



Premier of Western Australia

Your Ref: A271789
Our Ref: 24-54276

Hon J.C. Kobelke MLA
Chairman
Public Accounts Committee
Parliament House
PERTH WA 6000

Dear Mr Kobelke

RESPONSE TO THE RECOMMENDATIONS CONTAINED IN REPORT NO. 9 OF THE PUBLIC ACCOUNTS COMMITTEE

Thank you for your letter of 18 November 2010 requesting a response to the recommendations contained in Report No. 9 of the Public Accounts Committee entitled 'Inquiry into Project Planning and Funding Applications for Major Western Australian Infrastructure Projects'.

Please find my response to this request at Attachment 1.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Colin Barnett'.

Colin Barnett MLA
PREMIER; MINISTER FOR STATE DEVELOPMENT

18 FEB 2011

Att.

Public Accounts Committee – Inquiry into Project Planning and Funding Applications for Major Western Australian Infrastructure Projects – Response to Recommendations

Recommendation 1

Works Reform should be independently evaluated to ensure that the reform is delivering the desired or anticipated outcomes.

The Under Treasurer has been assigned the responsibility for ensuring that an independent evaluation is undertaken of the Works Reform initiative. The review is planned to commence in 2011 with a report provided to Government by 31 March 2012.

Recommendation 2

The State Development Agreement for the Oakajee Port and Rail Project should be made public.

Provisions in the State Development Agreement prevent the Agreement being made public except in certain defined circumstances. To date, the other (non-State) parties to the Agreement have indicated that they do not agree to the Agreement being made public. The Agreement contains material that the other parties regard as commercially sensitive.

It is the State's intention that the Implementation Agreements, which will effectively replace the State Development Agreement, will include provisions that will allow the State to disclose the Implementation Agreement at its discretion, with the exception of defined commercially sensitive sections.

Recommendation 3

The Minister for State Development should publish the differences between the private and public iterations of Oakajee Port Common Use Infrastructure, together with the needs analysis underpinning the decision to provide public funds.

The Government has been clear about the basis for its investment in Oakajee. It is for the Oakajee site to be developed to support the development of the resources sector in the Mid West and ensure the long-term prosperity of the region. This includes the establishment of a multi-user deepwater port, a world class industrial estate and an expanded transport network to mineral deposits in the region.

The Mid West iron ore industry is characterised by a number of smaller operators. Unlike other port developments that have been developed in the past (such as iron ore ports in the Pilbara) or are under development now, none of the companies or mining projects are sufficiently large to justify the port in their own right.

It is general practice for Government to fund and own multi-user, multi-product ports in the State, including Geraldton, which Oakajee will be an extension of. This approach is different to the approach adopted at other ports that are being developed that are largely single-product and have a single or small number of defined users

Recommendation 4

Government organisations should be encouraged to undertake value management studies to identify innovative responses to their service delivery needs.

As identified by the Committee, the Strategic Asset Management Framework's (SAMF) prime purpose is to provide a sound basis for decisions, which will ultimately be made by Cabinet, on the investment in, and the management and disposal of, significant Government assets.

Adopting this approach ensures that a new asset investment option is selected only after objective consideration of its merits relative to other cost effective alternatives. Any recommendation to invest in an asset, under the SAMF, must have a clear strategic justification in terms of meeting the Government's objectives, and demonstrate that the recommended option offers value for money.

It is also an intrinsic element of the current SAMF Business Case Guidelines that agencies must consider a range of options to address the identified need and systematically and objectively recommend the most feasible option. To support agencies with this requirement the SAMF also includes a Value Management Guideline.

Recommendation 5

The Minister for State Development should publish details of any economic evaluation undertaken as to the benefits derived from the commitment of public funds for the Oakajee Port Common Use Infrastructure project.

Final funding commitments for Common Use Infrastructure at Oakajee are yet to be made by the State and Commonwealth Governments.

As part of the process for securing Commonwealth Government funding, the State Government is currently finalising a Business Case for the Oakajee Project for submission to Infrastructure Australia. This includes a robust economic evaluation of the project, including a cost benefit analysis.

The Business Case includes commercially sensitive material and therefore is not intended for public release. However, it is intended that a summary document, outlining the methodology and findings of the Business Case, will be made publicly available following the Commonwealth Government's consideration of the Business Case.

The State is also undertaking a comprehensive due diligence exercise on the project. This includes a robust assessment process to confirm that the project meets the State's objectives, is technically adequate and is commercially viable.

Final funding commitments will only be made following consideration of the Business Case and findings from the due diligence exercise.

Recommendation 6

For fast-tracked projects, it is important that the Strategic Asset Management Framework be applied to the greatest extent possible to ensure optimal outcomes.

It is noted that the recommendation by the Committee is also consistent with recommendation 20 in the Economic Audit Committee's report "Putting the Public First". In this regard, the Department of Treasury and Finance is currently reviewing the SAMF to take account of the Economic Audit Committee recommendations and address policy changes made since SAMF was originally released as well as updating it to reflect contemporary best practice in asset management.

As part of the SAMF upgrade exercise the Department of Treasury and Finance has drafted a new policy, a Fast-track Proposals module, that aims to ensure that where the Government determines that a project must be delivered under tight time constraints, sound value-for-money decisions are made that meet the Government's service delivery and value for money objectives.

Responsibility for SAMF will lie with the Department of Treasury following the structural reorganisation of the Department of Treasury and Finance, which was announced on 15 February 2011.

Recommendation 7

The Department of Treasury and Finance and the Department of State Development should ensure that the funding applications to the federal government are well developed, contain robust cost-benefit analyses and comply with Commonwealth funding submission requirements.

Under SAMF agencies are required, prior to seeking approval for a new asset investment, to undertake a sufficiently rigorous evaluation to justify the proposed investment in a new asset by demonstrating that it is in the public interest and provides net benefits to the community in the most efficient manner.

The evaluation and subsequent development of the business case that accompanies and supports a submission seeking the Government's approval for the investment is mandatory irrespective of the funding source. The business case may include consideration of alternative financing options such as Public Private Partnerships and contributions by the Commonwealth Government. Where Commonwealth funding is sought it is appropriate that such requests should also be in accordance with Commonwealth funding submission requirements.

Recommendation 8

The government should publish its Public Private Partnerships policies and processes to ensure their transparent and consistent application, and to improve value for money outcomes.

Western Australia's Public Private Partnership (PPP) policies and processes are published in the National PPP Policy and Guidelines (the Guidelines) and can be found at the following web address:

www.infrastructureaustralia.gov.au/public_private_partnership_policy_guidelines_pdf.aspx.

The Guidelines provide a national framework for the delivery of PPP projects. The Guidelines were developed by Infrastructure Australia in consultation with the States and Territories and agreed at the November 2008 Council of Australian Governments' meeting.

While the Guidelines provide a high level of uniformity in PPP policy and practice across the jurisdictions, some flexibility is available for States and Territories to set jurisdiction specific requirements. This generally relates to how each jurisdiction will implement the Guidelines, and is published in the National PPP Guidelines – Jurisdictional Requirements (Volume 6).

In August 2010, the Government published its updated Jurisdictional Requirements to the Guidelines. This chapter, together with the remainder of the Guidelines, forms Western Australia's PPP policy. The Jurisdictional Requirements are not intended to repeat the substantial policy and process guidance already provided in the Guidelines, but rather supplement them with policy and process specific to Western Australia.

Recommendation 9

The government should develop, maintain and publish a Government Sector Infrastructure Plan that details all medium to large infrastructure projects being considered, and provides an assessment of each project's stage of development.

The Government recognises the need to take a longer term view with respect to the planning of medium to large infrastructure projects and where appropriate for this information to be published. In this regard, the Government in the 2009-10 Budget Papers for the first time disclosed the asset investment intentions of all Government agencies over the full four year budget and forward estimate period. Up until then information was only provided for infrastructure projects commencing in the Budget year.

Complementing the additional budgetary information, the Government also released, Directions 2031, a spatial planning framework detailing the vision and direction for the Perth and Peel regions, in August 2010. This framework will guide the detailed planning and delivery of housing and infrastructure necessary to accommodate future growth in these regions.

In addition, and consistent with the recommendation of the Economic Audit Committee, the Government has also reinvigorated the Infrastructure Coordinating Committee (ICC) noting that the ICC plays a key role in ensuring coordinated infrastructure planning between agencies and that it provides advice to Government on infrastructure planning and prioritisation matters.

Recommendation 10

The Strategic Asset Management Framework requirement for a post-project assessment should be universally applied and involve an independent party.

The recommendation that a post implementation assessment should be applied is supported. However, the need to involve an independent party in every instance is not clear, particularly given the existing review mechanisms currently in place.

The Strategic Projects business unit has been established as a standalone unit reporting to the Under Treasurer with a specified role of guiding and assisting agencies in undertaking project close-out and review. The Strategic Projects business unit is charged with the responsibility for monitoring and reporting of infrastructure projects including:

- assisting in executive governance of key strategic public sector infrastructure projects through Steering Committee representation;
- monitoring and reviewing agency performance in the management of key strategic projects; and
- developing and implementing best practice feedback mechanisms for complex projects.

The Government, in 2007, also endorsed the use of the Gateway Review Process for project assurance of major public sector projects. As noted by the Committee, Gateway is a project assurance methodology, developed by the Office of Government Commerce in the United Kingdom, which involves short intensive reviews at critical decision points in a project's life cycle by a team of independent reviewers. This peer review provides an assessment of the project against its specified objectives and the identification of areas requiring corrective action. An important gate in the Gateway process is the final Benefits Evaluation gate which aims to confirm that 'in service' benefits are in fact realised.

Given the existence of the above mechanisms, further post-project assessment by an independent party may not be cost-effective, particularly if this were to be mandated universally for all projects (including routine non-problematic projects).

Senior decision-makers in agencies will also continue to be encouraged, through the SAMF process, to ensure they receive periodic reports on the benefits achieved from procuring a major asset at appropriate points throughout its life as such reports are important to inform Government regarding asset investment planning and management.