts - it would appear that the company was probably lineball, but would appear to be okay.

The CHAIRMAN: Lineball, meaning what - that it did not make a profit but did not make a loss?

Mr Persichitti: It looks like it had enough working capital to continue on, so realising debtors would enable it to pay its creditors as and when they fall due.

Mr M.G. HOUSE: I understood what you said about the creditors' arrangement - debt arrangement - and then the company continuing. However, there is plant such as trucks and graders. Do they go to the new company?

Mr Persichitti: The majority of the larger assets were owned by a related entity in a family trust - in a trust structure.

Mr M.G. HOUSE: So they were not part of the deal.

The CHAIRMAN: Did they lease a car?

Mr Persichitti: Yes.

Mr M.G. HOUSE: Is that a fairly normal thing with these sorts of people?

Mr Persichitti: In construction businesses, yes.

The CHAIRMAN: That means that you can never touch the actual assets of the company. It is only a paper company, because if you take away its working capital, it has nothing.

Mr M.G. HOUSE: If you go to the bank with that sort of arrangement, would it lend you money on that basis?

The CHAIRMAN: But that company would not get the money; the parent company would.

Mr Persichitti: The plant and equipment was financed in a related party separately, so the bank took security over that plant and equipment, and the bank also provided a facility called a debt factoring arrangement. Therefore, the debts created by Carr Civil would be factored, and that is the security for the bank. It would factor between 50 and 80 per cent of debts, so as debtors come in -

Mr M.G. HOUSE: On the surface, a company could look quite substantial, if you physically looked at its assets from the outside, but until you looked at its paper structure, you probably could not tell.

Mr Persichitti: Yes. The only -

The CHAIRMAN: Are there not any guarantees from one company to the other, because normally -

Mr Persichitti: To?

The CHAIRMAN: From the parent company to Carr Civil guaranteeing access or -

Mr Persichitti: For creditors or -

The CHAIRMAN: Yes, for creditors.

Mr Persichitti: No, because basically it is not even parent companies. There is a unit trust here, just like a normal lessor-lessee arrangement. One party owns the assets, and it leases to the other party.

The CHAIRMAN: If you were Main Roads and you were looking at this company to do your subcontracting work, would you say that you would not make the decision to use it on that basis? It has no plant, it is a $2 shelf company, and it is lineball whether it can pay its creditors.

Mr Persichitti: I could not really say that. At the end of the day, although it has no tangible assets in there, its debt load structure is with the debtors, so you will depend on debtors paying, obviously, so you would need to depend on looking at the debtors -

Mr M.G. HOUSE: I think the question you have asked is really pertinent to the way in which Main Roads let its contracts. We need to make a note of that as well, because I think that is a really important point. Do you know whether Consolidated was set up the same way, or were you not privy to that?

Mr Persichitti: I am not sure.

The CHAIRMAN: You are saying that it had enough working capital, because you need working capital to operate. Can you tell us the extent of the working capital?

Mr Persichitti: I might just rephrase that. It had sufficient working capital at that period, but, obviously, as the business rapidly expanded -

The CHAIRMAN: It did not have enough.

Mr Persichitti: No, because your working capital needs increase significantly.

The CHAIRMAN: That is what I was going to get to. Can you tell us what the working capital position was in July?

Mr Persichitti: It would have had a working capital surplus of about $300 000.

The CHAIRMAN: That is not even enough to give Main Roads a guarantee.

Mr M.G. HOUSE: It would not pay the fuel bill for a couple of days on a job like that.

The CHAIRMAN: And it has a $6 million contract.

Mr M.G. HOUSE: Have you seen many examples of this, Nick? Is this a fairly regular thing in the work that you do? Would you say this is very unusual, it is about normal or that it happens regularly?

Mr Persichitti: In what - the structure of the set-up or -

Mr M.G. HOUSE: Both: firstly, in relation to the structure and the way in which this company was set up in company arrangements; and, secondly, the trouble it got into in such a short time. Do you see a lot of that?

Mr Persichitti: It is fairly common. The majority of small businesses do fall into trouble early on in the period. If they get over the five or six-year period, they have a better chance of success; so it is quite common.

The CHAIRMAN: Nick, I have been in business before, and any time you are looking at a major creditor or debtor, you actually get personal guarantees, especially for the big guys such as RNR Contracting, the bitumen person and the concrete person, who are all exposed to $300 000-odd or $200 000-odd. Are there any personal guarantees by the directors to those companies?

Mr Persichitti: There may be.

The CHAIRMAN: That means that they can get to the assets of Blayney through that other way.

Mr Persichitti: Personal assets.

The CHAIRMAN: Are you aware of that? Are you formally aware that there is such an arrangement?

Mr Persichitti: I am not certain at all, because we sort of represent the creditors as the company creditors, as opposed to the directors' personal creditors.

The CHAIRMAN: Yes, I understand that, but the company's creditors whom you are looking after would have to have some arrangements personally. There is no way you will lend somebody 300 grand on a $2 shelf company without some sort of personal guarantee from the directors, so if their company falls over, you can still tackle the directors. Are you not formally aware whether they had such arrangements?

Mr Persichitti: No. I believe there are, because it is just the normal course of business, but I am not aware of what -

The CHAIRMAN: It may be the normal course of business of bigger companies, but what worries me is that there are a lot of little companies here which have been burnt and which would not have those arrangements, because it is just not how they do business. There are truck drivers who would basically pick up the telephone and say, "I need your truck for a day. Come and do this" - except the day went to months, and they are owed $40 000, $50 000 or $60 000, whereas the big companies that supply equipment would want guarantees.

Mr Persichitti: Yes.

Mr M.G. HOUSE: Is there a way in which we can establish whether there were personal guarantees to some of those larger contractors?

Mr Persichitti: It would be more a matter of contacting the contractors directly. For the subcontractors and, on just a normal contract, the smaller contractors, it is very unlikely that they would, because I cannot see them having credit application forms etc. That is generally where the personal guarantees are.

Mr M.G. HOUSE: I want to go back to the deal -

The CHAIRMAN: I will just follow that one step further. Does that not actually create an unfair playing field? You are going to get your 35c in the dollar - you said 30c. Blayney told us that it was going to be 35c, depending on what he got from Consolidated. The position is that some of those creditors will get their 35c from you guys, through your process, and they can chase Blayney for the other 65 per cent as a director, independent of that process; or in accepting your deed of arrangement, do they then close off the loophole of going to get the up to 65 per cent direct?

Mr Persichitti: No. They still have that avenue to pursue.

The CHAIRMAN: From the committee's point of view, that creates a dilemma, because if we were to recommend to the minister and the Parliament that these people get preferential treatment because they have made these losses, some of these companies might end up getting 100 per cent, plus get preferential treatment from the Government because they were involved in this but made no losses. We really need to work out who has got these agreements and personal guarantees, because it makes a difference to what the final outcome is going to be, apart from the fact that if there are any losses, they could claim them as tax deductions.

Mr Persichitti: I think another thing that needs to be looked at is whether Mark Blayney has a capacity to meet those personal guarantees.

The CHAIRMAN: Has he not got some moneys that he has injected into the company? He must have other resources. He must have houses; he must have -

Mr Persichitti: Because we were trying to get as much money as possible for the creditors, we had to look at his financial affairs. From our investigations, we believe that he has put in as much as he can in his personal name.

The CHAIRMAN: He has companies other than companies that you have told us about.

Mr M.G. HOUSE: He has a share in a station, has he not?

Mr Persichitti: Yes.

The CHAIRMAN: Is that in his personal name or in a company name?

Mr Persichitti: That is in his personal name - the share; a quarter interest.

Mr M.G. HOUSE: He is in a share with other family members, I think. Is that correct?

Mr Persichitti: I believe so, yes.

The CHAIRMAN: Were you made aware of any other assets that might be hanging around in company names?

Mr Persichitti: There is only other company that I am aware of, but I am probably not sure if I can start talking about Mark Blayney's personal capacity -

The CHAIRMAN: We are just trying to get an idea of where the problems are, or where the solution is. Okay. You cannot exactly tell us the guarantees, so we will have to chase them from Blayney or from the actual companies.

Mr M.G. HOUSE: I will just go back to that, Nick. You are saying that he has another company. Is that what you just said?

Mr Persichitti: He may have an interest in another -

The CHAIRMAN: He would be a director of another company.

Mr Persichitti: I do not think he is a director, no.

Mr M.G. HOUSE: As an administrator, can you not take that into account?

Mr Persichitti: Not really, no.

Mr M.G. HOUSE: Because it is outside the -

Mr Persichitti: All we can deal with is the company assets.

The CHAIRMAN: If he is not a director, you cannot help him out if he has gone bankrupt, and therefore you cannot touch his assets. Is that about the summary of how it works?

Mr Persichitti: Sort of, yes.

Mr M.G. HOUSE: I will go back to the arrangement. When the chairman put to the small contractors whom we spoke to the other day that perhaps they had some responsibility in accepting the deed of arrangement, they got a little bit up in arms about that. There was a view amongst them, I think, that they had almost been forced into it; that the bigger creditors had held sway at the meeting, and the smaller creditors really got carried along with the tide.

The CHAIRMAN: Four of them voted against it, but they were overwhelmed. That is where the accusation about the conduct of you and your company came from. They believed that you were trying to coerce them into accepting the arrangement.

[9.55 am]

Mr Persichitti: We still believe we were looking out for the interests of creditors, trying to get the best return. The other problem is we had to continue trading during that period or else the debtor company arrangement would not have been proposed and, obviously, we would have the same problem as far as cash flow goes for working capital needs, because as administrators we are personally - or Simon Read is - liable for all debts incurred. So we really did not want to continue trading much longer than the month. So there was a very short time frame to do a lot of work and it may have seemed that it was rammed through.

The CHAIRMAN: Are you telling me that the administrator of the company is directly liable for trading after that date, even though the debts may not have been -

Mr Persichitti: For the debts incurred from his date of appointment.

Mr M.G. HOUSE: When you were called in, were any company guarantees paid out?

Mr Persichitti: Not that we are aware of.

Mr M.G. HOUSE: Sorry, not what you are aware of. You were in control. I am talking about from the day you took control, there would have been some financial guarantees for payment to people in place. For example, the banks would have a guarantee. Were any of those paid out by you as the administrator?

Mr Persichitti: No. We work on priorities. The bank was a secured creditor, so it would have a priority under its fixed and floating in charge, but it has not been paid out as yet.

Mr M.G. HOUSE: Was there not anybody else who had security, like a first ranking security, over Carr Civil who was paid out after you became administrator?

Mr Persichitti: Not as yet.

The CHAIRMAN: Were any bank guarantees paid out?

Mr Persichitti: The literal bank guarantees on projects?

The CHAIRMAN: Yes, bank guarantees on projects that were paid out by the banks.

Mr Persichitti: No.

The CHAIRMAN: There was none of those. So the company was just operating in a vacuum; no-one asked it for bank guarantees.

Mr Persichitti: It was providing money retentions, cash retentions.

The CHAIRMAN: And it was doing that through its cash flow?

Mr Persichitti: Yes. The debt factoring facility provides the cash flow it needs. It invoices, and instead of waiting 30 or 60 days to get the cash, it gets it immediately and generally up front.

The CHAIRMAN: So just so that I get this right in my head, are you telling me that this company had $300 000 of working capital, yet it had just taken on a project of $6 million over six months? It is spending $1 million a month on equipment. How can you operate with $300 000 of working capital when your purchases are going to be $1 million?

Mr Persichitti: That is why the debt factoring facility was essential because it would need to get the work done, invoice for the month, give the invoice to the bank and the bank would pay it the 70 or 80 per cent, which would enable it to basically provide up-front working capital.

The CHAIRMAN: Yes, but it told us that its profit margin was only six, seven or eight per cent. So, if the factoring is 80 per cent, you are into loss and you are going backwards. Why would the bank allow you to get into the situation whereby you are going backwards? I could understand if you are starting off with a working capital of $1 million - you can actually get away with it. However, if you actually have only $300 000 and you have to purchase $1 million worth of equipment that month, and you are getting only 80 per cent back, you are going backwards. If your profit margin is eight per cent, you are going backwards 12 per cent. On $1 million that is $120 000 a month. That means in only two and a half months you are broke. Is my maths right or wrong?

Mr Persichitti: Yes, it seems reasonable, if the margins are six to eight per cent.

The CHAIRMAN: If you have any problems at all and you do not quote right, you are buggered.

Mr M.G. HOUSE: It is a fine line.

The CHAIRMAN: That is what I am saying; it should not have got the job in the first place.

Mr M.G. HOUSE: You made a comment earlier in your evidence that this was not unusual in construction companies, I think. I do not want to put words into your mouth, but I think that is what you said. Have you seen other examples of this regularly?

Mr Persichitti: Just from what we have seen, obviously the ones that come through our office that have the asset structures; that is sort of what is generally done.

Mr M.G. HOUSE: Do they work on the same sort of lack of capital base?

The CHAIRMAN: I was going to ask the question: what is the proportion that you, as an accountant, would see? Obviously all these companies would have finance controllers. What would you see as a reasonable percentage, compared with your turnover, of working capital?

Mr Persichitti: That would really depend on the individual basis -

The CHAIRMAN: I understand it is an individual basis, but would you say it should not be below 20 per cent or it should not be below 15 per cent? What is the number? What would you, as a reasonable financial controller, suggest?

Mr Persichitti: As a sort of rule of thumb we work on the basis of a ratio of about 1.2 to one - current assets to current liabilities.

The CHAIRMAN: That high? So if you were doing a $6 million dollar job -

Mr Persichitti: Yes. So, if it is $1 million of debts a month, you would be looking at $1.2 million.

The CHAIRMAN: That is $1.2 million of assets. Would it be liquid assets or just assets?

Mr Persichitti: Current assets, liquid assets, convertible in a very short time.

Mr M.G. HOUSE: Nick, can you tell me whether any bank or finance company lost any money out of this deal with Carr Civil?

Mr Persichitti: The bank still has an exposure, but it does not appear that it will lose money because it is secured.

Mr M.G. HOUSE: Any finance company?

The CHAIRMAN: I will just ask the next question: if the structure is like this, how can the bank, if there are assets not be exposed? Is it because there are guarantees to the banks on personal assets?

Mr Persichitti: It would still have debtors, so it has its original security, which is all the other debtors. The real reason it was looking at a shortfall was, obviously, the Consolidated debt, which it had security over, and which has now diminished. So, for the balance of the shortfall it still has a fixed and floating charge over the assets of Carr - other assets.

The CHAIRMAN: Does Carr not have any other assets?

Mr Persichitti: There were some other unfactored debtors, etc.

Mr M.G. HOUSE: What do you mean by unfactored debtors?

Mr Persichitti: There were a couple of substantial debtors which the bank had not advanced any funds for.

The CHAIRMAN: That is people who have got to pay the money.

Mr M.G. HOUSE: Has it not paid out any of those?

Mr Persichitti: No, the bank has not; so it is additional security for them.

Mr M.G. HOUSE: I just want to be clear about this. I know I am repeating the question, but at the end of all this, will no bank lose money and no finance company lose money?

Mr Persichitti: In Carr there was no finance company.

Mr M.G. HOUSE: The directors are not going to lose any money.

Mr Persichitti: They have already injected some funds.

Mr M.G. HOUSE: The point I am making, and I want to be clear about this, is that the people who are going to lose money are all the little guys down the bottom end - the contractors out on the road, the truck drivers, etc. Is that correct?

The CHAIRMAN: The bigger companies have probably got guarantees, so they do not miss out either.

Mr M.G. HOUSE: Is that fairly usual in your experience too?

Mr Persichitti: Yes.

Mr M.G. HOUSE: Is it?

Mr Persichitti: Generally, by the time we get called in -

The CHAIRMAN: The smaller guys with trucks are not going to go through a whole credit process of getting guarantee from directors, etc.

Mr M.G. HOUSE: I understand all that. I just want it clearly on the record that the people getting burnt are the little blokes, and a government department has let this contract. That is the point we are getting to, is it not?

The CHAIRMAN: Are you, as the administrator, aware of any arrangements between Consolidated and Carr, as that is the other point of contention here? There is some disagreement between Consolidated and Carr of the amount outstanding. One party is saying it is one figure and the other party is saying it is another figure, and there are some counterclaims. Did you work through any of those to work them out?

Mr Persichitti: We have worked through them. We have actually asked the administrator of Consolidated to adjudicate on our claim and I believe that he has adjudicated. The main difference between our claim is that our prime debt is about $1.3 million, but we have also claimed for the retention outstanding, which we acknowledge will not be due for another six to 12 months, but it is still a contingent liability. That is really the conjecture about the claim.

The CHAIRMAN: What about the counterclaims?

Mr Persichitti: As for the counterclaims, I have not actually seen the reply from the Consolidated administrator, but I do not believe they were too far off from our figures.

The CHAIRMAN: The statutory declarations that Carr Civil gave to Consolidated state that its subbies have been paid. What is your opinion of those statutory declarations? Have you seen them?

Mr Persichitti: I have not seen them, no.

The CHAIRMAN: That was another point of conjecture, saying arrangements have been made. I would like to know what those arrangements were with those companies. Are you aware of the formal arrangements made with those creditors?

Mr Persichitti: No.

The CHAIRMAN: Did no-one present those terms of the creditors to you?

Mr Persichitti: No.

[10.05 am]

The CHAIRMAN: You would know whether there was a formal arrangement. We are really trying to find out whether those statutory declarations are valid, because it states that you have made arrangements, but some of the creditors are saying that is absolute rubbish.

Mr Persichitti: I do not know. There was one creditor, who I believe was on the Marble Bar contract, who was a bit disappointed because Mark said he would do this, this and that to pay him out and it did not eventuate.

The CHAIRMAN: Was that Stubbs?

Mr Persichitti: I do not think it was him; it was someone else. I am not too sure.

The CHAIRMAN: I introduce the member for Bunbury, Tony Dean. Are there any other questions?

Mr M.G. HOUSE: We, as members of Parliament having to report to the Parliament, should try to get in place a system so that people do not get hurt. Is there anything else that you can tell us about this company, its structure, or what has happened here?

Mr Persichitti: Nothing really comes to mind at this stage. Particularly with Carr we have had a very limited time - we have done it within one month - so we have not had the opportunity to go back.

Mr M.G. HOUSE: The Carr Civil payout to its contractors is fairly dependent on the Consolidated payout to Carr. Is that correct?

Mr Persichitti: Yes.

Mr M.G. HOUSE: Hypothetically, if Consolidated pays less than 10c in the dollar, what do you think the payment to Carr Civil's creditors will be?

Mr Persichitti: I do not have the figures in front of me. I think we have got about 10c.

Mr M.G. HOUSE: So it could get down to 10c. We seem to be coming up all the time with the figure of about 10c for both of them. There is an expectation that it might be 30c, at the top end, if everything went well, but from the evidence we have heard that does not appear to be the case.

Mr Persichitti: It will be towards the bottom end.

The CHAIRMAN: From the general point of view of awarding contracts, would you recommend any change in process to protect the interests of small contractors? We would not expect that little contractors to get burnt on a Main Roads contract, and nor do they expect to be burnt. As an auditor, what processes do you think we could do differently to make sure that that safeguard was in place?

Mr Persichitti: I have not really considered that in any sort of depth.

Ms J.A. RADISICH: Are there any simple measures that small business operators could put in place so that they might protect themselves?

Mr Persichitti: I do think that it is really practical for small contractors to do that. It involves a lot of additional work. One-man bands do not really have the resources to get all the paperwork sorted to do that. To an extent they are bullied when the work is tendered. The main contractors say, "Here's the quote. Do you want the work or not?", so they really are dependent on the main contractors.

The CHAIRMAN: Would the situation not have been much more feasible had Carr's prequalification been assessed through Main Roads assessment process? Main Roads would have checked the working capital, found it to be $300 000 and assessed Carr as not being capable of doing the job. We would then not be in this position. I think that is the answer, because you have just told us that a $300 000 working capital for a $6 million job is ridiculous and Main Roads should never have given Carr the job in the first place.

Ms J.A. RADISICH: Carr did not get the job.

The CHAIRMAN: That is what I am saying. The problem with Main Roads' assessment structure is that Consolidated was prequalified but this subcontractor got a $6 million contract with no qualification. A subcontractor should be prequalified for any contract over $1 million. That is why we need to look at making sure that a subcontractor for such a big proportion of the contractor is prequalified and that Main Roads assesses the subcontractor's financial situation to see that it is capable of doing it. Even if Consolidated had not fallen over, there was a decent chance that Carr would have fallen over anyway, especially with the other problem of the dam road. From the Government's point of view, if Consolidated had not fallen over, there would not be a problem because it was the main contractor. However, in this case both of them fell over, which created a major problem down the road for the little people. It had a domino effect: Consolidated put Carr out, although Carr might have gone anyway, which badly affected all those other people.

Thank you very much for your evidence. Thank you for being so frank with us. If we need you again, we will call you.

Mr Persichitti: Thank you.