



THIRTY-SEVENTH PARLIAMENT

REPORT 7
STANDING COMMITTEE ON ESTIMATES AND
FINANCIAL OPERATIONS
ANNUAL REPORT 2006

Presented by Hon Giz Watson MLC (Chair)

May 2007

STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

Date first appointed:

30 June 2005

Terms of Reference:

The following is an extract from Schedule 1 of the Legislative Council Standing Orders:

“2. Standing Committee on Estimates and Financial Operations

- 2.1 *An Estimates and Financial Operations Committee* is established.
- 2.2 The Committee consists of 5 Members, 3 of whom shall be non-government Members.
- 2.3 The functions of the Committee are to consider and report on -
- (a) the estimates of expenditure laid before the Council each year;
 - (b) any matter relating to the financial administration of the State;
 - (c) any bill or other matter relating to the foregoing functions referred by the House;
 - (d) to consult regularly with the Auditor General and any person holding an office of a like character.”

Members as at the time of this report:

Hon Giz Watson MLC (Chair)

Hon Nigel Hallett MLC

Hon Ken Travers MLC (Deputy Chair)

Hon Sheila Mills MLC

Hon Anthony Fels MLC (granted leave of absence from the Committee from 2 May 2007)

Staff as at the time of this report:

Lisa Peterson, Advisory Officer (General)

Renae Jewell, Committee Clerk

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REPORT OF THE STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

ANNUAL REPORT 2006

1 INTRODUCTION

- 1.1 This report provides an overview of the work of the Standing Committee on Estimates and Financial Operations (**Committee**) conducted during the second year of the Thirty-Seventh Parliament, between 1 January 2006 and 13 December 2006 (**report period**).

History and Purpose

- 1.2 On 30 June 2005 the Legislative Council (**Council**) appointed the Committee. The Committee is a standing committee, which means that its existence is not linked to a particular inquiry or to a particular time period and it continues until the Council decides otherwise.
- 1.3 Scrutiny of the estimates of expenditure and the financial operations of government is a major function of the Council. Since the establishment of the modern Legislative Council committee system in 1989, this function has been the responsibility of both standing finance committees (such as the Committee) and *ad hoc* Budget review committees (such as annually constituted estimates committees).
- 1.4 Review of the committee system in 1997 and again in 2005 led to changes in the area of the Council's consideration of the annual estimates of expenditure and the financial operations of Government, the most recent changes being reflected in the appointment of the Committee.
- 1.5 The functions of the Committee are to consider and report on matters relating to the estimates of expenditure laid before the Council each year and the financial administration of the State. The Committee's terms of reference are extremely broad, enabling the Committee to initiate investigations relating to any aspect of the financial administration of the State. This includes inquiry into any matter relating to past, current, proposed and future expenditure by the public sector.
- 1.6 The terms of reference of the Committee are:¹

2. *Estimates and Financial Operations Committee*

2.1 *An Estimates and Financial Operations Committee is established.*

¹ Schedule 1, Standing Orders of the Legislative Council.

2.2 *The Committee consists of 5 Members, 3 of whom shall be non-Government Members.*

2.3 *The functions of the Committee are to consider and report on -*

- (a) the estimates of expenditure laid before the Council each year;*
- (b) any matter relating to the financial administration of the State;*
- (c) any Bill or other matter relating to the foregoing functions referred by the House; and*
- (d) to consult regularly with the Auditor General and any person holding an office of a like character.*

Membership

1.7 The Committee comprises five Members of Parliament appointed by the Council. During the report period the Committee comprised the following Members: Hons Giz Watson (Chair), Ken Travers (Deputy Chair), Shelley Archer, Anthony Fels and Nigel Hallett MLCs.

1.8 It is significant to note that the Committee is required by the Standing Orders to have a non-Government majority.²

Staff

1.9 The Committee is supported by the Legislative Council Committee Office. During the report period the Committee was staffed by: Lisa Peterson (*née* Hanna), Advisory Officer (General); Paul Grant, Advisory Officer (Legal); Susan O'Brien, Advisory Officer (Legal); Denise Wong, Advisory Officer (Legal); Sheena Hutchison, Committee Clerk; David Driscoll, Senior Committee Clerk; and Renae Jewell, Committee Clerk.

1.10 The Committee extends its thanks to the staff of the Legislative Council Committee Office for their valuable assistance.

² Western Australia, Legislative Council, *Parliamentary Debates (Hansard)*, 30 June 2005, p3730.

2 ACTIVITIES OF THE COMMITTEE DURING THE REPORT PERIOD

Estimates of Expenditure Review - 2006/07 Budget Estimates

- 2.1 Government revenue goes into the Consolidated Account³, which is the major source of funding for the State public sector.⁴ The 'estimates of expenditure' comprise the Appropriation (Consolidated Account) Bills and the supporting documentation (**Budget Papers**). On an annual basis these are presented to Parliament in order that Government may access or 'appropriate' money from the Consolidated Account to fund expenditure by the Government over a given financial year.⁵
- 2.2 It is a function of the Committee to consider and report on the estimates of expenditure laid before the Council each year.
- 2.3 Historically in the Legislative Council annual budget estimates hearings were held over three to four days during which Members could ask questions relating to the Budget Papers. This has always provided an opportunity for the involvement of all Members of the Council not just the Members of a particular committee. Noting various criticisms about this process, the Committee has adopted an innovative procedure for the examination of the annual estimates of expenditure whereby the Committee holds estimates hearings throughout the year (**Ongoing Hearings**), as well as holding hearings on one to three consecutive days after the Budget Papers are tabled in the House (**Annual Hearings**).

Annual Hearings

- 2.4 The Annual Hearings were held on 14 June 2006. The Committee heard from all or part of the following agencies:
 - Department of Education and Training;
 - Country High School Hostels Authority;
 - Curriculum Council of Western Australia;
 - Department of Education Services;
 - Department of Environment;

³ Subsequent to the assent of the *Financial Management Act 2006* on 21 December 2006, the Consolidated Fund is now called the Consolidated Account.

⁴ The major revenue sources for the Western Australian Government include taxes, imposts, fines, rates, duties, royalties and Commonwealth Government grants: section 64, *Constitution Act 1889*, and section 8 of the *Financial Management Act 2006*.

⁵ Section 72, *Constitution Act 1889*.

- Department of Local Government and Regional Development;
- Department of Health;
- Department of Agriculture;
- Department of the Premier and Cabinet;
- Department of Water;
- Department for Planning and Infrastructure;
- Public Transport Authority;
- Disability Services Commission; and
- Department for Community Development.

- 2.5 All Members of the Council were notified of the hearings and invited to participate.
- 2.6 All of the hearings were public and the proceedings were recorded by *Hansard*. Full transcripts of evidence taken at the hearings can be found at the Committee's web page.⁶
- 2.7 The Committee refers readers to its report in relation to the 2006/07 annual budget estimates hearings for further information.⁷

Ongoing Hearings

- 2.8 The Committee conducted Ongoing Hearings in relation to the 2006/07 Budget in August, September, October, November and December 2006. The agencies which the Committee heard from are listed in table 1 below.

Table 1

Ongoing Budget Estimate Hearings

Date	Agency
28 August 2006	Water Corporation
	Department of Water

⁶ <http://www.parliament.wa.gov.au/web/newwebparl.nsf/iframewebpages/Committees+-+Current> (current at 18 April 2007).

⁷ Western Australia, Legislative Council, Standing Committee on Estimates and Financial Operations, Report 5, *Hearings in Relation to the Annual Budget Estimates 2006/07*, August 2006.

Date	Agency
11 September 2006	Legal Aid Western Australia
	Equal Opportunity Commission
18 September 2006	Department of the Legislative Council
	Parliamentary Services Department
25 September 2006	Department of Education and Training
	Curriculum Council of WA
16 October 2006	Main Roads Western Australia
	Public Transport Authority
30 October 2006	Western Australian Sports Centre Trust
13 November 2006	Department of Health
4 December 2006	Forest Products Commission
	Perth Market Authority
	Potato Marketing Corporation of WA

2.9 All Members of the Council were notified of the hearings and invited to participate.

2.10 All of the hearings were public and the proceedings were recorded by *Hansard*. Full transcripts of evidence taken at the hearings can be found at the Committee's web page.⁸

2.11 To provide a focus of inquiry the Committee chose a number of whole of government issues to address to each agency which appeared before it, including:

- Key Performance Indicators and Performance Management;
- Funding to regional and rural areas of Western Australia;
- Information systems security;
- Implementation of shared services; and

⁸ <http://www.parliament.wa.gov.au/web/newwebparl.nsf/iframewebpages/Committees+-+Current> (current at 18 April 2007).

- Fees and charges.

Legislation Review

- 2.12 Two suites of legislation, comprising five individual bills were referred to the Committee by the Council for consideration and report.

Energy Safety Bill 2005 and the Energy Safety Levy Bill 2005

- 2.13 The Energy Safety Bill 2005 and the Energy Safety Levy Bill 2005 were referred to the Committee for inquiry and report on 6 April 2006 with a reporting deadline of 10 May 2006.
- 2.14 A Subcommittee, comprising Hon Ken Travers MLC as the Convenor and Hon Anthony Fels MLC, was established by the Committee to conduct inquiries into the Bills.
- 2.15 The Bills provided for the establishment of a scheme whereby the body known as EnergySafety, which is responsible for the technical and safety regulation of the electricity and gas industry, is to be fully funded by the energy industry through the imposition of a levy on energy industry participants. The purpose of the levy is to generate income for all of EnergySafety's activities not funded through licence or direct service fees.
- 2.16 The Committee in its report, among other things, considered whether the levy is a tax or a fee for service and whether industry/consumer funding of EnergySafety is appropriate. It concluded that it could not conclusively determine that the levy is a fee for service and noted that the levy is a mechanism for recovering costs from the beneficiaries of the regulatory framework for energy safety rather than from the Consolidated Revenue Fund.
- 2.17 The Committee made eight recommendations for amendment to the Energy Safety Bill 2005 including that the Bill provide an objection and review procedure to be used by energy industry participants dissatisfied with the quantum of their levy notice.
- 2.18 The Committee refers readers to its report in relation to the Bills for further information.⁹

⁹ Western Australia, Legislative Council, Standing Committee on Estimates and Financial Operations, Report 3, *Energy Safety Bill 2005 and the Energy Safety Levy Bill 2005*, May 2006.

Financial Management Bill 2006, Financial Legislation Amendment and Repeal Bill 2006 and Auditor General Bill 2006

- 2.19 The Financial Management Bill 2006, Financial Legislation Amendment and Repeal Bill 2006 and Auditor General Bill 2006 were referred to the Committee for inquiry and report on 24 October 2006 with a reporting deadline of 21 November 2006.
- 2.20 Hon George Cash MLC was a substitute Member for Hon Nigel Hallett MLC for the inquiry. Hon Nigel Hallett MLC acted as a participating Member for the inquiry during this time.
- 2.21 The Bills repealed and replaced the *Financial Administration and Audit Act 1985 (FAAA)* which provided the framework for the financial management and accountability for departments and statutory authorities, and established the position and powers of the Auditor General.
- 2.22 It was viewed by the government that provisions of the FAAA were becoming outdated and less suited to the current accounting and financial management environment which features an increasingly 'at arms length' relationship between the Executive and government agencies and a shift from cash to accrual accounting methods. Further, there had been various recommendations to strengthen the independence of the Auditor General and the Auditor General's relationship with, and accountability to, the Parliament.
- 2.23 The Financial Management Bill 2006 provided for the control and management of public sector finances and outlined agencies' reporting obligations, while the Auditor General Bill 2006 provided for the appointment, functions and powers of the Auditor General. This separation of the two major purposes of the FAAA is consistent with the aim of strengthening the independence of the Auditor General.
- 2.24 The Committee made eight recommendations for amendment to the Financial Management Bill 2006.
- 2.25 A major focus of the Committee's inquiry into the Auditor General Bill 2006 was ensuring the independence of the Auditor General from the Executive. The Auditor General Bill 2006 considerably strengthens the interaction between the Committee and the Auditor General.
- 2.26 The Committee made 15 recommendations for amendment to the Auditor General Bill 2006. Of significance was the Committee's recommendation that a Joint Standing Committee on Audit be established comprising Members of this Committee and Members of the Public Accounts Committee of the Legislative Assembly. The Committee's view was that such a committee would considerably strengthen parliamentary involvement with, and oversight of, the Auditor General and maintain the independence of the Auditor General.

- 2.27 The Committee notes that this recommendation has been agreed to by both Houses of Parliament, although the appointment of the Joint Standing Committee on Audit has yet to be finalised by the Parliament.
- 2.28 The Committee refers readers to its report in relation to the Bills for further information.¹⁰

Matter Considered by the Committee that did not result in an Inquiry or Report

Western Power

- 2.29 The Committee undertook preliminary inquiries into the cost of the supply of electricity to regional and rural areas of Western Australia.
- 2.30 The Committee wrote to Western Power seeking information on:¹¹
- a) the current policy governing the provision of electricity to rural and regional areas;
 - b) the cost to connect electricity to a typical rural farming property;
 - c) the current cost and pricing structure of providing electricity to properties in rural and regional areas and how these cost and pricing structures were formulated;
 - d) details of Western Power's current distribution and transmission network in Western Australia, including the length and capacity of transmission and distribution lines, and details of electricity sources;
 - e) details of the amount of electricity that is being generated to service rural and regional areas;
 - f) information on the use of subcontractors; and
 - g) the impact of the Electricity Corporations Bill 2005 on the provision of electricity to properties (including farming properties in rural areas) in rural and regional areas, if enacted.
- 2.31 The Committee received a written response¹² and also a verbal briefing¹³ from Western Power.

¹⁰ Western Australia, Legislative Council, Standing Committee on Estimates and Financial Operations, Report 6, *Financial Management Bill 2006, Financial Legislation Amendment and Repeal Bill 2006 and Auditor General Bill 2006*, November 2006.

¹¹ Letter to Tony Iannello, Managing Director, Western Power, 21 September 2005.

¹² Letter from Tony Iannello, Managing Director, Western Power, 14 October 2005.

- 2.32 On consideration of the evidence received the Committee resolved not to inquire further into the matter.
- 2.33 The transcript of evidence from the hearing with Western Power and the supplementary information provided can be found at the Committee's web page.¹⁴

Miscellaneous

Office of Shared Services

- 2.34 The Committee received a briefing from the Office of Shared Services (**OSS**) on 21 August 2006. The Committee found this meeting to be beneficial in obtaining information on the history and purpose of the OSS, the operations of the OSS, the progress of the 'roll-in' schedule of the agencies to be serviced by the OSS, and how cost savings will be measured and demonstrated.

Auditor General

- 2.35 The Committee received a briefing from the Acting Auditor General, Mr Colin Murphy on 30 October 2006. The Committee found this meeting to be beneficial in obtaining information on the current activities of the Office of the Auditor General, and in highlighting both issues of concern and the manner in which the Office of the Auditor General could assist the Committee in its functions.

Iron ore industry

- 2.36 The Committee began preliminary enquiries into the iron ore industry in Western Australia. At the end of the report period, the Committee had not resolved whether or not to proceed to an inquiry into this matter.

Commonwealth-State financial relations

- 2.37 The Committee began preliminary enquiries into Commonwealth-State financial relations. At the end of the report period, the Committee had not resolved whether or not to proceed to an inquiry into this matter.

¹³ Mr Doug Aberle, General Manager, Networks, Western Power Corporation; Ms Anne Hill, Director, Industry and Community Division, Office of Energy; Mr Kenneth Bowron, General Manager, Regional Power, Western Power Corporation, *Transcript of Evidence*, 7 November 2005.

¹⁴ <http://www.parliament.wa.gov.au/web/newwebparl.nsf/iframewebpages/Committees+-+Current> (current at 18 April 2007).

Conferences

Australasian Council of Public Accounts Committees Mid-Term Conference

2.38 The Australasian Council of Public Accounts Committees (ACPAC) Mid-Term Conference was held from 26 - 28 April 2006, in Alice Springs. The theme of the conference was *Challenges Facing Contemporary Public Accounts Committees*. The agenda is extracted below:

- Previous Minutes and Membership of the ACPAC.
- Jurisdiction Reports.
- Proposed agenda for the 2007 Biennial Conference:
 - The relationship between Public Account Committees (PACs) and the Executive
 - The impact of devolution on financial, project and risk management in Public Sector Agencies
 - The role of Auditor-General and PACs as Government functions are outsourced to the Private Sector
 - Partnership models between PACs and Auditors-General
 - Recent developments in accounting issues of relevance to the public sector including progress of Financial Reporting Council's review of sector neutral accounting standards and the Generally Accepted Accounting Principles/Government Financial Statistics convergence project
 - Work on improving training available to members of PACs around the world
 - Sustainability Reporting: getting through the roadblocks
 - "Where to from here" extract from closing speech by ACPAC Chair, Mr Gary Fenlon MP - Brisbane Conference 07/02/05
 - The role of Public Accounts Committees, the Auditor General and the Executive in progressing sustainability reporting
 - Reporting on performance: recent developments and key challenges

- 2.39 Lisa Peterson, Advisory Officer (General) travelled to Alice Springs to attend the conference. The total cost of travel for the Department of the Legislative Council was \$1,253.70.

Australasian Study of Parliament Group Annual Conference 2006

- 2.40 The Australasian Study of Parliament Group Annual Conference was held from 28 - 30 September 2006 in Wellington, New Zealand. The theme of the conference was *Parliamentary Control of the Executive: The People and the Money*. The agenda is extracted below:

- i) Controlling the purse strings: parliament's historical role; public accounts committees; parliamentary scrutiny of government expenditure; parliament and the regulation of governmental advertising. Specifically:
 - Accounting and accountability; and
 - Public Accounts Committees in Australasia: The state of play.
- ii) Telling the full story? Parliament, government information, the media, and committee inquiries. Specifically:
 - Does the quality of parliamentary administration affect a Parliament's independence from the Executive and its capacity to hold the Executive to account? Some preliminary findings from the United Kingdom, Canada, New Zealand and Australia;
 - the operation of the New Zealand Official Information Act in a parliamentary setting; and
 - Orders for papers: developments and challenges.
- iii) Institutional design, political parties and the accountability of the executive. Specifically:
 - The Opposition and the accountability of the Executive in New Zealand's multi-party legislature;
 - The Opposition and responsible government in a small parliament: The case of Tasmania; and
 - Parliamentary challenges in South Africa.
- iv) Holding ministers and public servants to account: recent developments in ministerial accountability, ministers, public servants and parliamentary committees. Specifically:

- Financial scrutiny of Government by a Parliamentary Committee: The challenges facing the Estimates and Financial Operations Committee of the Legislative Council of Western Australia; and
- The Public Administration Committee: Complementing and enhancing the scrutiny role of statutory office holders.

2.41 Hons Giz Watson, Anthony Fels and Ken Travers MLCs and Lisa Peterson, Advisory Officer (General) travelled to Wellington to attend the conference. Hon Ken Travers MLC was not funded by the Department of the Legislative Council for this travel.

2.42 The Chair presented a paper on behalf of the Committee at the conference.

2.43 The total cost of travel for the Department of the Legislative Council was \$10,849.17.

3 STATISTICS

Reports tabled

3.1 The Committee tabled four reports during this report period. These are listed in the table below.

Table 2

Report Title	Tabled Date
Energy Safety Bill 2005 and Energy Safety Levy Bill 2005	10 May 2006
Budget Estimates 2005/06	29 August 2006
Hearings in Relation to the Annual Budget Estimates 2006/07	29 August 2006
Financial Management Bill 2006, Financial Legislation Amendment and Repeal Bill 2006 and Auditor General Bill 2006	21 November 2006

Meetings and Hearings

3.2 The number of Committee meetings and hearings held by the Committee during 2006 is noted in the table below.

Table 3

Item	Number
Total number of meetings (including hearings)	33
Total number of hearings	23

Item	Number
Number of Hearings relating to the 2005/06 budget estimates	5
Number of Hearings relating to the 2006/07 budget estimates	29

4 PLAN FOR 2007

4.1 In 2007 the Committee intends to:

- complete its consideration of the Budget Estimates for 2006/07;
- consider the Budget Estimates for 2007/08; and
- address any other matters that arise which fall within the Committee's terms of reference.



Hon Giz Watson MLC
Chair

Date: 21 May 2007

