

**STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS**

**TRANSCRIPT OF EVIDENCE TAKEN  
AT PERTH  
WEDNESDAY, 4 FEBRUARY 1998**

**Hon Mark Nevill (Chairman)  
Hon E.R.J. Dermer  
Hon Muriel Patterson  
Hon Simon O'Brien  
Hon Bob Thomas**

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DRABBLE, MR ROSS

Commissioner of Main Roads  
Don Aitken Centre  
Waterloo Crescent  
East Perth, examined:

WARNER, MR DESMOND

Executive Director  
Corporate Services  
Mains Roads Western Australia  
East Perth, examined:

The CHAIRMAN: Welcome to the committee's public hearings. Mr Drabble, I presume you have some answers to the questions we asked. Will they be tabled, and do you have you any objection to those being made public?

Mr DRABBLE: We have no objection.

The CHAIRMAN: We can commence proceedings by allowing you to address the three points raised in our letter to you. Could you give the committee an overview of Main Roads' plans regarding contracting out, construction and maintenance operations, the time frame of implementation, research data leading to Main Roads' decision to do that, and any expected savings and components of those savings? An overview on those three issues would be appreciated.

Mr DRABBLE: Main Roads is undertaking a process of review. In 1995 a program of change was put together which, broadly, was taking Main Roads in a direction of contracting work out to the private sector. Some of that work is already under way and the plan is probably about one-third of the way through implementation. My role in coming into the new organisation was to establish, firstly, the validity of that 1995 program of change within that nominated time frame. Secondly, to establish whether that time frame could be delivered earlier and therefore deliver benefits to the community earlier. Thirdly, whether the 1995 program could and should be redefined to deliver more and earlier benefits.

The first assignment I commissioned was a report by Deloitte and Touche. It was designed to be a high level review and to address two key questions. Firstly, how Main Roads could be made more efficient and thereby deliver more value to the community and taxpayers. Secondly, to identify how Main Roads could become a more responsible organisation, particularly in relation to its key stakeholders. The Deloitte's report was the first step in the process. I asked the senior executives in Main Roads to consider the findings and results of Deloitte's report and give me their views. They have all done that either in written or verbal form. I found that there was a degree of acceptance, and of questioning of Deloitte's report in

terms of the feedback I received from the executive group. To bring all of the issues together and to come up with a solid and workable solution for Main Roads I commissioned Price Waterhouse to bring all of those views together. Price Waterhouse is currently working on a final plan for Main Roads.

In summary, what has come forward so far is that, firstly, the process which was initiated by the 1995 Main Roads Best Roads program has been quite successful. We will give the committee a document which outlines that program. Secondly, the ability to achieve the results and program contemplated in the 1995 Best Roads program has a high probability of success.

The CHAIRMAN: Is this the same as the 20:20 strategy?

Mr DRABBLE: No, that is a 20 year time frame looking at various roads, particularly in the regional areas, but it does not comment on improvements in productivity in Main Roads. It identifies road structures, their upgrading and the time of upgrading. The second point I believe that has come forward so far is that the opportunity to accelerate the 1995 Best Roads program has a high probability of success as well. The third point, which is whether Best Roads should be redefined, is something that will come out of this process Price Waterhouse is working on at the moment. In a nutshell that is the background. The Deloitte's's report concluded that there were potential savings of between \$20m and \$40m a year if Main Roads pursued an environment where all of the direct deliverables were outsourced under competitive tender to the private sector.

The CHAIRMAN: I have not seen the Deloitte's's report. Is that the report that was leaked?

Mr DRABBLE: It was not made public, but there have been some public comments on it. It was not the subject of any FOI application either.

The CHAIRMAN: That is why I said "leaked". How many copies of that report were printed and distributed? Was it a fairly limited number?

Mr DRABBLE: A limited number was distributed to the executive group to review and comment on it.

The CHAIRMAN: What was the specific number of reports?

Mr DRABBLE: There were seven or eight.

Hon BOB THOMAS: Was it a confidential report?

Mr DRABBLE: It was not marked confidential.

The CHAIRMAN: Did the report have anything commercially confidential in it?

Mr DRABBLE: It indicated a future program Main Roads might pursue that had implications for Main Roads and stakeholders.

The CHAIRMAN: Usually the Chairman asks questions first. However, my questions do not relate directly to this matter so I will ask Hon Bob Thomas to ask questions now and I will follow.

Mr WARNER: Would it be convenient to go through our report? That will highlight issues which may answer some of the committee's questions. Of course, it might also raise other questions in the committee's mind. This will put a bit of a structure behind this. I hope that will be helpful to the committee.

The CHAIRMAN: We will do that, if you like.

Mr WARNER: We have tabled this report entitled "Contracting Road Construction and Maintenance Operations Main Roads Western Australia January 1998." In developing the contracting strategy we draw attention to the Industry Commission report which was completed in 1996. In summary, that report said that over half the studies surveyed reported savings of 10 to 30 per cent in contracting out work. The commission also found that, well done, contracting can lead to improvements in accountability, equality and cost effectiveness and provide benefits to clients, taxpayers and the community. Another report that we draw the committee's attention to is the Public Sector Management Office Report 1995-96. That report, in summary, reported average savings from contracting of approximately 22.5 per cent. It also noted comparable savings on a similar survey carried out in the New South Wales Public Service area with average savings of 19.6 per cent.

We also draw the committee's attention to a case book of contracting and contractor services which was prepared by the Public Sector Management Office and the Western Australian Municipal Association in 1997. The outcomes of that report, which we have here, indicate increasing emphasis on best value for money. It notes the Industry Commission report which encourages exposure of government activities to competition and emphasises greater accountability and integrity in the operations of government. It also emphasises the competition reforms flowing from the National Competition Agreement.

The contracting examples in the case book, which is available here, are referenced in our document report and list benefits in improving accountability and performance, reduced cost, improving efficiency and enhanced service levels. Some other references that we draw to the committee's attention are those of Simon Domberger and Christine Hall and refer to a survey conducted in Australia and New Zealand. The New South Wales results show that 85 per cent of contracts have been reported as very successful or successful in achieving efficiency and effectiveness outcomes. A similar report by Domberger and Rimmer indicated savings from 10 to 20 per cent. Other comments by Domberger at a contracting seminar in Western Australia in 1994 indicated there were large potential savings to the people of Western Australia by combining the discipline of the marketplace with the control and accountability traditionally associated with public sector management.

An overseas report from the United Kingdom Audit Commission reported estimated gains of around 20 per cent from contracting, although there were considerable variations around this figure. In other words, some results were very much higher and some lower than 20 per cent. In the United States a similar report indicated gains of 20 per cent from the Office of Budget Management. Both the United Kingdom Audit Commission and the US Office of Budget Management have similar roles to that of the Auditor General in this State. The Commonwealth Department of Defence reported significant savings of up to 30 per cent on particular contracts in its "Canberra Bulletin of Public Administration".

Main Roads also took account of government guidelines in relation to contracting and tendering. That is a key government policy. Potential savings of around 20 per cent are achievable. This advice came from the Premier's Office by circular No 46 of 1993. That

circular indicated that these benefits should be sought for the community.

In 1993 the Commonwealth Government required all national highway maintenance work to be subject to competitive tender. This was in addition to what was already the case with new construction work and larger maintenance projects. As a result Main Roads had to establish processes for maintenance by contract to obtain funding from the Commonwealth otherwise we would have been in breach of the agreement for the federal funding for national highways.

In March 1994 the Public Sector Management Office produced guidelines on competitive tendering and contracting by agencies. Copies of these documents are available to the committee. The Government policy on buying wisely also indicates that chief executives are to expose the activities of their organisation to competition and, in addition, are to adopt measures to support and encourage competition and create the right environment for market development.

With that brief summary of the background and also with more information of that nature available to Main Roads we developed a Best Roads blueprint in 1995. A copy of that document is tabled. That outlined Main Roads' new role as road owner and manager.

A key strategy in this document was the outsourcing of up to 100 per cent of metropolitan construction maintenance and 70 per cent of rural construction maintenance. The estimated savings in 1995 were expected to be \$85m over five years. Again, that would be achieved by competitive tendering. In addition, the strategy emphasised the need to dispose of surplus assets and identified realisable assets in the order of \$35m which could be disposed of over five years. By the end of the 1996 financial year \$19m of these assets have been realised and the money transferred back to the road network.

As part of the Best Roads project we recognise the need to develop a framework that identified those elements critical to the success of the organisation in the new environment and to ensure the delivery of the best value for money service to the community.

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As the commissioner has just indicated, a review and redefining of the blueprint is under way. This review commenced in late 1970 and is being assisted by expert external advice and also by experienced staff within the organisation. As part of our changed management process and to ensure that we continually improve our organisation and deliver the best product, Main Roads is applying the principles and practices of total quality management - TQM - which aims to achieve best practice in the provision of a safe and efficient Western Australian road network in an environmentally sensitive manner.

The TQM strategy was introduced in 1993. The principles of TQM are based on the Australian quality awards criteria and place particular emphasis on the partnerships aspect of these criteria, which aims to reinforce our relationship with local government, industry, suppliers and other agencies. A TQM matrix has been developed to promote TQM through planning and measurement and is used to improve management processes.

In 1996 Main Roads received an Australian Quality Award for achievement in business excellence.

That is some of the background to the changes that have taken place over a number of years. Page 5 indicates the level of contract expenditure since 1987-88. The table indicates that in the budget years 1987-88 to 1996-97, between 72 per cent and about 80 per cent of our total expenditure was on works, goods and services, so we have been a high contracting out agency and we will probably continue in that way. The slight upturn in expenditure probably reflects the additional funds program which came in a year or two ago. Most of that work went out to contract. That program was the 4¢ a litre increase in the fuel levy, and I think about 90 per cent of that program was intended to be contracted out.

To give you an example of how we are going in the contracting area, we have taken two years and identified contracts over \$50 000; we have taken off the minor ones. In 1995-96, 81 contracts were awarded for \$403m, and as at 11 January the contracting price had increased by \$14m, or 11 per cent. The important number there is 11 per cent.

In 1996-97, 154 contracts valued at \$250m were awarded, and the ones that have been completed increased by 3.5 per cent. We are making a constant effort to improve our performance and management of contracts, and to avoid changes to contracts which increase the price.

Main Roads has a quality management supply function which was certified to Bureau Veritas standards in 1994. This certification has been maintained and requires Main Roads to have a comprehensive management system for goods, services and works. Main Roads has been granted a total exemption by the State Supply Commission so that it can carry out all its contract management under its own control. This indicates that Main Roads is recognised by the State Supply Commission as having substantially satisfactory procedures.

Notwithstanding that, we instituted a quality audit by external auditors of our processes, which found that we have a good level of conformity with existing policies. It made a number of recommendations to improve efficiency and effectiveness, and the majority of these recommendations were implemented. The audit and the action taken satisfied the State Supply Commission, the Auditor General, and also Main Roads.

Main Roads, in recognition of this increased activity in the contracting area and the need to ensure that we have better management procedures, developed a contract management system - CAS - with the objective of providing better information to managers and organisations to enable them to be informed purchasers, of ensuring we effectively manage and report on contracting activities, and of generating standard contract documentation in a timely and efficient manner.

CAS has generated considerable interest from other sister organisations and States because it provides management information that is needed in this changing and competitive environment. I have listed the organisations that have implemented CAS, which include Western Australian government departments, the City of Wanneroo and the Departments of Transport of Tasmania and South Australia.

We have developed standard contract procedures to ensure that all our staff provide equitable and clear instructions and guidelines to contractors. We have introduced probity auditing, which ensures that a person external to the supervisor but internal to Main Roads checks the

process of contract awarding and raising. The objective is to ensure that competition is fair and open, that probity applies, and that commercially sensitive information is not made available to the competitors or the people who are tendering, because it would not be to their or the Government's benefit if that information were made available to competitors.

We have recognised the need to improve the training of our professional staff, and in conjunction with Deakin University and the Association of Professional Engineers we have developed an accreditation course on contract management. Seventy-five staff have already participated in that training. The State Supply Commission has introduced an accreditation model for managing the devolution of all supply activities, and a regular audit of Main Roads based on this accreditation model found that Main Roads has a well structured supply function and performs extremely well in relation to the accreditation attributes of the model, and that in some respects Main Roads can be regarded as a centre of excellence - that is its comment, not ours - particularly with regard to record keeping, approach to contract management, and ethics training. In light of that, the State Supply Commission has invited Main Roads to participate as a mentor agency in its purchasing centre of excellence and mentor agency initiative to help other government agencies along this path.

The Commissioner of Main Roads was a member of the State Supply Commission in 1995. I am currently a member of the state tender committee and have been for some time. Mr Mason, the manager supply, participates in the state training supply committee. We have participated strongly in developing the policies, from the practical and operating agency point of view, that are coming down from the State Supply Commission, to the extent that I think it appreciates very much the work that we are doing. We conclude from that that we have a well developed supply framework for managing contracts and this has been recognised by other people.

The CHAIRMAN: We will now move on to questions, and if there are any other matters that we do not cover today the committee can write to you or ask you to come back.

Hon BOB THOMAS: I wish to refer to the answers you gave to the specific questions we raised with you. I appreciate that a lot of information has been supplied in this document, and it will take me some time to digest it, so I may ask the committee to seek further information. You indicated that the tender price for the Sues Road project was \$13m but it blew out to almost \$18m. I understand that that project cost a lot more than that and was a \$40m project all up. Can you explain the difference?

Mr WARNER: I am sorry. We may have a communications problem. Sues Road was a subset of the larger mineral sands project. We thought you were homing in on Sues Road. You are correct. The cost of the larger mineral sands project was significantly more than that; it was in the order that you mentioned.

Hon BOB THOMAS: Perhaps I did not use the correct term. Can you provide the committee with information about the mineral sands road project?

Mr WARNER: Yes, but not today.

Hon BOB THOMAS: If we could have that in writing I would appreciate it. You indicated that about 60 per cent of the increase was for scope changes. What do you mean by scope changes for Sues Road?

Mr WARNER: The mineral sands project involved several contracts and also some direct management works. The project was being fast tracked in order to get the roads in place so that the development could be accelerated and the transport operators could work, and to remove the environmental concerns of some residents in that area about heavy transport going through their community. We let contract No 23/95 for this section, and during the course of that contract, because of what we believed to be the need to accelerate the work, we brought forward work that would have been done on the Samson-Sabemo section, which is another contract. Basically the \$3m of scope changes is added work that would have been in another contract.

Hon BOB THOMAS: The cost of \$3m for preliminary earthworks appears to me to be a lot of money. How long was that extra section?

Mr WARNER: I will provide that detail when we give you information on the overall mineral sands project. If we had not done this work here, it would have been added onto another contract. When I give you the big picture, you may be able to see that.

Hon BOB THOMAS: That \$3m in the context of an initial tender price of \$13m comprises 22 per cent. It seems to me to be an extraordinarily high figure for some additional work that you have done.

Mr WARNER: Main Roads decided to extend the 38 kilometres to I am not sure exactly what point, and we asked the contractor to keep going and do another X kilometres. We concluded from negotiations with the contractor that that work was worth \$3m, and we added it onto the existing contract. It was not the scope of the original contract that blew out by \$3m.

Hon BOB THOMAS: I understand that. I am saying that the cost of the earthworks, which is only a part of building a road, for an extra few kilometres comprises almost 22 per cent of the total cost of that Sues Road project. That is an extraordinarily large amount of money.

Mr WARNER: I can give you a very high level summary of the work.

Hon BOB THOMAS: What do you mean by "Design change (sag curves)"?

Mr WARNER: There were some changes in the road design and some curve realignments had to be made. These decisions were made by Main Roads management during the course of the contract in order to improve the outcome, and we authorised these changes to the contract. They were not changes that the contractor inflicted upon us.

Hon BOB THOMAS: I would like you, for all of the questions, to elaborate on what was done, because to the laymen here the words "Design change (sag curves)" mean nothing.

Mr WARNER: We will do that.

Hon BOB THOMAS: Will you give us the detail of what you did, because we have no idea of whether it was excessive, value for money, or whatever?

The CHAIRMAN: Is that for all of the projects?

Hon BOB THOMAS: Yes. It will probably truncate my questions if you do that for all of the



projects.

Mr WARNER: I have a very high level, one page summary, which is probably too high level. If we go into more detail we may have to give you a more voluminous report.

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Hon BOB THOMAS: I would like to know exactly who did what. Did Main Roads' engineers design this road or was that function contracted out?

Mr WARNER: That will be covered in the brief. Some work was done by Main Roads and some was done by external designers. I do not have that information in my head, but I will cover it in the summary of the mineral sands projects.

Hon BOB THOMAS: Were all the road projects designed by Main Roads or were they contracted out and, if so, to whom, or were they designed in-house and contracted out?

Hon MURIEL PATTERSON: Can you add the detail about the unsuitable material?

Mr WARNER: Schedule rates contracts involve telling the tenderers that there is X metres of material to be shifted. If in the process that amount becomes X plus, the contractor is entitled to a variation. That would be a requirement to move unsuitable material at agreed rates between the contracts. Those amounts are measured and certified by our staff and variations are made accordingly.

Hon BOB THOMAS: But this is \$499 000; it is about 3 per cent of the original tender price. That is a lot of money.

Mr WARNER: This is a 37 kilometre section of road.

Hon BOB THOMAS: This \$499 000 involves carting excess material. There might be some variation to the contract.

Mr WARNER: Again, this is a high level summary of complex issues. It is the cost of unsuitable materials identified during the course of the contract that had to be rectified. More detail will be provided on the whole project.

Mr DRABBLE: The member asked a question about the earthworks. Mr Warner's reply was that another project was added to this, which meant additional road kilometres being constructed under this contract. Presumably the material matter also related to more road kilometres than were originally contracted.

Hon BOB THOMAS: That might be the case and I look forward to reading the information that will be provided.

I refer officers to the Great Eastern Highway project. I note an extra \$603 000 for scope changes, which involves shoulder widening and passing lanes. How many extra passing lanes were constructed?

Mr WARNER: I am not sure - it was one or two. Again, these scope changes were authorised by Main Roads after the contract had been let. The contract was in process and

Main Roads required the contractor to do additional work. These works were authorised by Main Roads and estimated in accordance with the schedule rates in the contract and agreed with the contractor before the work was commenced.

Hon BOB THOMAS: Why were they not included in the initial design? Did Main Roads have a program to install extra passing lanes on major highways or was it something that should have been included in the initial design?

Mr WARNER: With hindsight, it should have been included in the original design. Like all these things, it depends on the level of design detail in the specifications prior to tender. It is much more expensive to go into great detail - that is, to specify exactly what is required. However, if the specification is produced at a different level, one balances the risk of the cost of that against the risk of having changes made during the contract.

Hon BOB THOMAS: If Main Roads were to construct a passing lane as a part of a highway construction project, what would be the additional cost? Surely, it would be much less than if it were constructed later.

Mr WARNER: That sounds reasonable, but it depends on the timing. If it were totally separate from the contract, it would involve establishment costs and so on with all the associated overheads. If the change were made at an appropriate time - for example, before the contractor reached that section of the road - it could be negotiated. Generally we try to negotiate changes to coordinate with the construction program. In that case, the cost could be minimal. Somewhere between the two is also a price -

Hon BOB THOMAS: In answering that question you indicated that the quality of the design is dependent on the amount of information specified in the contract. To save money Main Roads tends not to include too much detail in the specifications. Where money has been saved by not specifying too much in the tender designs has the cost of building roads been greater because the design was not as specific?

Mr WARNER: It is a question of risk sharing. When the contracts are very detailed any minute changes can lead to the contractor's requesting a variation. Main Roads generally concludes it is better to move to design and construct contracts. It requests that the contractor design and construct the road to meet its desired outcomes. That experience has been taken on board in this review of the contracting strategy to improve the overall outcome.

Hon BOB THOMAS: Was the Great Eastern Highway done that way?

Mr WARNER: No.

Hon BOB THOMAS: I see problems. If Main Roads were to ask the contractor to design and construct the highway, construction commenced and it then said that it needed more passing lanes, that would be horrifically expensive.

Mr WARNER: Of all the contracts the member has selected to examine, this is probably the one about which we have had the most concern. The contractors had concerns, as did Main Roads.

Hon BOB THOMAS: What concerns?

Mr WARNER: It was a difficult area in which to work and the rain interfered with the contract. The specifications were not correct at the beginning and we had to make design changes.

Hon BOB THOMAS: What did you get wrong?

Mr WARNER: That relates to the \$603 000. We will elaborate on that.

Hon BOB THOMAS: Who designed the roads?

Mr WARNER: I think it was Main Roads, but we will provide that information.

Hon BOB THOMAS: How many metropolitan intersections were covered in the road line marking contract?

Mr WARNER: I do not have that detail here. That might be a substantial activity -

Hon BOB THOMAS: It should have been specified in the contract.

Mr WARNER: We certainly have the records, it is a question of how quickly they can be produced. We are talking about three contracts. I presume that the member is referring to contract 254/96. We will examine that in detail.

Hon BOB THOMAS: What defects have been identified there?

Mr WARNER: Some matters are unresolved between Main Roads and the contractor amounting to \$25 000 for nonconforming and unauthorised work.

Hon BOB THOMAS: Can you elaborate on that?

Mr WARNER: I do not have the details, but I will provide them. Main Roads has not paid that money to the contractor and he will not be paid until it is satisfied that the work is acceptable.

Hon BOB THOMAS: How many line marking contracts have been let in the metropolitan area?

Mr WARNER: Are you referring to existing contracts?

Hon BOB THOMAS: I would like information about those let in the past three years.

Mr DRABBLE: We will take that question on notice.

Hon BOB THOMAS: Is Main Roads considering legal action against any of the line marking contractors?

Mr WARNER: No. As stated on page 12, no action is contemplated because Main Roads is not paying for nonconforming work and it has a bank guarantee for the defects liability period in relation to this contract.

Hon BOB THOMAS: What about the others?

Mr WARNER: I will check that.

Hon BOB THOMAS: I am interested in a Victorian company that has undertaken line marking for Main Roads.

Mr WARNER: The company is Linecorp Roadmarkers Australia, which has had three contracts. Main Roads is not contemplating any action against that company.

Hon BOB THOMAS: Is Main Roads contemplating legal action against other line marking contractors?

Mr WARNER: I will check that.

Hon BOB THOMAS: Have any of those line marking contractors used inferior paint to that specified by Main Roads?

Mr WARNER: Page 13 makes reference to comments about some nonconforming work in the Lake Grace area.

Hon BOB THOMAS: I am referring to the metropolitan area.

Mr WARNER: I will check that. If the member has any specific contractors or areas about which he is concerned, it would help if we had that detail.

Hon BOB THOMAS: I would prefer to have the information provided. Page 13 contains reference to nonconforming work at Lake Grace. What was that?

Mr WARNER: It was minor work that did not meet the specifications. Again, this is a high level summary. The work was rectified at the contractor's expense with no charge to the community. Main Roads has no record of incorrect line marking on the contract.

Hon BOB THOMAS: I would like more detail about the nonconforming work.

Mr WARNER: It was of a minor nature.

Mr DRABBLE: We will find out what it was.

Hon BOB THOMAS: What were the specific variations on the Reid Highway project? What was the initial tender price for the Polly Farmer highway/tunnel project?

Mr WARNER: I have provided that information in response to several parliamentary questions, but I would like time to provide details. I do not want to misquote the figures.

The CHAIRMAN: Will you provide those figures?

Mr WARNER: Yes.

Hon BOB THOMAS: What variations have been made to that project and what is the expected cost now?

The CHAIRMAN: Perhaps it would be appropriate to provide a summary similar to that for

the tunnel.

Mr WARNER: For the whole project or just the tunnel?

Hon BOB THOMAS: The \$400m project.

The CHAIRMAN: The whole project.

Mr WARNER: I will provide that.

Hon BOB THOMAS: This morning's *The West Australian* states:

The cost of a private investigator tracking the source of a leaked Main Roads document has blown out from \$5 000 to at least \$20 000.

The Institute of Mercantile Agents has indicated the \$20 000 seems excessive in terms of other comparable investigations. Why is it costing more for this investigation?

Mr DRABBLE: The spokesman from the Institute of Mercantile Agents qualifies the \$20 000 by saying that it would normally equate to one month's work by two investigators. Other parties have been assisting the investigators in the Main Roads inquiry.

Hon BOB THOMAS: Are the two investigators both licensed?

Mr DRABBLE: One is licensed. The two investigators, or the two people involved in the investigation, are being assisted in other areas related to this inquiry. Therefore, more than two people are involved. That is why the expected cost of the inquiry is about \$20 000.

Hon BOB THOMAS: Who are the other people assisting this inquiry?

Mr DRABBLE: They are involved in information technology and are checking some of the IT systems in Main Roads - an action I am most comfortable with in terms of the scope of the investigation.

Hon BOB THOMAS: If a comparable inquiry had been done, do you not think it would have used other specialists whose costs would have been included in the \$20 000?

Mr DRABBLE: No. The spokesman from the Institute of Mercantile Agents qualifies the \$20 000 by saying that it would involve two investigators for four weeks.

Hon BOB THOMAS: I presume they would have had assistance.

Mr DRABBLE: I cannot read into the assumptions made by Mr Mick Buckley.

Hon BOB THOMAS: Was the Matson report marked confidential?

Mr DRABBLE: No, it was not.

Hon BOB THOMAS: Was the Matson report addressed to you?

Mr DRABBLE: It was.

Hon BOB THOMAS: What was in the report?

Mr DRABBLE: It was wide ranging. In broad terms, it was Cliff Matson's response to my request to comment on the Deloitte report.

Hon BOB THOMAS: Did he raise serious concerns?

Mr DRABBLE: He raised a number of concerns in support of and questioning the Deloitte report.

Hon BOB THOMAS: And that has been leaked to the Press?

Mr DRABBLE: I understand it has.

Hon BOB THOMAS: Are you uncomfortable that the public has been made aware of Mr Matson's concerns?

Mr DRABBLE: The issues are, first, the unlawful release of information. That concerns me because the information contained within Main Roads, either in commercial or personnel areas, is highly confidential. I regard any release of unauthorised information as bad behaviour and improper. Secondly, it took out of context information that was provided as part of a process. Misleading comments have been made about the direction Main Roads is taking based solely on Cliff Matson's comments. I regard that as improperly misinforming the public about the direction Main Roads is taking. Therefore, I am concerned about that.

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Hon BOB THOMAS: Initially you felt that when the document was leaked to the public it was criminal behaviour?

Mr DRABBLE: It may be that when I receive a report from the investigators I will have a clearer understanding.

Hon BOB THOMAS: Your initial comment was that it was criminal behaviour.

Mr DRABBLE: I am making that statement now.

Hon BOB THOMAS: You said it five minutes ago.

Mr DRABBLE: If I said it, it is recorded.

Hon BOB THOMAS: Why call in a private investigator rather than the police?

Mr DRABBLE: I am not precluding the matter being referred to the police.

Hon BOB THOMAS: Why not call the police in in the first place?

Mr DRABBLE: It will be an option that I will consider when I have the report from the investigator.

Hon BOB THOMAS: I take you back two and a half years to when you were the

Commissioner for Railways. There was an incident in Albany when a private contractor took over some of the Westrail operations. Oil was leaked from a holding tank. You said that quite clearly it was an act of sabotage by employees who had been retrenched. You immediately put the matter in the hands of the police. I consider that a fairly minor incident. Why did you not refer this case to the police?

Mr DRABBLE: I am not precluding this case being referred to the police. It may be it will be prudent to refer it to the police. Some matters need to be established before making that decision.

Hon BOB THOMAS: What matters are you talking about?

Mr DRABBLE: Defining the nature of the release of the unauthorised material.

Hon BOB THOMAS: You need to elaborate.

Mr DRABBLE: I believe there is benefit in establishing the circumstances surrounding the release of the unauthorised material. When those circumstances are known, a decision can be made on whether to refer the matter to the police or take action under some other regime.

Hon BOB THOMAS: Why are the police not best placed to do it rather than a private investigator?

Mr DRABBLE: I have every confidence in the police handling that matter. In this instance I have elected in the initial situation to put it into the hands of a private investigator.

The CHAIRMAN: You are a man of great faith.

Mr DRABBLE: I have good reason to have great faith.

Hon MURIEL PATTERSON: What is the average life of the line markings on roads?

Mr WARNER: I would have to get the figure for you, but it would depend on the amount of traffic. I am guessing but I would say probably three years.

Hon BOB THOMAS: Could you provide us with information about the work near Beaufort River and whether you have had complaints about the contractor using a lower volume of paint per kilometre than was in the specifications?

Mr WARNER: There was a complaint in relation to line markings. They needed to be dual markings and were double white lines over broken. That complaint was investigated and found to be correct. The error was not made by the contractor but by Main Roads. We specified the level of quality of product. The contractor applied the product at that level. The error was by Main Roads when we specified incorrectly.

Hon BOB THOMAS: Could you elaborate on that when you write to us?

Mr WARNER: Yes.

The CHAIRMAN: You said that the best value for money is one of the criteria for contracting out. Some 20 or 30 years ago a large proportion of Main Roads' work force in

country areas were Aboriginal people. Main Roads was the biggest employer of Aboriginal people in the State. Over the past 20 years those numbers have dwindled and many people I know who worked for Main Roads now do nothing and are quite capable of working. With this contracting out will there be any attempt to increase the number of Aboriginal employees in rural areas and any specifications to achieve that, or will the policy be restricted to value for money and not look at the social impacts of some of the programs which the Government is in a position to influence?

Mr WARNER: We are certainly facilitating the Government's policy for regional development and preference where it applies, not specifically in regard to Aboriginal people, but certainly the Government's policy is to give preference to Aboriginal people. We could provide you with a statement on allowances that are to be made to tenders and work done by regional contractors compared to city based contractors. We are complying with the policy and giving it our full support. With the money we are receiving from the Commonwealth Government, which we and local government are matching, we are trying to identify projects. One example is Cape Leveque where we try to encourage the local Aboriginal community to come on board and build and maintain the road. Behind that we have a program in Aboriginal communities of developing roads. We are looking at ways, in conjunction with the Aboriginal Affairs Department, to leave behind some skills in the local community. We have been working on that for a number of years and have made small gains.

The CHAIRMAN: Is it possible to build requirements to contract Aboriginal labour into some of these contracts?

Mr DRABBLE: It is possible to do anything.

Hon BOB THOMAS: Whose decision was it to call in a private investigator?

Mr DRABBLE: It was Main Roads' decision.

Hon BOB THOMAS: Who was the officer who made that decision?

Mr DRABBLE: The human resources people established the decision route that one needs to follow if there is a breach. Some matters are referred to the Anti-Corruption Commission; other matters can be referred to an internal review within an organisation; others can be subjected to a review by a private investigator; and other matters can be referred to the police. It appeared that the circumstances of this particular unlawful behaviour were better handled by a private investigator. It was a decision that I ultimately made.

Hon BOB THOMAS: What input did the Minister's office have in that decision?

Mr DRABBLE: None whatsoever.

Hon E.R.J. DERMER: I note on page 2 of your paper "Contracting Road Construction and Maintenance Operations in Main Roads Western Australia January 1998" that there is reference to the Premier's circular No 46/93 which requires the extension of competitive tendering and contracting to the public sector. Am I right in assuming that the first example of contracting out building or maintenance work occurred after the publication of that circular?

Mr WARNER: No, we have been contracting out maintenance for many, many years.



Hon E.R.J. DERMER: Subsequent to that circular have there been instances where private contractors have had access to machinery and other assets owned by Main Roads for the purpose of their work?

Mr WARNER: If there were, they would have had to pay plant hire rates. I do not know exactly. We will check that out for you. We have an internal charging system. The plant branch buys plant, runs it and allocates it to regional operation centres. They pay a cost for that for the depreciation of the plant. If any such equipment were used by other people, it would certainly be charged out.

Hon E.R.J. DERMER: Can we assume that in every instance where assets owned by Main Roads were used by contractors they would have paid commercial rates?

Mr WARNER: To the best of my knowledge that is our policy. If there were any breaches of that, we would not continue it. If you give us any information, we will find out about it.

Hon E.R.J. DERMER: Will you elaborate again on the structure within Main Roads which is responsible for determining that commercial rate?

Mr WARNER: We have a plant branch which is virtually the internal owner of all our equipment. It has a plant management system. It buys it and manages repairs and the running costs of operating the plant. A regional manager in Albany, for example, would get the plant from the plant branch and pay it a hire rate which covers his job costs. The income generated goes towards maintaining the plant and replacing it when it is worn out.

Hon E.R.J. DERMER: We can be assured that in every instance a commercial rate has been charged?

Mr WARNER: If you have any examples we will follow them up. It is certainly not our policy to give government equipment to anybody without recovering costs. If there is an emergency with a cyclone or some other natural disaster, we often bring equipment in to help the community. However, on a commercial basis - no.

Hon E.R.J. DERMER: On pages 4 and 7 of your paper there is a reference to total quality management and to a supply function quality management system which appears to have been established in 1994. There is also a reference to the Stanton Partners' audit of the procurement function from November 1995. Am I correct in assuming that quality audit of the procurement function would have been involved in assessing the quality of construction and maintenance work?

Mr WARNER: It was to ensure probity; that procedures have been properly followed; that documents and confidential information were securely stored; and that the laid down procedure Main Roads had established for various officers when assessing and allocating work when calling tenders was being followed.

Hon E.R.J. DERMER: Which part of Main Roads is responsible for assessing the specifications for the quality of maintenance or construction work?

Mr WARNER: Depending on the area where the work is generated, the regional manager would have a prime role in defining the outcomes he would want to achieve. Specialist groups in the contracting management branch would help with their experience in putting a

package together. A team would be involved. If it were a large contract, several resources from head office would be used with the regional manager. They would coordinate and produce an outcome for Main Roads.

Hon E.R.J. DERMER: I noted in your answering Hon Bob Thomas earlier that quite clearly you now have a policy whereby if the quality of contract work does not meet specifications, payment is contingent on the contractor bringing the work up to standard?

Mr WARNER: Yes.

Hon E.R.J. DERMER: Has that policy applied consistently since the publication of the Premier's circular No 46/93?

Mr WARNER: It has always been our policy. I do not know of any areas where it has not been applied. We have audit procedures. The internal audit branch goes through and assures itself about the work being authorised. A certifying and an incurring officer have to certify that the work has been faithfully performed within the schedule of rates and so on as required under the Financial Administration and Audit Act. The Auditor General also looks at our procedures. That is not to say that there could not be instances where some malpractice or some shortfalls have occurred. We are emphasising in total quality management that we are continuously trying to improve our performance.

Hon E.R.J. DERMER: In the period since the publication of Premier's circular 46/93 have there been any instances where a contractor's quality of work on construction and maintenance has been of such a poor standard that a project has needed to be either redone or the work repaired either by staff of Main Roads or by a new contractor?

Mr WARNER: Yes.

Hon E.R.J. DERMER: Is there any estimate of the total cost of redoing work, which has been necessitated by contractors' poor quality work?

Mr WARNER: The extra cost for poor performance would be on the contractor's shoulders.

Hon E.R.J. DERMER: I would be grateful for a dollar figure of any costs which at the end of the day would have rested with Main Roads when work had to be redone by fresh contractors or Main Roads' employees where the initial work was not of good quality.

Mr WARNER: To the extent that we can, we will provide that. Bear in mind that the contractor bears the costs, not us. If a contractor does poor work we say that it is poor and we will not accept it and he must bring it up to standard. We could have a guess. We would not have a record of it. When we note poor work the rectification cost is on the contractor and we would have no record of his costs.

Hon E.R.J. DERMER: There is a very genuine public interest. In the period since the publication of the Premier's circular 46/93, how much money has been lost to the Western Australian taxpayers by Main Roads being unsuccessful in recovering costs resulting from any failure of contractors to meet the quality of service required?

Mr DRABBLE: We could answer that with a slightly different question.

Hon E.R.J. DERMER: I will rephrase the question. It is where a cost has been incurred by having to duplicate or redo work in order to overcome problems that have arisen from shoddy work by contractors and where that has finished as a cost to Main Roads which it has not been successful in recovering.

Hon SIMON O'BRIEN: On page 5 of your very useful submission you state

Main Roads has consistently sourced over 70% of its total resources from external suppliers for works, goods and services.

The table goes back to 1987-88 where one can see the figures from 72 per cent. Up to 1996-97 the figure is 8.3 per cent. Do I correctly conclude from that that outsourcing of Main Roads' work in recent years is in the order of 8 per cent of the total?

Mr DRABBLE: One may draw that conclusion.

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Hon SIMON O'BRIEN: With the great deal of froth and bubble one hears in relation to some of the matters we are discussing today one is led to believe that the amount of work done by Main Roads, as a result of outsourcing, has declined from a very high figure, say, 98 per cent down to, say, 5 per cent. However, that is not the case, as it has declined, in round figures, from 28 per cent down to 20 per cent.

Mr WARNER: That is correct.

Hon SIMON O'BRIEN: Thank you for clarifying that for me.

The CHAIRMAN: In your earlier efforts you related some of the increase in contracting out to the additional funds programs. Is that correct?

Mr WARNER: The second line, payroll, indicates that the payroll line is pretty constant. In 1994-95, the figure was \$89m, in 1995-96 it was \$90m and in 1996-97 the figure was \$92m. Therefore, between those three years, you will notice that the total expenditure rose from \$348m to \$535m, but we kept our work force payroll cost pretty constant. Most of the additional revenue from the additional funds program - the 4¢ a litre levy - was contracted out. This was in addition to the work already contracted out.

Hon SIMON O'BRIEN: Going back to the start, there was talk about obtaining more funds through the disposal of assets no longer utilised with private contractors carrying out the work, and \$35m was the estimate. At the end of the 1996-97 financial year, about \$19m was realised from asset sales, as cited in this document.

Mr WARNER: It is on page 4.

Hon SIMON O'BRIEN: Where has that \$19m realised gone?

Mr WARNER: To the Main Roads trust fund, from which our total expenditure is drawn. Consequently, that money will be directed to road work.

Hon SIMON O'BRIEN: So, it has categorically not gone to consolidated revenue.

Mr WARNER: Absolutely not.

Hon SIMON O'BRIEN: I refer specifically to the page summary on the Reid Highway, stage one. I am aware that more detail will be provided on all the matters, but I want to follow up one matter today if possible. Under "principal variations" a reference is made to "unsuitable material". On face value, unsuitable material as an expense item could mean all sorts of things; namely, the road base could be found to be different from that expected, people could have delivered the wrong material, and so on. What is meant by "unsuitable material"?

Mr WARNER: In this case, in general terms, it was the nature of the soil in the area where a road was being built. We identified an amount of silty or clay soil - I am not an engineer - or whatever was the unsuitable aspect of the environment from a road building point of view. Therefore, greater amounts of the material needed to be shifted than identified to the contractor in the specifications. He quoted moving X metres of soil at a certain price, but it became X amount of soil plus Y, and we had to pay a higher rate as a result of our underestimation of the amount of material that had to be removed or carted in.

Hon SIMON O'BRIEN: Is it not until you get on-site and attack the earth's crust that you know what is below?

Mr WARNER: That is a major element.

The CHAIRMAN: You should employ more geologists!

Hon SIMON O'BRIEN: If we are talking about \$2m here, what is the responsibility of the tenderer to establish how much material is to be removed?

Mr WARNER: It comes down to risk specification. We put out specifications for X amount of material to be removed, and people tender on that basis. We try to make the process fair and open to tenderers. They quote on the basis that they can move the material for so much a metre. The tenderer bases his price in part on that calculation. You see a couple of changes in this contract as reductions were made to the price with the negative \$434 000, \$875 000 and \$51 000. They were in the contract and were taken out with the consent of both parties. It was a saving. When extra work is involved, contractors justifiably demand payment for their extra activity.

Hon SIMON O'BRIEN: Clearly, this was extra work found necessary by Main Roads. It was not a case of a cost blow out by the contractor, for which Main Roads was hit with the tab.

Mr WARNER: All of these changes are authorised changes by Main Roads' engineers and supervisors. A contractor cannot go ahead and change things without consent. Without a variation order, he would not be paid. He must negotiate during the course of the contract by saying, "Here is a problem." We consider how to fix it and say, "You will do this work, and we will pay this amount." We then issue a variation order. We tell the contractor to carry out or stop certain activity, and that there will be the cost or saving in the variation order. All these listed items would be covered by numerous variation orders - many more than the lines on this paper.

Hon SIMON O'BRIEN: I return to the level of contracts going out. Possibly, the table on page 5 is a good reference point. In answer to a couple of questions, it was pointed out that overall the payroll at Main Roads has remained fairly constant in terms of staff retained and

the cost to retain the staff. What can you tell us about your policy towards staff? I hear repeatedly from a variety of sources that thousands of Main Roads staff will be laid off here, and a few hundred over there. What is the truth of the matter? Has your staffing level changed? Will it change dramatically?

Mr WARNER: For example, in 1992-93, the payroll was \$91, and in 1996-97, it was \$92m. That is a dollar amount, and in real terms, \$91m in 1992-93 probably bought more resources, such as people and skills, than it buys today. The numbers in our annual report indicate that staff numbers have been steadily declining. Our strategy over at least 10 years, probably more, has been to consolidate our work force and reduce the numbers, and to put the consequential saving into additional contract activity.

The CHAIRMAN: What page number is that?

Mr WARNER: I refer to page 33 of the annual report, which indicates that in 1990 we had 2 187 employees, and in 1997, we had 1 600 employees. The numbers have followed that trend line for quite a while: At one stage we had 3 500 employees.

The CHAIRMAN: If this employee level is to drop in the future, and Main Roads basically becomes a shell of its former self, are you concerned about the intellectual property loss which would result? For example, 10 or 15 years ago, Main Roads Western Australia probable led Australia in bridge design and such areas. Can you purchase that same level of skill in the private sector?

Mr DRABBLE: I am untroubled by the prospective changes which will take place in Main Roads. Clearly we must establish as we go forward the critical skills needed in the organisation to be an effective manager of the road network, rather than a manager and builder-constructor-maintainer. That is precisely the work we are conducting now; we are identifying the skills needed and the numbers required so we can professionally manage the network.

Regarding the capability of the private sector in Western Australia, Australia and internationally, I do not believe that there is any risk to Western Australians obtaining professional or good advice either within or external to Main Roads.

Hon LJILJANNA RAVLICH: I direct my questions to Mr Drabble. How much was paid by Main Roads for Deloitte's 18 page report?

Mr DRABBLE: I understand it was in the order of \$25 000.

Hon LJILJANNA RAVLICH: Is there a comprehensive cost benefit analysis as part of the report? Was one completed which would justify the contracting out of Main Roads' functions, and if so - it is not in the report - where can we find it?

Mr DRABBLE: No, it is not in the report.

Hon LJILJANNA RAVLICH: Was one carried out as part of the report; if so, from where can we access it?

Mr DRABBLE: One was not done so therefore you are unable to access one.

Hon LJILJANNA RAVLICH: If a comprehensive cost benefit analysis was not done to demonstrate the efficiency gains of contracting out Main Roads' functions, how can we conclude that there would be projected savings of \$20m to \$40m annually?

Mr DRABBLE: To me, it is a question of the gains to be achieved as a result of pursuing Deloitte's recommendations, as opposed to a cost benefit of doing the analysis itself. I am confused about where you are seeking the benefit from.

Hon LJILJANNA RAVLICH: In order to conclude that clear savings would result from contracting out Main Roads' activities, one would assume that a comprehensive business case, inclusive of a cost benefit analysis, would have been completed. You have just told me that a cost benefit analysis was not completed as part of the Deloitte's study; however, the report concludes that \$20m or \$40m in savings can be expected annually. Do you think that that is good economic sense and a good economic conclusion?

Mr DRABBLE: I believe the arguments presented by Deloitte's are very sound. They are arguments supported by evidence we presented in the introduction this morning; evidence I have observed in my previous role as Commissioner of Railways; and evidence of assessments made between in-house bids and private sector bids for some of the term maintenance contracts in Main Roads.

Hon LJILJANNA RAVLICH: It would not be in the interests of Western Australians -

The CHAIRMAN: Can we have a question, please.

Hon LJILJANNA RAVLICH: My next question relates to the report specifically. I refer to a quote from page 6 of Deloitte's report.

Mr DRABBLE: I do not have it with me.

HON LJILJANNA RAVLICH: I give you the general concept. Have you read the report?

Mr DRABBLE: Yes, I have read it.

Hon LJILJANNA RAVLICH: It makes this statement "that outsourcing construction and maintenance activity and routine technical services, assuming a 15 per cent efficiency gain, could deliver \$19.9m to the road program". The report has made an assumption about a 15 per cent efficiency saving, and used it in the calculation to determine how the changes will be a good thing for Main Roads. Are you aware of how the 15 per cent efficiency gain was calculated? If so, what were the variable components used to calculate the 15 per cent efficiency gain? Also, over what period were the savings calculated? Are we talking about a one-off saving or projected savings over the next 30 years?

Mr DRABBLE: The 15 per cent efficiency gain was based on experiences of other government agencies in savings made as a result of moving to a contracting out environment. Again, we referred to many of those in the earlier part of our presentation this morning. Deloitte said that savings are typically in the order of 20 or 30 per cent, but to be conservative they estimated that Main Roads can save 15 per cent.

These savings would accrue annually. They are not a one-off and would apply year in, year out for the time that Main Roads pursues 100 per cent outsourcing.

Hon LJILJANNA RAVLICH: Is it good enough for the Commissioner of Main Roads to accept that because there are projected savings in other government agencies, this saving will be real? I put to you the projected and actual MetroBus savings: I understand that when the first bus contract went out, the projected saving was \$40m and I understand the Auditor General found that the real savings was only \$6.4m. What guarantees would there be that the projected savings from the privatisation of Main Roads' function would be \$20m to \$40m annually and not, say, \$5m annually?

Mr WARNER: Even if it were a \$5m savings, would you not take it? Projected savings are your best estimates at the time.

Hon LJILJANNA RAVLICH: Let us assume it is a loss then.

Mr DRABBLE: Deloitte has said that based on the experience of others, these are likely savings. The judgment I make - in drawing on my experience with Westrail and other organisations - the order of magnitude of the proposed savings seems achievable and realistic. The decision for Main Roads is to determine whether to test the market. We go out and test the market. As a result of the tenders which come in, their nature and prices, we make a determination about the savings which will accrue to Main Roads as a result of signing contracts with those parties. We will not sign contracts with the private sector if value for money is not involved.

Hon LJILJANNA RAVLICH: One of my concerns is that your current calculation and projected savings may be difficult to sustain over long periods. One of the difficulties Main Roads face - we see this repeatedly, and I have seen a lot of information on contracts of late - is approved variation orders with contracts. The Reid Highway contract had the original contract sum of \$9.5m and a variation of \$4.497m. It is approximately a 50 per cent variation. You are telling me that you can project a savings value now, and apply that value down the line. Nevertheless, we see enormous variations, apart from any other factors, with original contract sums and variations in contract sums.

Mr DRABBLE: I think you are confusing variations with overruns in budget. I think if you understood the differences, there would not be a question.

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Hon LJILJANNA RAVLICH: I think there are many questions -

Mr DRABBLE: I am sure there are.

Hon LJILJANNA RAVLICH: - in relation to whether the savings of \$20m to \$40m can be sustained over the next 25 years. I have additional concerns on that matter. For example, the Deloitte's report said that an area of initial savings would come from three key sources: One was the sale of the fleet for \$22.8m which was calculated on the straight line depreciation method; the rationalisation of infrastructure would include the 12 workshops; and the plant fleet valued at \$29.3m. We have a number of components in that. If we estimate savings of, let us say, \$20m and we are looking at shedding staff, surely savings in the first year will be considerably higher than they will be in successive years? How has this been accommodated in terms of the long term calculations of cost benefits from contracting? They are valid questions surely?

Mr DRABBLE: They are. Maybe a short answer to this is to give a recent example which, again, is one that has been misrepresented in the Press over recent months. That relates to a tender for maintenance in the great southern region. Eight private companies bid for that work. There was also an in-house bid by Main Roads. The successful company's price was of the order of 24 per cent lower than the Main Roads' in-house bid. The difference was of the order of \$21m compared with \$24m. The other interesting point is that seven of the eight private sector tenderers had prices lower than the Main Roads' internal bid. In terms of ranking, Main Roads came in eighth out of nine entities. It is a bit of a journalisation to say that those savings are typical of what we might find across the network. However, it would be improper for me to ignore those savings and advantages that we already see coming from the private sector, and the recommendations of the Kelly report, the Deloitte's report and what appears to be emerging from the Price Waterhouse report. I think it is responsible for me and for Main Roads to pursue the recommendations coming forward in the reports and to deliver those benefits back to the taxpayers: Better roads, safer roads and more jobs.

Hon LJILJANNA RAVLICH: I will change the focus. One of the issues raised earlier related to variation orders and changing the scope of a contract etc. One of the concerns the Auditor General referred to in one of his earlier reports is that once a supplier had been found, some government agencies were continually going back to that supplier rather than going out to tender to find a new supplier once the contract had expired. It would seem on the face of it that just by varying a contract rather than going back out to get the best price from possibly a number of bidders, that there is some sort of interference in the market. It would appear there are question marks over the modus operandi of Main Roads on the basis of the findings of the Auditor General's report. Can you clarify whether you see it as a breach of tendering guidelines?

Mr WARNER: I do not believe the Auditor General's comments were made about Main Roads.

Hon LJILJANNA RAVLICH: It was not specific to Main Roads.

Mr WARNER: Where we have varied the contracts we have done it in accordance with contract specifications. We have emphasised to the committee that we are concerned about probity, fair competition and confidentiality. We are very assiduous in monitoring those aspects to ensure fairness to the taxpayers and also to the tenderers. I do not know of any instances where we have breached guidelines. I cannot sit in front of this committee and say there have been absolutely no breaches - there must be occasions in very large organisations where some things go astray. However, I do not know anything of the nature to which you refer.

Hon LJILJANNA RAVLICH: An example is where a contractor receives a contract worth \$9.5m - I cited that case, and Hon Bob Thomas cited another case earlier - and the contract is bumped up or extended by another 50 per cent of the original amount. One would have to ask whether that approved variation of \$4.5m to the value should go back out to tender.

Mr WARNER: With respect, it is not practical to do that if we have a contractor on site, building a road and, for example, we want a passing lane, drainage works or a culvert to be a bigger size. That is one of the advantages of having a schedule of rates contract because the contractor bids for a type of activity. He says if we give him this activity he will charge us a certain rate. We then tell him how much activity; for example, how many culverts. If we say six culverts, and the engineer on site finds there is a need for seven, we can then say seven.



The contractor has already bid on a rate. That is the schedule of rates. That is the understanding with bidding on those contracts for moving gravel or putting in culverts. We estimate there will be X amount of an activity, so the price is fixed. However, the volume of work could vary.

Hon LJILJANNA RAVLICH: Can we get any better than just a ballpark figure of \$20m to \$40m savings? Can Main Roads tell us that in 1998 we will have a projected saving of \$25m, and in 1999 we will have savings of X amount based on some economic calculation or measure? I read in a Chamber of Commerce and Industry report a couple of years ago a figure of 15 to 20 per cent for projected savings. It seems that somebody has picked up that figure and every time a report is commissioned that figure gets spun around. I am not at all confident there has been any great economic analysis of projected cost savings. I am very disappointed that the best that has been delivered by you today is to tell us what other agencies have achieved and that, therefore, more than likely you will achieve that. Can you do a bit better for the people of Western Australia?

Mr DRABBLE: I will certainly do my best.

Hon LJILJANNA RAVLICH: I would appreciate it.

Mr DRABBLE: A prediction is a forecast, and forecasts and predictions invariably contain value judgments. In coming up with savings in the order of 15 per cent we have endeavoured to take a conservative view of the potential savings that will come about as a result of putting this work in the hands of the private sector. Clearly our budgets submitted to the Treasurer and the Parliament will reflect the savings that will come about as a result of the outsourcing that we contemplate. At the end of the day the annual report will be the score card from which I am happy to be measured.

Hon LJILJANNA RAVLICH: It might be too late. What if your score card is no good; what will you do?

Mr DRABBLE: I believe you should have more confidence in Main Roads.

The CHAIRMAN: Does the Government ever raise with Main Roads Western Australia the extent of its unfunded superannuation liabilities and the extent to which the \$500m blowout in that area in the past four or five years is driving this reduction in staffing in departments such as Main Roads? It is a policy question that you might like to veer away from.

Mr WARNER: We had no unfunded liability.

The CHAIRMAN: You do not, but the Government has.

Mr WARNER: We meet the cost of superannuation out of operational costs. It is not coming from the consolidated fund. We pay the amount to the Superannuation Board.

The CHAIRMAN: That is your current liability, but there is a historical liability.

Mr WARNER: That is also funded in our program. All Main Roads' liability for superannuation for its employees is funded by Main Roads and does not bear on the consolidated fund.

The CHAIRMAN: The Government's contribution is being funded by you?

Mr WARNER: The employer's contribution is funded by Main Roads.

[The witnesses retired]

COMMITTEE ADJOURNED