Special Inquiry into Government Programs and Projects

FINAL REPORT
VOLUME 1 - FEBRUARY 2018
Dear Mr Wauchope,

SPECIAL INQUIRY INTO GOVERNMENT PROGRAMS AND PROJECTS

Further to my letter of 21 December 2017, I am pleased to present the complete report of the Special Inquiry into Government Programs and Projects, including the chapter addressing the Road Safety Commission and Rugby WA Partnership. The Inquiry has been conducted in accordance with the Terms of Reference and section 24 of the Public Sector Management Act 1994.

The Special Inquiry examined 31 programs and projects entered into by the former State Liberal National Government between 2008 and 11 March 2017, in response to WA’s operating deficits and adverse debt position.

The Special Inquiry started in May 2017. During the following seven months it received 25 written submissions and the Special Inquiry Transparency in Government Projects Discussion Paper which was circulated to agency heads, received eight responses for consideration. There were 123 private and public sector representatives providing evidence at 47 formal hearings, and 50 meetings were held with stakeholders across the sectors.

I would like to express my appreciation to all who contributed and assisted with this fundamental report, in particular the Special Inquiry team members who worked diligently and to the highest standard (please see Acknowledgements).

The Special Inquiry took into account previous audits and reviews, and as a result focused on specific project management stages for each initiative, providing a comprehensive analysis. The report lists a number of common findings and lessons learned in relation to financial management, decision-making processes, governance, transparency including the use of ‘commercial-in-confidence’, and contract and project management.

I am confident that the recommendations outlined in this document will better prepare the State Government for the challenges of a contemporary business environment, limit wasteful expenditure and offer an increased level of accountability to taxpayers.

Yours sincerely

John Langoulant AO
Special Inquirer

1 February 2018
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EXECUTIVE SUMMARY

INTRODUCTION

On 12 May 2017, the Special Inquirer John Langoulant commenced examining 26 government programs and projects as directed in the Terms of Reference. This number grew to 31 once some of the referred issues were examined more closely. The Special Inquirer also commenced work on the requirement to provide a clear and concise explanation of the key drivers or failures in decision making that led to the State’s operating deficits and unsustainable debt position.

The Special Inquirer assembled a small team of public servants and engaged external expertise to fulfil the requirements of Government.

The Special Inquirer oversaw the development of a sound approach to the examination of programs and projects which entailed research and discovery, requests for documentation from relevant government agencies, and establishment of a baseline for good project management against which each of the projects could be measured.

Given the short timeframes, examination for each project was carefully scoped to ensure that only pertinent matters were reviewed. Where elements of projects had already been reviewed by a credible source, and the project included other aspects yet to be examined, the scope was narrowed to those aspects. For example, The GovNext-ICT Program’s procurement project has been reviewed twice. To avoid duplication, the Special Inquiry focussed on the next phase of the program – transition. For very broad projects such as the Perth Children’s Hospital, time constraints meant the Special Inquiry had to focus on the issues around the construction of the building. Other aspects such as clinical commissioning were not reviewed. Even with these self-imposed limitations, the resulting report is of a considerable size.

This Report is presented in two parts. Volume 1 addresses a number of overarching issues which emerged through the course of the Inquiry. It also contains a chapter which explains why the State was left with a substantial budget deficit and large debt despite having experiencing an exceptional growth spurt generated by the resource sector.

Volume 2 contains the Special Inquirer’s response to each of the 31 matters reviewed as required by the terms of reference.

SETTING THE SCENE

When the Liberal National government was formed in 2008, the economy was strong. The State’s finances were in a good state despite Treasury warnings of potential future decline.
The new government set about keeping its promises around Royalties for Regions and the planned new Fiona Stanley Hospital.

The Government embarked on a big spending strategy in its first term. The strategy included infrastructure programs to keep pace with the demands of the expanding resources sector and strong population growth. But while revenue growth was also strong, the seeds for future problems were sown with generous public sector pay rises – including in a pre-election climate.

During its first term, challenges began to emerge. The Global Financial Crisis (GFC) hit in late 2008, shortly after the state election but the impact on WA was brief. China’s response to the GFC, which was predominantly based on increased infrastructure investment meant the demand for resources, especially iron ore, recovered quickly. The State’s economy grew by 4.3 per cent in 2009-10 and the economy was vibrant once again.

Treasury, however, was cautious and forecast only a modest surplus. The 2009/10 Budget papers clearly called out a bleak outlook for revenue as government expenses continued to grow.

The 2010 and 2011 budgets were upbeat even when WA’s share of revenue raised through the GST started to decline. As the 2013 election drew closer, promises from both sides of politics came more rapidly.

The Liberal National Government was returned in 2013 with an increased majority. The Department of Treasury’s pre-election statement reflected the rebound in iron ore prices and projections of stronger royalty income but tempered it with projections of a fall in GST and the need to have larger operating surpluses to meet debt commitments arising from infrastructure investment.

In 2013, the iron ore price fell sharply and revenue from royalties took a hit. Despite warnings about the need for restraint, the government continued to spend and in September, Standard and Poor’s removed the State’s Triple A credit rating.

The decline in economic circumstances diminished the Government’s standing. The 2014/15 budget predicted a small surplus and delivered a record deficit of $1.3 billion, with the predicted deficit for 2015/16 to grow to $2.7 billion.

The iron ore price bottomed out at the end of 2015 and began to recover until mid-2017 when prices again fell.

Several major infrastructure projects had problems. The pedestrian bridge from the Stadium fell behind schedule, as did the opening for the new children’s hospital, and the opening of Elizabeth Quay was marred by problems with the water park.

By the time the election came around in March 2017, the economy was very different to that of the previous two elections and the Liberal National Government was heavily defeated.

To avoid a repetition of this financial ‘perfect storm’ which has proved so damaging for the State’s finances, the capacity and status of Treasury within the public sector must be restored. And future Premiers and Ministers would do the State a favour by paying greater heed to Treasury advice.

Overall, Treasury lacked the clout – partly due to the position of Treasurer becoming a revolving door - to impose a more disciplined stance within the government. Consequently, the budget deficit and State Debt started to blow out. The coveted AAA credit rating was lost.
WHAT THE SPECIAL INQUIRER FOUND

After examining 31 programs and projects over the 2008-2017 period, the conclusion is that there was a lot going on which made the environment challenging.

Some of the reviewed projects weathered the storm well and some had satisfactory outcomes. But there are underlying systemic issues that mean that most of the projects were subject to an environment needing improvement and reform.

Each project has its own findings and recommendations. Where the responsibility for the implementation of the recommendations lie with the agency or agencies responsible for the project, the findings and recommendations are detailed only in those reports.

Where whole-of-government recommendations have implications across the sector they are represented in the section called Whole of Government Recommendations.

Some of the systemic issues identified during the inquiry include:

- the Royalties for Regions program destabilised the government’s financial management processes;
- the absence of a whole-of-State plan detailing the government’s highest priorities expanded expenditure pressures;
- the public sector lacked a sense of common purpose;
- the annual budget process became a year round activity;
- temporarily high recurrent revenue growth was used to pay for permanent expenditure promises, leaving behind structural budget deficits;
- decision makers lacked the capacity to act upon signs of unsustainable growth in net debt;
- high volatility in commodity prices was not incorporated into more conservative budget settings so when the downturn arrived the State was exposed;
- the quality of financial information supporting Cabinet Submissions deteriorated;
- capability gaps emerged in the public sector especially around project planning and evaluation; and
- the Government defaulted to confidentiality around major projects rather than transparency.

WHAT THE SPECIAL INQUIRER RECOMMENDS

Reflecting the range of matters reviewed, there are many recommendations made throughout this report. Most of the recommendations in Volume 2 are aimed at addressing specific project issues. Recommendations involving the whole of government are in Volume 1.

The Special Inquirer believes reform is required in the following areas:

- introduce an Infrastructure WA entity to enhance planning and development;
- introduce a Parliamentary Budget Office to cost election commitments and review major project business cases;
- provide information about major projects in an accessible and transparent way to the public;
- centralise the leadership of major projects and public works management;
- simplify and strengthen procurement practices;
- increase Government’s oversight of contract development and contract management;
• subject Government Trading Enterprises and larger public sector organisations to more rigorous performance reviews;
• tighten the governance and decision-making structures associated with the Royalties for Regions program;
• implement formal evaluation of agencies’ performance on major projects; and
• introduce training opportunities for members of Parliament and public servants in key areas of governance, business case analysis, risk management, procurement, project and contract management, negotiation and commercial and financial management.

The Department of Treasury should examine:
• developing training programs which will advance understanding of financial management practices;
• improving flexibility in managing hypothecated revenue programs;
• refreshing Budget and Mid-Year Review policy and protocols; and
• establishing clear Expenditure Review Committee protocols.

Areas requiring actions to change public sector culture and attitude are as follows:
• improve transparency on the progress with major projects by requiring continuous disclosure;
• there must be stricter adherence to Cabinet Submission protocols, especially the necessity to consult across agencies in preparing Submissions;
• there must also be stricter compliance with the Strategic Asset Management Framework, including by Government Trading Enterprises;
• portfolio management practices must be introduced across the Transport agencies;
• regular reviews of the health sector’s performance (building on the current review) must be instituted;
• central agencies must be reinstated as whole-of-government policy makers, decision makers, influencers, educators and leaders;
• collaboration must be facilitated across Public Sector leaders; and
• capability in commercial and financial skills, negotiation skills, project management disciplines, procurement, and contract management must be built.

More discipline in the following areas will improve outcomes through:
• improving the quality and materiality of Cabinet Submissions;
• reporting on benefits realisation for major projects;
• setting and achieving financial targets;
• applying risk management principles and actions in major projects and public works procurement;
• establishing Steering Committees for major projects and public works which include representative membership equivalent to the significance and purpose of the works as well as a secretariat role to ensure material matters are followed up; and
• enhancing data and records management practices so that agencies have the ability to inform decision makers of key facts relating to their agency’s activities.

Implementing these recommendations will require a considerable effort. The Special Inquirer believes that the significant reform program should be overseen by the Department of the Premier and Cabinet with the other central agencies.
Alignment with the Service Priority Review

The Special Inquiry into Government Programs and Projects focussed on examining 31 projects to assess governance arrangements, decision-making processes, project management and procurement practices and to determine financial consequences and the achievement of value-for-money.

The recommendations are therefore centred around the implementation of measures to improve program and project outcomes for Western Australia.

The recommendations of the Service Priority Review (SPR) have some commonality with the recommendations of this report.

**SPR Recommendation 5 – Improve the coordination of service delivery in the regions.**

The Special Inquirer believes that recommendations in this report around review of the Royalties for Regions program would support the SPR recommendation.

**SPR Recommendation 7 – Leverage government procurement to both reduce costs and improve outcomes for the community.**

The Special Inquirer believes that recommendations in this report concerning procurement reform align with the SPR recommendation and provide a foundation for systemic improvement in the development of procurement strategy, policy and skill building.

**SPR Recommendation 8 – Overhaul the budget system to focus on fiscal sustainability and support agencies to achieve outcomes for the community.**

The Special Inquirer agrees that Cabinet processes, budget processes and financial management need to improve and has made recommendations to that effect.

**SPR Recommendation 9 – Improve governance, accountability and transparency for public sector entities.**

This report makes a number of recommendations that would provide practical support for the SPR recommendation.

**SPR Recommendation 14 – Strengthen the capacity of central agencies to take on a sector stewardship role.**

The Special Inquirer agrees that central agencies need to work together to manage sector-wide issues.

**SPR Recommendation 15 – Establish system-wide leadership to drive performance across common functions.**

The ‘functional leadership framework’ recommended by the SPR would support the Special Inquirer’s recommendations for reform in procurement, contract management, and project management.

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1 Service Priority Review Final Report to the Western Australian Government “Working Together – One public sector delivering for WA” (October 2017)
SPR Recommendation 16 – Introduce a regular cycle of agency capability reviews to drive ongoing improvement across the sector.

The Special Inquirer believes that the introduction of agency performance assessment in the management of major projects would drive accountability and give decision-makers valuable information to assist in funding decisions.

Clarification about the future of the OGCIO

The SPR’s recommendation 6 is aimed at improving data sharing and ICT performance and cyber security. The SPR is silent on the future of the Office of the Government Chief Information Office and the implementation of the GovNext-ICT initiative. The Special Inquirer believes that measures need to be taken to form central leadership and coordination of this very important program.

TOP 12 RECOMMENDATION THEMES

Royalties for Regions

The Royalties for Regions program provides for the equivalent of 25 per cent of the State’s forecast annual mining and onshore petroleum royalties to be hypothecated into a fund that is separate from the Consolidated Account.

The management of the Royalties for Regions program and the allocation of funds saw the development of a ‘shadow budget’ process where Cabinet made decisions about a vast array of projects some involving the allocation of large buckets of money separate from the established budget process and often only with limited discussion with the Department of Treasury. The projects funded by the program were, therefore, not subject to normal decision-making processes.

There was no properly defined strategy for the entire program. There were policy objectives but priorities have never been clear and it was not possible to measure success. Therefore, it became easy to justify any project.

Many projects examined by the Special Inquirer had inadequate or no business cases. There were large buckets of money allocated to high level and relatively undefined objectives such as ‘Pilbara Revitalisation’. Funding was allocated from these buckets to build stadiums and other infrastructure without proper planning, with inadequate governance structures, and under the management of local government bodies that were not equipped to manage multi-million dollar projects. Often those same local governments were not funded to maintain the asset at the end of the project.

The annual allocation to the Fund has been capped at $1 billion. The funds are effectively hypothecated which reduces budgetary flexibility. The Special Inquiry has assessed the social and economic outcomes of 50 Royalties for Regions projects. Only five of the business cases were considered adequate. Based on the analysis, over two-thirds of the projects failed to achieve either social or economic outcomes.

There are shortfalls in the structure of governance for the program. The Regional Development portfolio structure has a series of interconnected relationships and there are overlapping roles and responsibilities. The administration of the Royalties for Regions program requires improvement.

The Special Inquirer recognises the importance of this program for regional development. It is for that reason...
that no recommendation is made to abandon the program. Nevertheless the program requires modification to its governance arrangements, its objectives, the process by which projects are identified, the funding mechanism and benefit realisation practices.

**RECOMMENDATION 1**

The Royalties for Regions program must be run with a defined strategy, plan and set of priorities. It must form part of the annual budget process with any vestiges of the shadow budget eradicated.

The roles and responsibilities of the Department of Primary Industries and Regional Development, the Regional Development Trust, the Regional Development Council and the Regional Development Commissions require definition.

The Government must consider administrative reform to elevate the role of the Regional Development Trust to strengthen its role beyond the provision of advice to the Minister for Regional Development. This should result in the Regional Development Trust paying a more active, independent role in project prioritisation and selection, strategy development and assessment of the performance of the Regional Development portfolio at large.

Cabinet must rationalize the approval process for Royalties for Regions projects and reconsider the $1 billion expenditure cap in the Fund as it gives rise to undue haste and poor decision making.

The program should be directed to follow the requirements of project management according to the Strategic Asset Management Framework and present detailed business cases to Cabinet with Treasury sign off.

The Department of Treasury must have formal involvement in Royalties for Regions project selection and prioritisation. This would necessitate a change in the Role of the Department of Primary Industries and Regional Development to be more focussed on coordinating regional development initiatives across government. The Department of Treasury’s role enhancement must include ensuring the Royalties for Regions fund is managed in line with the remainder of the Consolidated Account.

Project outcomes and benefits realization should be reported to the community. (See recommendation theme VI).

Consideration should be given to the removal of the hypothecated nature of the Royalties for Regions funding. The allocation of funds should be determined according to the whole-of-State priorities whereby submissions for project funding compete with other projects.

**Planning**

The Special Inquirer found that the lack of a well-thought out and clearly communicated strategic plan for Western Australia was a significant contributor to program and project failure. It was a factor in the Government trying to do too much at once with limited resources, capacity and capability in both the private and public sectors in Western Australia.

It also contributed to the lack of a common purpose across both government agencies and Ministers who all thought their own projects were the most important.
The strongest example of this was the Royalties for Regions program which was in effect the most important because its funding was never in question. Confusion over prioritisation laid the foundations for Ministers and departments by-passing Cabinet protocols and failing to meet high standards of governance in submissions to Cabinet. As the economic environment became more challenging, a detailed strategic plan would have allowed government to make clear decisions about investment priorities instead of persevering with and commencing more programs and projects as if they were all the number one priority.

Too many major projects have been undertaken on an ad hoc basis and without adequate planning. Cost and time blowouts have been common outcomes. The lack of a comprehensive and long term plan to develop the State’s infrastructure has contributed to these outcomes. Other jurisdictions have established bodies to assess periodically the adequacy of the infrastructure requirements and priorities. A similar body is proposed for Western Australia.

**RECOMMENDATION II**

The Government must determine and publish key strategic priorities and the Premier should discuss these priorities frequently with Directors General. The Special Inquirer supports the establishment of Infrastructure WA.

**Cabinet Protocols**

Too many of the projects examined did not have robust (or any) business cases. Too often, government departments and Government Trading Enterprises do not adhere to the requirements of the Strategic Asset Management Framework which mandates the requirement for business cases for all projects over $1 million in value. The Special Inquiry examined a project worth $4.8 billion that did not have a stand-alone business case, and many of the Royalties for Regions projects were funded from very large buckets of money with no business cases for either the ‘bucket’ or the individual projects.

Cabinet Submissions for many projects did not have consistently high standards of financial information. The Department of Treasury was often given very little time to provide expert advice. This was a deviation from previous standards and meant Cabinet was required to make decisions without adequate supporting information.

Under the existing protocols, Cabinet Submissions are required to be distributed to relevant stakeholder government agencies for comment. This gives agencies the opportunity to support proposals, to raise issues, and to alert Cabinet about risks. This step in the process was regularly missed and gave rise to Cabinet making decisions without the benefit of all the facts.

Royalties for Regions funding submissions went to Cabinet with an even lower standard of financial scrutiny and this ‘shadow budget’ process reduced the Department of Treasury’s role in the decision-making framework.

There were projects examined that had high quality documentation. The Department of Finance’s Strategic Projects uses a framework based on the requirements of the Strategic Asset Management Framework. All project related information was thorough. Proposals were clear and financial analysis was robust, and properly reviewed by the Department of Treasury.
RECOMMENDATION III

The Government must not compromise on the quality of information contained in Cabinet Submissions. The Cabinet Office must be instructed to ensure that all agencies adhere to all protocols at all times. These protocols must include that all agencies which have a connection with the Submission are consulted before the Submission is accepted by the Cabinet Office.

Central agency resourcing

Many Directors General and Chief Executives in the WA Public Sector are working in competitive isolation. This behaviour has been in response to the way government Ministers worked over the period reviewed by the Special Inquiry.

Due to the lack of a plan clearly indicating government priorities, Ministers worked to advance their individual agendas and often coerced public servants into applying significant resources to ideas and programs that they knew were unlikely to be approved. Ministers were very focussed on their individual priorities and did not advocate a whole-of-government agenda.

Although the Directors General and Chief Executive group in Western Australia is a strong group, many had numerous Ministers between 2008 and 2017, all with different agendas, due to the lack of a whole-of-State plan. Trying to meet the ever-changing requirements has led the group to be insular and protective of their own Departments.

In many ways, some central agencies have been sidelined. The profile, resourcing and work of the Department of Treasury has diminished significantly over the period. Some non-central agencies have developed their own ways of doing things that seem unrelated to the standards of general government.

A complicating factor is that relationships exist at the most senior level of the Public Sector, as the leaders have known each other for a long time. Rather than bringing them together to reduce the silos, this has had the effect of preventing them from calling each other out or playing devil’s advocate when working together on large projects.

RECOMMENDATION IV

Central agencies must be more strongly resourced and a more coordinated effort must be made for these agencies to work together. Directors General and Chief Executive Officers should be encouraged to give their Ministers ‘frank and fearless advice’ and if they work together to form that advice, and present it with unity, it is more likely to be accepted.

Government Trading Enterprises and Public Corporations

The Government Trading Enterprises and Public Corporations’ roles and responsibilities are muddy. The Government Trading Enterprises have been corporatised but are still dependent on government funding. Essentially they have neither to respond to the accountability rigours of the private sector nor the high standards of the public sector.
The Statements of Corporate Intent (SCIs) and Strategic Development Plans (SDPs) of Synergy and Western Power reviewed by the Special Inquiry provided little insight into the plans and intentions of either entity. The regulatory framework through the Economic Regulation Authority and the Public Utilities Office is complicated, and this is exacerbated by the position of the Minister also being the ‘shareholder’.

The Government Trading Enterprises are not subject to the same standards for procurement, project management, transparency, reporting, budget preparation or record-keeping as the rest of government.

The Department of Treasury submits that the structure of the Government Trading Enterprises needs review and reform. The recent performance of a number of Government Trading Enterprises has raised concerns with the adequacy of current governance arrangements to oversee strong performance and achievement of government objectives.

**RECOMMENDATION V**

Government must commit to a review of the structure of the government’s commercial and quasi-commercial entities to identify appropriate governance arrangements. Consideration should be given to the introduction of legislative reform to standardise and strengthen governance arrangements and to establish formal oversight by the Department of Treasury to monitor performance.

**Transparency**

There are many benefits to increasing the openness of the Western Australian government to public scrutiny. Sharing information with the community will build trust and confidence. When the government is deciding about investing in large capital and other high risk projects, the public is interested.

Disclosure is a useful way to promote accountability. There may be criticism about decisions, debate about costs and timeframes, and concerns about progress. But continuous disclosure avoids the shock the community can face when significant problems suddenly become apparent.

In the lead up to elections, both the government and the opposition start defining election commitments. The Special Inquirer heard from the Leader of the Opposition how that process played out in recent elections to be a bidding war. In order for the public to make informed decisions, and for the process to be fair and equitable, both sides of Parliament need access to reliable, accurate and timely financial analysis and advice. This then will provide the basis for the community to make appropriate comparisons and judgements.

**In major projects**

A general lack of transparency and default response of ‘commercial-in-confidence’ to questions about projects has led to a reduction in accountability.

Providing Western Australian taxpayers with open, honest and complete information through continuous disclosure about government projects is a useful way to promote trust.

Western Australia has a number of accountability frameworks in place and between them they have oversight of the integrity of the Public Sector. But the withholding of information that is not commercially sensitive or harmful to a person or an entity is too commonly the fall-back position.

Information about estimated and actual project costs and disclosure about ongoing costs, changing
timeframes, contract variations, project scope creep, and emerging project risks are withheld from the public, and often not fully shared with Cabinet or government in a timely way.

New Zealand taxpayers have very high expectations of accountability over the use of public funds. The New Zealand government provides progress reports on major projects regularly which are easy to access and understand. New Zealand Treasury provides its assessment of each project and reports to Cabinet. New Zealand is implementing a system of Investor Confidence Ratings for government agencies. This will guide future investment in government agencies.

**RECOMMENDATION VI**

Information about Government programs and projects should be open for scrutiny. Based on shared principles, the Government should develop a transparency framework for reporting details of major projects. The framework must require continuous disclosure.

**Election commitments**

The Parliament of Australia has established a Parliamentary Budget Office (PBO) to provide Senators and Members of the House of Representatives with independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of policy proposals. The establishment of the Commonwealth PBO has enhanced transparency and public understanding of the cost of election commitments and the budget and fiscal policy settings.

**RECOMMENDATION VII**

It is recommended that Government establish a Parliamentary Budget Office to enhance transparency and public understanding of election commitments, and the budget and fiscal policy settings.

**Financial management**

The Special Inquirer found the previous Government to have had a lack of discipline in meeting key financial targets. There was strong growth in recurrent expenditures which created structural imbalances in the budget. The annual budget process provides the government with opportunity to review expenditure and revenue priorities. Discipline in the process broke down soon after the 2008 election as spending became a year-round process.

Treasury was not supported by Cabinet in its efforts to control and enforce budget parameters. The Special Inquirer identified a number of misunderstandings in the public sector as to Cabinet processes and the Financial Management Act 2006, including the ability of Ministers to approve reallocations of money to new programs. There is the need to improve the financial capability of members of Cabinet and senior public servants.

Treasury was excluded from some processes and was not consulted by agencies in the preparation of Cabinet Submissions. Cabinet applied a low standard of financial scrutiny to Royalties for Regions program projects, and stakeholder agencies were not consulted prior to submissions being forwarded to Cabinet.
Advice to Cabinet on new proposals should address the financial implications of both the specific matter and for the achievement of overall fiscal targets. The frequency of Cabinet Submissions with financial implications not being assessed by Treasury or where Treasury was not given adequate time for analysis weakened the decision making process.

It was apparent to the Special Inquirer that not enough attention was paid to the forward estimates. The State’s revenue base was weakening and the State’s share of GST receipts was rapidly falling. At the same time, debt was rising. Warnings from the Department of Treasury went unheeded.

RECOMMENDATION VIII
The Department of Treasury must be reinstated as the economic and financial leader, advisor, controller and policy maker in the public sector is critical. This will entail addressing resourcing issues. It is essential that Cabinet supports Treasury in the role.

RECOMMENDATION IX
The Department of Treasury should be given the authority to examine the need for reform in financial management. This would include review of the system of hypothecated funding, budget processes, the parameters for the Mid-Year Review, and the application of the Strategic Asset Management Framework.

Project management
Some of the projects examined commenced without an overarching State plan for that project or any indication of its place in an overall State strategy. This was most evident in regional areas. This was often caused by a sense of urgency and the rush to expend the allocated funding.

At project level, some of the projects lacked coordination between the project and the outcome. This can be caused by disconnect between the service delivery (receiving) agency and the asset delivery agency. The two have joint and separate accountabilities and it is essential that comprehensive project planning includes detail about the business need, and the roles and responsibilities of all involved agencies.

Many projects did not have adequately designed scopes or project plans. Financial and risk analyses were weak. Finally, the need for robust business cases for all projects over $1 million is a requirement of the Strategic Asset Management Framework. The Special Inquirer notes that numerous projects had no, or very poor, business cases.

While projects managed by the Department of Finance’s Strategic Projects use an established framework built on proven project disciplines and based on the requirements of the Strategic Asset Management Framework, many other departments do not meet those standards.

Many points of failure in projects are linked to poor project management. The problems start with inadequate planning at all levels. A lack of a whole-of-WA long-term infrastructure strategy has led to poorly integrated outcomes, and a reduction in community confidence and trust. (See Recommendation II).
Strategic Projects plans the project to build the asset, such as a hospital. The whole project planning is the responsibility of the agency for which the asset is being built, such as the Department of Health.

There has been a lack of coordination on some projects and excellent coordination on others. The important message is that the service delivery agency is responsible for the delivery of the outcome – that is, a functioning hospital or stadium.

At project level, many agencies do not take advantage of a ‘lessons learned’ process. Scopes are often very poorly designed and this leads to costly variations. Financial analysis in many projects has been cursory and risk management has been weak.

It is notable that a significant number of projects examined did not have adequate or indeed any business cases. A business case is a necessary basis for a successful project. It outlines the reasons for the project, defines its parameters, and provides detailed planning and information to allow for approval of the investment decision. The Strategic Asset Management Framework is clear about expectations but these were unfulfilled on many projects. Lack of business cases in projects examined led to waste of valuable resources, lack of clarity around priorities, limited research and analysis and sub-optimal outcomes.

**RECOMMENDATION X**

The Department of Finance should become the lead agency for project management. This would involve it leading public works projects or providing consistent principles, standards and methods to agencies undertaking their own works. The Department of Finance’s role as functional leader should include provision of guidance, support, education and expertise to improve public sector capability in project management.

**Procurement and contract management**

**Procurement**

Procurement of goods and services is overseen by the Department of Finance under the *State Supply Act 1991*. Most agencies adhere to the requirements of the policies, which are largely aimed at ensuring fair tendering processes. Government agencies’ performance in relation to planning for procurement and managing contracts needs improvement.

Procurement for public works is not centrally led. Agencies act under their own legislation. Processes examined in the Special Inquiry indicate that practices are not consistent between agencies and there is potential to gain efficiencies and improvements in quality. The legislative framework is complex and complicated for government agencies and providers of goods and services to government to participate in government contracts.

The lack of central leadership and the presence of multiple Acts for construction of public works has caused fragmentation and leads to inefficiency and duplication. The framework does not provide optimal support for the Government’s commitment to maximising local content, providing opportunities for jobs on government projects, supporting small and medium businesses and Aboriginal businesses.
As with project management planning, procurement planning is not done well and this often means that procurement is done in a rush to meet timeframes. This can and has resulted in inadequate due diligence, poorly allocated risk and failure to achieve value for money.

Central leadership for all procurement will drive cost reduction and improve outcomes. Processes will be simpler for all stakeholders, and the application of common policy and practice will improve job mobility and help to build the skill base.

**RECOMMENDATION XI**

The procurement legislative framework should be streamlined into a single, cohesive Procurement Act under the delegation of authority for procurement to a single designated Minister. Consolidation of procurement leadership under the Department of Finance should provide a one-stop-shop for advice, support, education, resource allocation, provision of standards, policy and practice, the identification of collaboration opportunities, and the centralisation of data and information.

**Contract management**

The development of contracts requires specialist skills. Some of these skills are scarce in Government. The State Solicitor’s Office has excellent negotiation skills, as does the Department of Finance’s Strategic Projects. But a number of agencies try to negotiate for themselves and fail to achieve the desired outcome.

Poorly developed contracts have led to inability to recover costs and poor allocation of risk between the government and contracted parties. Lack of clarity in procurement legislation leads to a repetitive need to obtain legal advice and confusion in the market as different forms of contract are used in apparently similar circumstances.

Managing contracts is fundamental to ensuring the achievement of outcomes. There is a need for better contract management across government. The Special Inquirer found many examples of contracts that should have been better managed.

There are currently no standards for contract development or management. Government agencies use external legal advice as they wish, and there is no coordination or understanding of the risks associated with contracts across government.

**RECOMMENDATION XII**

Government agencies must be required to inform the State Solicitor’s Office of intentions to enter into material contract negotiations. Agencies must be required to maintain a contract risk register and a litigation risk register and to provide quarterly reporting to Cabinet through the State Solicitor’s Office.
When the Liberal and National parties joined forces in a governing “alliance” after the September 2008 Western Australian election, the State’s economy was in good shape. Healthy budget surpluses were the order of the day and State debt had shrunk.

The property and jobs markets were strong and the resources sector was gearing up for increased demand linked with extraordinary growth in China. The Western Australian and Chinese economies were a “perfect fit”.

This was reflected in the Treasury’s Pre-election Financial Projections Statement, although it did provide a sting in the tail:

“The outlook for the State’s finances has strengthened since the [May] budget projections were finalised on 7 April 2008, despite the realisation of a number of risks highlighted at the time of the 2008/09 Budget (most notably, a significant weakening in property market conditions)”1 the statement said.

But it also drew attention to an issue which would weaken budgets within a few years:

“The State’s share of GST revenue is projected to decline to just 5.7 per cent by the end of the forward estimates period (compared to 6.2 per cent at budget-time)”2 it warned.

The Budget surplus for 2008/09 was now tipped to be $1.93 billion, up $75 million on the May forecast. In financial terms they were buoyant times.

A key factor in the change of government had been the National Party’s success in promoting its policy called “Royalties for Regions”, which was designed to provide “top up” spending in regional areas. Eventually 25 per cent of royalty revenues, capped at $1 billion, would be earmarked annually for the program.

In addition the Liberals had promised to maintain Royal Perth Hospital as a tertiary institution despite a recommendation in the 2004 Reid review that it be significantly scaled back when the planned new Fiona Stanley Hospital at Murdoch opened. This would turn out to be an expensive promise amongst record investment in new hospital facilities.

Another factor had been a Liberal Party decision during the campaign to outbid the Labor Government’s offer of pay increases for State school teachers by $120 million as part of a new enterprise bargaining agreement. This would make Western Australian teachers the best paid in the country.

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1 Department of Treasury and Finance, 2008/09 Pre-election Financial Projects (August 2008), 1.
2 Ibid, 7.
FIRST TERM: 2008 TO 2013

Within a week of assuming power the new Government faced an unexpected financial challenge. Problems in the American banking system developed into a full-blown crisis on 15 September 2008 with the collapse of the investment bank Lehman Brothers. Massive bailouts were implemented to avoid a run on the banks. In Australia the Commonwealth Government embarked on a $10 billion plus strategy to maintain activity and confidence.

This proved effective and despite a temporary check in China’s economy, demand for Western Australia’s resources remained strong. In addition, preliminary work on the $43 billion Gorgon Liquefied Natural Gas venture on Barrow Island was soon under way, which ensured a continuing source of jobs and contracts for supporting industries. Momentum in the State’s economy was quickly restored.

Mr Barnett and the National Party leader Brendon Grylls set about promoting a number of development projects. The Premier was keen to see a liquefied natural gas hub developed onshore at James Price Point north of Broome and a new deep water port and industrial area at Oakajee north of Geraldton to accommodate proposed mining ventures in the Mid-West. Mr Grylls championed expansion of the Ord River Scheme in the Kimberley.

Labor Prime Minister Kevin Rudd was receptive. Commonwealth money was allocated to the Ord and Oakajee projects and a plan to sink the railway line between the Perth central business district and Northbridge. Extra funds were later provided to build Perth’s first underground bus station. The downturn did make a significant dent in the State Budget. But indicative of the activity at the time, despite the “hit” of $1.537 billion, the Budget returned a surplus for 2008/09 of $318 million.

The Treasury’s economic and fiscal outlook for the Government’s first budget in May 2009, however, remained cautious:

“The 2009/10 Budget has been framed in very challenging circumstances, reflecting the impact of the global economic downturn on the national and State economies, and the flow-on impact on the State’s major revenue sources,”3 the Treasury said. The forecast surplus was a relatively modest $409 million.

The financial pressures were clear. The Budget papers noted:

“The revenue outlook is bleak. Excluding one-off income associated with the Commonwealth stimulus package, revenue is expected to increase by 0.3 per cent in 2009/10. This follows an average growth rate of 8.4 per cent over the past five years.”4

Since the 2008/09 Mid-Year Review (released in December 2008) income from State taxes, GST grants and royalties had all been below target. But general government expenses were galloping, rising by 13.5 per cent compared with the Budget forecast of 7.7 per cent. Reining in recurrent expenses would be a challenge throughout the Government’s two terms.

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3 Department of Treasury and Finance, 2009/10 Budget Economic and Fiscal Outlook (May 2009), 9.
But the State’s financial fortunes were about to change again.

At the start of 2009, the price of iron ore was by the levels at that time a healthy $US72.51 a tonne. As the year progressed the trajectory, with a couple of monthly exceptions, was all upwards. By December the price had reached $US105.25 a tonne and was still gathering momentum. It was to peak at $US187.18 a tonne in February 2011. Confidence was up too and revenue from royalties was growing rapidly.

The 2011/12 Budget papers reported a “sharp rise in royalty income, which is expected to grow by $1.8 billion or almost 80 per cent in 2010/11”. But taxation revenue was tipped to drop at the same time due to a “significant downturn in the property market”. A budget surplus of $442 million was forecast for 2011/12, down $342 million on the previous year.

In contrast to the stability under the preceding Labor Government, the position of Treasurer was turning into a revolving door. Mr Buswell was replaced in April 2010 after events which led to allegations of misuse of public funds.

Mr Barnett delivered the 2010 Budget as Treasurer before handing over to Christian Porter who was also the Attorney General. Mr Porter presented the next two Budgets and was upbeat in 2011 when the State’s declining share of revenue raised through the goods and services tax was starting to bite:

“What we reasonably anticipate is that in 2013/14 the CGC [Commonwealth Grants Commission] will have brought in a new GST system,” Mr Porter said in his Budget speech. “We expect it will produce a floor of about 75 per cent of our population share of the GST.”

This optimism was based on a review of the GST’s distribution announced by the then Prime Minister, Julia Gillard. The review, conducted by a panel which included two former premiers, Nick Greiner (Liberal) from New South Wales and John Brumby (Labor) from Victoria, proved a disappointment. The system, under which Western Australia’s revised share was predicted to fall to 33 per cent by 2014/15, would remain unchanged. Unfortunately, Mr Porter’s optimism proved misplaced.

Soon after presenting the May 2012 Budget, Mr Porter announced his intention to enter federal politics. Mr Barnett promptly recalled Mr Buswell, who had returned to the ministry in the transport and housing portfolios in December 2012 after being cleared of claims of misusing his entitlements. This would be the fourth Treasurer appointment in the Barnett Government’s first term.

A Commonwealth Labor Government decision which had a profound impact on Western Australian politics was its support for a resource super profits tax. The tax had been recommended in a 2010 report on the taxation system headed by then Commonwealth Treasury head, Dr Ken Henry, and was roundly condemned by both sides of Western Australian politics. Labor fared badly in Western Australia at the 2010 federal election and even though the measures were subsequently watered down, voters remained hostile.

As the March 2013 State election drew closer, traffic congestion in the metropolitan area – linked with strong population growth due to the increased economic activity – emerged as a key issue. The Liberals promised to implement a $2.5 billion “MAX light rail” program, which involved lines from Mirrabooka to the

5 Department of Treasury, 2011/12 Budget Economic and Fiscal Outlook (May 2011), 3.
6 Ibid, 126.
8 Ibid
city and extensions to the University of Western Australia and Curtin University. Labor committed to the more expensive “Metronet” (Treasury’s cost estimate was $5.2 billion) which featured major extensions to the suburban rail network.

The Australian Nursing Federation mounted a strong campaign for pay increases for public hospital nurses during the pre-election period. Work bans were imposed at several hospitals in support of the initial claim for a 20 per cent rise over three years. Two weeks before the election an in-principle agreement was hammered out at meeting attended by representatives from both the Premier’s Office and the Australian Nursing Federation, including its state secretary, Mark Olson.

The result was a 14 per cent increase over three years provided the Government was returned. This would help make Western Australian nurses, along with teachers and police officers, among the best paid in the country, and the state’s hospitals – although lagging in efficiency – the most expensive. The decision would add to the recurrent cost pressures on the Budget.

The Government later explained the high pay rates were required to head off resignations to take better paid jobs in the resources sector, although this was not apparent at the time.

**SECOND TERM: 2013 TO 2017**

The Liberal National Government was returned with an increased majority. Mr Barnett described the result as “a high-water mark” for the Liberals. On a two party preferred basis support for the Liberals hit 57.3 per cent, the best election result for years.

He also said he would be taking a much bigger interest in the portfolios of his Ministers and that local government reform and initiatives to ease traffic congestion in Perth would be high priorities.

The economic prospects continued to look bright as reflected in the Treasury’s pre-election statement.

The Under Treasurer, Mr Marney said:

“The report shows that the outlook for the State’s finances has improved since the December 2012 Mid-Year Review, mainly reflecting the impact on royalty revenue of the rebound in iron ore prices over the last two months – a rebound that may, or may not be sustained.

“However stronger royalty income projected across the forward estimates period will be partly offset through the lagged impact of the Commonwealth Grants Commission process on Western Australia’s GST revenue. The State’s GST share is now projected to fall to 27 per cent of our population share by 2015/16, down from 35 per cent in the Mid-Year Review.”

Mr Marney also issued this warning:

“To provide an appropriate buffer against significantly increased revenue volatility, and to reduce the need for debt increases to fund infrastructure investment, it is essential that larger operating surpluses are budgeted for and delivered in coming years.”

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9 Department of Treasury, Media Statement “2012/13 Pre-election Financial Projections Statement” (7 February 2013)

10 Ibid.
The Under Treasurer’s reticence about the iron ore price proved well founded. It hovered around $US130 a tonne through the rest of 2013 then plummeted in 2014, finishing that year at $US68.67 a tonne. Revenue from royalties took a big hit.

On 8 August, the changing economic climate was reflected in the first post-election Budget, which included a “Fiscal Action Plan” to achieve estimated savings of $6.8 billion over four years. Although a budget surplus of $386 million was predicted, State debt was climbing rapidly. It was $18.5 billion and tipped to hit $28.4 billion by mid-2017.

Although the Budget asserted that the State’s economic growth would continue to lead the nation, there was a note of caution. A review of the Asset Investment Program had identified “$1 billion worth of net debt savings over the period to 2016/17”11 because of the “subdued revenue outlook”.12 The program focussed on the completion of large infrastructure projects in areas such as health (hospitals) and education, as well as electricity and water. It also included, however, a significant commitment to new developments – for example $3.9 billion over four years for railways, $1.3 billion for the Perth Stadium and $428 million for the new State Museum.

One planned Budget savings measure backfired. After a public outcry the Government was forced to abandon a proposed cut to the “feed-in” electricity tariff for solar panel households designed to save $51 million over four years.

As debt climbed during the first term Mr Barnett indicated that levels of about $20 billion were manageable. He also downplayed the validity of projected increases in debt in the forward estimates. Yet both the Budget surplus and State debt were clearly heading in the wrong direction.

In September 2013 the ratings agency Standard and Poor’s delivered the first blow to Western Australia’s reputation as the “economic powerhouse” of the nation when it removed the Triple A credit rating, pointing to a slowdown in revenue increases and the blowout in State debt.

At a meeting of Parliament’s Education and Health Standing Committee13, in early 2014, Mr Marney was critical of the pressure placed on Treasury officials when they were given just two weeks to scrutinise a $4.3 billion 10-year contract for the service provider Serco to manage key operations at the new Fiona Stanley Hospital. Shortly after, Mr Marney stepped down as Under Treasurer to become Mental Health Commissioner.

Unfortunately, Mr Marney’s call for “larger operating surpluses” went unheeded. Revenue from royalties started to drop, the State’s share of GST revenues continued to be depressed and the growth in payroll tax eased substantially. Although infrastructure investment remained strong the MAX light rail plan appeared stalled when the new national coalition Commonwealth Government declined to share costs. It was eventually dumped.

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11 Department of Treasury and Finance, 2013/14 Budget Economic and Fiscal Outlook (August 2013), 5
12 Ibid, 177-178.
13 S. Dalzell “Parliamentary hearing told Treasury had only weeks to scrutinise Fiona Stanley Hospital contract”, www.abc.net.au [14 February 2014].
The Government’s hopes of restoring stability to the Treasurer’s portfolio were dashed when Mr Buswell was again forced to resign in March 2014. Dr Mike Nahan took over and retained the role until the end of the term.

The Government embarked on a privatisation policy, although initially Mr Barnett said that the power utility Western Power was not for sale. The markets at Canning Vale were sold but speculation over the possible sale of the TAB and Fremantle Port came to nothing. And despite Mr Barnett’s determination to rationalise local government in the metropolitan area, the plan was eventually abandoned.

Financially, the crunch year was 2014/15. The May Budget predicted a slim surplus of $175 million for that year and described the fiscal environment as “challenging”. New revenue and savings measures totalling $2 billion over four years were included. But GST grants were on a steep slide, and so was the iron ore price – from $US96.26 a tonne in July 2014 to $US52.17 a year later, significantly cutting revenue from royalties.

The modest budget surplus forecast for 2014/15 turned into a record deficit of $1.3 billion. And a deficit of $2.7 billion was predicted for 2015/16 as the following graph shows.

![Iron Ore Price and Net Operating Balance](image)


Appeals to the Commonwealth Government for a better GST deal proved fruitless but grants totalling $1.2 billion were made in the two years leading to the 2017 election to soften the financial blow.

There was also indecision over the planned extension to Roe Highway – known as “Roe 8” – which would impinge on the Beeliar Wetlands, and a possible tunnel aimed at taking container traffic off the roads around Fremantle. The cost benefit analysis for this project was never released, which hindered transparency.
Confusion over this issue appeared to take its toll on the relationship between the Transport Minister Dean Nalder and the Premier. Mr Nalder and the Local Government Minister Tony Simpson eventually resigned from the Cabinet – in September 2016 – in protest at the Premier’s style and meddling in their portfolios. A subsequent leadership challenge failed.

There was some good economic news. Iron ore prices bottomed out at the end of 2015 and staged a useful recovery, rising to $US88.80 by February 2017, the month before the election. But it was to be a false dawn. By mid-2017 they were $US57.86 a tonne.

Several major infrastructure projects proved to be problems too. The quality of the water for the children’s play park had been an issue at Elizabeth Quay. Water quality also led to continual delays – and added cost – in completing the Perth Children’s Hospital and the construction of a pedestrian bridge over the Swan River for the new Perth Stadium fell seriously behind schedule. The contract would later be reallocated to a Western Australian based firm.

The economic climate for the March 2017 election was in stark contrast to that of four years earlier. Treasury noted in its Pre-election Financial Projections Statement that the economy was forecast to “grow by 0.5 per cent in 2016/17, down from growth of one per cent forecast in the Mid-Year Review”. The deficit had improved slightly, but was still expected to be more than $3 billion, and State debt was tipped to hit a record $41.1 billion by June 2020. The decision to retain Western Power as a publicly-owned utility was reversed, primarily to reduce the State’s increasing debt burden.

On polling day the Liberal-National Government suffered a heavy defeat. Treasury’s warnings for stronger surpluses had gone unheeded. The record surpluses and low debt which had been the order of the day eight years earlier had turned into both record deficits and debt.

The GST issue remained unresolved and iron ore prices continued at modest levels.

The years 2008 to 2017 produced a remarkable turnaround in the State’s political and economic fortunes. Treasury’s warnings of the risks linked with financial volatility went largely unheeded. Record Budget deficits and State debt which will take years to correct are the result.
INTRODUCTION

On 12 May 2017, the Government of Western Australia appointed John Langoulant to conduct a Special Inquiry into Government Programs and Projects. The Special Inquiry was conducted under section 24 of the Public Sector Management Act 1994 and other statutes as required.

The Terms of Reference (see Appendix A) included the requirement to examine and report on 26 listed programs and projects undertaken by the State Government between 2008 and 2017. The Special Inquirer was to review financial consequences, decision making processes, procurement, and governance. In addition, the Terms of Reference required a review of the use of ‘commercial-in-confidence’ to justify non-disclosure of contract information and reference to ongoing liabilities relating to the programs and projects.

The final report was to include an explanation for the State’s current financial position, lessons learned, and recommendations on measures to ensure improvement in rigour in decision making and procurement processes.

Special Inquiry Principles

The Special Inquiry into Government Programs and Projects was guided by the following principles.

1. The overriding principle of this Special Inquiry is to make a difference.
2. The Special Inquiry is governed by the Public Sector Management Act 1994 and will be faithful to the Terms of Reference.
3. All aspects of this Special Inquiry will be kept confidential and all matters and people will be treated fairly and with respect.
4. Value for money is the cornerstone of effective government procurement.
5. Government procurement processes must be thorough and efficient.
6. Transparency and good governance will increase the confidence and trust of Western Australian taxpayers.
7. The public sector and government must work together to identify and address issues of inefficiency, implement procurement practice improvements and create a culture that supports the value for money objective.
8. Policy settings must aim to reduce inconsistency and ambiguity.
9. Recommendations must be practical and able to be implemented without adding red tape. They must result in more effective government and governance processes.
ESTABLISHMENT OF ADMINISTRATION

The Special Inquiry was provided with a budget of $1.5 million. A record keeping plan was signed off by the Special Inquirer. Employees of the Public Sector were assigned to the Special Inquiry as negotiated with their agencies. The team was located at 20 Southport Street, West Leederville.

Procurement of goods and services was conducted in accordance with Western Australian policy and best practice. All contracts were actively managed.

The team developed the Special Inquiry Principles and decision making protocols. A management of interest process was established to ensure conflicts were understood and well managed.

THE PROGRAMS AND PROJECTS

When the Special Inquiry team began to establish the method for examining the programs and projects, it was determined that there were more than 26 matters for examination. In total they numbered 31, as follows.

<table>
<thead>
<tr>
<th>Synergy</th>
<th>Synergy billing system Muja Power Station – Muja AB Consulting contracts</th>
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<tr>
<td>Western Power</td>
<td>Project Vista Woodlands transmission line Consulting contracts</td>
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<td>Health</td>
<td>Fiona Stanley Hospital – Facilities management and support services</td>
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<td>Perth Children’s Hospital</td>
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<td>St John of God Midland Public Hospital</td>
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<td>Karratha Health Campus</td>
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<td>Queen Elizabeth II Medical Centre car park</td>
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<td>Major IT procurement Outsourcing of non-clinical services</td>
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<td>NurseWest arrangement</td>
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<td>Royalties for Regions</td>
<td>Pilbara Accommodation</td>
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<td>Hedland 125 Service Workers</td>
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<td>Accommodation</td>
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<td>Former Port Hedland Hospital site</td>
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<td>The Quarter</td>
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<td>Pelago</td>
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<td>Pilbara Underground Power Project</td>
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<td>The Ningaloo Centre</td>
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<td>Bulgarra Regional Sports Complex</td>
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<td>Wanangkura Stadium</td>
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<td>Ord River Irrigation Expansion Project</td>
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<td>Perth Stadium</td>
<td>Stadium and transport infrastructure</td>
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<td></td>
<td>Swan River Pedestrian Bridge</td>
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<td>Elizabeth Quay</td>
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<td>Land Asset Sales Program</td>
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<td>Renewable Energy Buyback Scheme (amended to</td>
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<tr>
<td>Net Feed-in Tariff Scheme following the</td>
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<td>issuing of an addendum on 6 November 2017</td>
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<td>by the Acting Public Sector Commissioner)</td>
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<td>Temporary Personnel Services Common Use</td>
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<td>Arrangement</td>
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<td>GovNext-ICT</td>
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<td>Road Safety Commission and Rugby WA</td>
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<td>Partnership</td>
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APPRAOCH TO EXAMINATION OF PROGRAMS AND PROJECTS

To examine all of the programs and projects and provide reports by November 2017 (later extended to December 2017), a robust method was developed and implemented. The approach involved a phased approach to the Special Inquiry.

Create the baseline for good practice

The purpose of this phase was to develop a baseline for good practice in project management against which the projects could be assessed. The baseline also reflected principles for transparency and the use of commercial-in-confidence as a rationale for non-transparency. The phase delivered documented standards outlining good practice in project management against which projects could be measured, a method for measuring projects, and a baseline expectation for transparency.

Research and discovery

The Special Inquiry team reviewed all available material, including submissions received, to identify the issues that have been of past concern to the government and the public. This phase was intended to give the basis for scope definition for each project to ensure the examination was focussed appropriately. The phase delivered a database of material for each project, summaries of issues, concerns and material matters discovered, information about previous audits and reviews into those material matters, and a summary of transparency issues for each project.

Defining the scope for examination of each project

The most critical phase for the Special Inquiry was the definition of the scope for examination of each individual project. The Special Inquirer had a very short timeframe in which to deliver and, therefore, needed to focus time and resources on aspects of projects that were more complex, less transparent, of higher concern to Government and the taxpayer, and of higher value and risk.

An important element of scope definition was the need to prevent duplication of review, examination or investigation into issues that had previously been undertaken. Previous audit reports, probity reviews, Gateway Reviews, Public Accounts Committee reports and other commissioned reviews on the conduct of projects were therefore examined.

Where the identified material issues for a project had been reviewed previously by a credible authority, they were not reviewed again. For example, the scope for the examination of Fiona Stanley Hospital was limited to review of the facilities management arrangement, as there had been a significant number of reviews on the other elements of the hospital. Similarly, the review of major information technology procurement in the Department of Health was limited to examining progress against the findings of a very thorough report from the Auditor General on this matter.

Examination of projects

Reviews of individual projects were contained to the approved scope and included an examination of the governance and decision making arrangements, the application of project management disciplines, procurement and contract award and management, financial analysis, benefits analysis and capability.
Aspects of projects were compared to the baseline expectations for good practice described above. The deliverables from this phase were documented outcomes of the examination for each project, including summaries of financial analysis, legal issues, risk management, project management, governance performance, and conduct compared to the baseline.

The examination led to identification of issues that required clarification by agencies and other parties.

**Financial review**

Each project was subject to a financial analysis. This included reference to financial estimates and outcomes in business cases, a value for money assessment, funding requests and approval processes, cost variations during projects and ongoing liabilities for the State.

**Questions on notice**

During the project examination phase, agencies involved in or responsible for projects were sent detailed questions designed to clarify the Special Inquirer’s early findings. They were given a short timeframe to respond. For some projects there was more than one set of questions on notice sent.

The responses from agencies were used to clarify further the Special Inquiry’s early findings.

**Hearings**

For most projects, there was a need to have discussions in person with senior agency representatives (past and present) to confirm or negate the early findings. The hearings were also used to raise more general questions relating to the themes that were being identified by the Special Inquirer. The Special Inquirer held hearings with the Leader of the Opposition Dr Mike Nahan and the National Party Leader Ms Mia Davies. Former Premier Mr Colin Barnett declined to attend a hearing but provided brief responses to several matters that the Special Inquiry wished to discuss with him. A copy of Mr Barnett’s letter is at Appendix B.

**Report preparation**

The last phase involved creating the narrative and collating data and information to document the findings, risks, issues, concerns and improvement opportunities for each project.

This phase was also aimed at developing the principal report where key themes could be explored and recommendations made about potential improvements at the whole-of-government level.

The reports on each project and program seek to provide the reader with a comprehensive understanding of the background to the issues and a detailed analysis of key matters concerning governance, project management, risk assessment and management, transparency of decision making and records management. Findings and recommendations on each program and project have been framed to identify key lessons learned and to provide Government with measures that will enhance decision making in the future.

This inquiry has been a large undertaking and every effort has been made to ensure the accuracy of facts and that judgements are soundly based. The Special Inquirer was acutely aware of the importance of providing agencies and their staff with every opportunity to comment on the findings.
INQUIRY AT THE WHOLE-OF-GOVERNMENT LEVEL

Part of the Terms of Reference required the Special Inquirer to examine the State’s financial position. To achieve this, work separate to the above project examination occurred. Significant analysis of the State’s financial and economic history since 2008 was conducted and the result is the chapter in this report entitled “Where did the money go?”.

As the Special Inquiry proceeded, it became clear that there were two areas of work that required deeper examination at a broader level. These were Government Trading Enterprises and the Royalties for Regions program. Volume 1 of the Special Inquiry report includes separate chapters on both of these matters.

ISSUES ENCOUNTERED BY THE SPECIAL INQUIRY

On the whole, the Special Inquiry progressed well. The team was highly competent and focussed and the method established was sound.

The tight timeframes were always going to be challenging. Tight timeframes became even more of an issue, however, when government agencies were given preliminary advice that they could not provide the Special Inquirer with business cases that had been attached to Cabinet Submissions. It took around four weeks for this issue to be resolved and for agencies to receive notification that they should be providing business cases to the Special Inquirer.

GLOSSARY

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Agency</td>
<td>A department, organisation, or other entity within the public sector, including Government Trading Enterprises, statutory authorities, and all entities of that kind within the public education, health, justice and police systems. This definition is broader than the definition used in the Public Sector Management Act 1994.</td>
</tr>
<tr>
<td>Business Case</td>
<td>A document providing justification for a proposed project on the basis of its expected benefit. The business case should include reference to options analysis, scope, risk, financial analysis, benefits expected, costs, and project plan.</td>
</tr>
<tr>
<td>Capital Works</td>
<td>In the context of government, capital works refers to buildings, transport infrastructure, and structural improvements.</td>
</tr>
<tr>
<td>Central agency</td>
<td>Central agencies are concerned with areas that affect the entire public sector. They provide policy direction and guidance, oversee practice, and provide services to other government agencies and the community. In the context of Western Australian Government, the central agencies are the Department of the Premier and Cabinet, the Department of Finance, the Department of Treasury and the Public Sector Commission.</td>
</tr>
<tr>
<td>Commercial-In-Confidence</td>
<td>A classification of information that may result in damage to commercial interests, individuals, or trade secrets.</td>
</tr>
<tr>
<td>Common Use Arrangement</td>
<td>A whole of government standing offer arrangement for the provision of specific goods or services commonly used within government.</td>
</tr>
<tr>
<td>Consortium</td>
<td>An association of several companies.</td>
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<tr>
<td>Contract Management</td>
<td>The management of contracts made between government and suppliers involving administration, negotiation, support, and performance management.</td>
</tr>
<tr>
<td>Contract Management Plan</td>
<td>A plan containing all the pertinent information about how the contract is to be managed and which identifies and addresses all relevant issues through the life of the contract.</td>
</tr>
<tr>
<td>Cost Benefit Analysis</td>
<td>A systematic approach to estimating the strengths and weaknesses of optional solutions.</td>
</tr>
<tr>
<td>Delegation Schedule</td>
<td>A list showing authority levels for decision-making.</td>
</tr>
<tr>
<td>---------------------</td>
<td>----------------------------------------------------</td>
</tr>
<tr>
<td>Department</td>
<td>An organisation established under section 35 of the Public Sector Management Act 1994.</td>
</tr>
<tr>
<td>Due Diligence</td>
<td>Appraisal of a business undertaken prior to signing a contract.</td>
</tr>
<tr>
<td>Evaluation</td>
<td>Evaluation in the procurement process is the method and procedure used for determining the selected supplier to be recommended for a contract award.</td>
</tr>
<tr>
<td>Full-time equivalent (FTE)</td>
<td>One FTE is one person paid for a full-time position. FTE totals include all current employees except board members (unless they are on a public sector authority payroll), trainees engaged through any traineeship program, award or agreement, and casuals who were not paid in the final pay period for the financial year. FTE calculations do not include any time that is not ordinary time paid, such as overtime and flex-time.</td>
</tr>
<tr>
<td>Gateway Review</td>
<td>An independent project assurance methodology designed to support the effective development, planning, management and delivery of major projects and programs.</td>
</tr>
<tr>
<td>Governance</td>
<td>The structure, framework, policy and processes used to govern.</td>
</tr>
<tr>
<td>Government Trading Enterprise</td>
<td>Refers to Western Australian Government bodies that derive their primary source of revenue from the sale of goods and services in a commercial environment.</td>
</tr>
<tr>
<td>Interface Risk</td>
<td>Interface risk arises when a project depends on interaction with other stakeholders and projects.</td>
</tr>
<tr>
<td>Joint Venture</td>
<td>A business arrangement in which two or more parties pool resources to accomplish a specific task.</td>
</tr>
<tr>
<td>Machinery of Government</td>
<td>A term broadly used to refer to the structure of government agencies and the configuration of the public sector.</td>
</tr>
<tr>
<td>Memorandum of Understanding</td>
<td>An agreement between two or more parties expressing converging of will between the parties towards a common goal or action.</td>
</tr>
<tr>
<td>Minister</td>
<td>Where the term “Minister” is used in the Special Inquiry report, it refers to the Minister of the day, unless otherwise specified.</td>
</tr>
<tr>
<td>Muja AB</td>
<td>Muja Power Station is 22 km east of Collie, Western Australia. It had eight turbines. Stages A &amp; B had four 60 MW units.</td>
</tr>
<tr>
<td>Net Present Value</td>
<td>The present value of cash flows at the required rate of return of the project compared to the initial investment.</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental organisation.</td>
</tr>
<tr>
<td>Open tender</td>
<td>A process where bids for government work are open to the public and are chosen on the basis of value for money.</td>
</tr>
<tr>
<td>Probit</td>
<td>Evidence of ethical behaviour. In procurement, probity provides a level of assurance to delegations, suppliers and government that the procurement was fair, equitable and defensible.</td>
</tr>
<tr>
<td>Procurement</td>
<td>The process of acquiring goods, services or works from an external source, often through tendering or a competitive bidding process.</td>
</tr>
<tr>
<td>Project Management</td>
<td>The discipline of initiating, planning, executing, controlling and closing the work of the project.</td>
</tr>
<tr>
<td>Public authorities</td>
<td>For the purposes of this report, the term refers to those organisations and bodies that form part of the public sector. That generally includes all State Government agencies, Government Trading Enterprises and many government boards and committees. The term public authority has specific legislative meaning in the Public Interest Disclosure Act 2003, Corruption, Crime and Misconduct Act 2003 and Equal Employment Opportunity Act 1984.</td>
</tr>
<tr>
<td>Public Sector</td>
<td>Refers collectively to Western Australian Government departments, senior executive service and non-senior executive service organisations, other organisations and independent offices.</td>
</tr>
<tr>
<td>Term</td>
<td>Description</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Public sector comparator</td>
<td>Part of a public private partnership procurement process which involves estimating the net present cost to government if it was to deliver the project under a more traditional procurement method such as design and construct.</td>
</tr>
<tr>
<td>Public Private Partnership</td>
<td>A public private partnership (PPP) is a service contract between the public and private sectors where the Government pays the private sector (typically a consortium) to deliver infrastructure and related services over the long term. The Western Australian Government signed up to the National Public Private Partnerships (PPP) Policy and Guidelines (the National Guidelines) at the 29 November 2008 meeting of the Council of Australian Governments. These Guidelines provide an agreed national framework for the delivery of PPP social infrastructure projects. The objective of the framework is to maximise the efficiency of infrastructure procurement, reduce public and private sector PPP procurement costs and remove disincentives to participate in the infrastructure market.</td>
</tr>
<tr>
<td>Public Works</td>
<td>As stated in the Public Works Act 1902 any work constructed or intended to be constructed by or under the control of the Crown, or the Governor, or the Government of Western Australia, or any Minister of the Crown.</td>
</tr>
<tr>
<td>Risk Management</td>
<td>The identification and assessment of risks and the development of plans to mitigate them.</td>
</tr>
<tr>
<td>Senior Executive Service (SES)</td>
<td>Generally comprises positions classified at Public Service and Government Officers General Agreement 2014 equivalent salary bands 9 and above, with specific management or policy responsibilities.</td>
</tr>
<tr>
<td>Strategic Asset Management Framework</td>
<td>The Department of Treasury’s framework that provides policies and guidelines to improve asset investment planning and management across the State public sector.</td>
</tr>
<tr>
<td>Strategic Projects</td>
<td>The business unit that is responsible for the planning and delivery of major projects that are considered to be of significant importance to the State. Currently part of the Department of Finance, Strategic Projects was previously part of the Department of Treasury, the former Department of Treasury and Finance, and the former Department of Housing and Works.</td>
</tr>
<tr>
<td>Substantive Position</td>
<td>A permanent position in the public sector.</td>
</tr>
<tr>
<td>Transcript</td>
<td>Documented recording of hearing.</td>
</tr>
<tr>
<td>Transport Portfolio</td>
<td>For the purpose of this Report, comprises the Department of Transport, Main Roads Western Australia and the Public Transport Authority</td>
</tr>
<tr>
<td>Value For Money</td>
<td>Economic value measure of the benefit provided by a good or service.</td>
</tr>
<tr>
<td>Cabinet</td>
<td>The Cabinet of Western Australia consists of the Premier and all the Ministers meeting together under the chairmanship of the Premier.</td>
</tr>
<tr>
<td>Expenditure Review Committee</td>
<td>A sub-committee of Cabinet that considers all policy issues with financial implications and recommends a course of action to Cabinet.</td>
</tr>
<tr>
<td>Department of the Premier and Cabinet</td>
<td>Supports the Premier as head of the Western Australian Government. Responsible for providing quality policy and administrative advice and support to enable the Premier and government to serve the WA community.</td>
</tr>
<tr>
<td>Department of Treasury</td>
<td>Provides economic and financial management and advice to Government including formulation, implementation and monitoring throughout the year of the State Budget, economic and revenue forecasting, advice on infrastructure policy and planning, and management of the Public Ledger; provides advice on energy policy issues - including regulatory frameworks, security and reliability of supply, technology trends, consumer protection, and affordability (Public Utilities).</td>
</tr>
<tr>
<td>Department of Finance</td>
<td>Responsible for the planning and delivery of major projects that are considered to be of significant importance to the State (Strategic Projects); Leads a whole-of-government approach to procurement of goods and services (Government Procurement); Leads the planning, delivery and management of a government property portfolio (Building Management and Works); Administers revenue laws, and grant and subsidy schemes (State Revenue).</td>
</tr>
<tr>
<td>----------------------</td>
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</tr>
<tr>
<td>State Supply Commission</td>
<td>The Commission is within the Department of Finance and oversees the State Supply Commission Act 1991 and its policies.</td>
</tr>
<tr>
<td>Department of Planning, Lands and Heritage</td>
<td>Responsible for planning and managing land and heritage for all Western Australians.</td>
</tr>
<tr>
<td>Public Sector Commission (in terms of the Public Sector Management Act 1994)</td>
<td>Provides for the administration of the Public Sector of WA and the management of the public service and of other public sector employment.</td>
</tr>
<tr>
<td>Economic Regulation Authority</td>
<td>Monitors WA’s wholesale electricity market, undertakes economic inquiries and provides advice to the State Government. Administers licences for energy and water service providers and regulates third party access to energy and rail infrastructure in the State.</td>
</tr>
<tr>
<td>Public Utilities Office</td>
<td>Provides services on energy matters to the Minister for Energy, the Western Australian Government, the energy sector and the Western Australian community.</td>
</tr>
<tr>
<td>Queen Elizabeth II Medical Centre Trust</td>
<td>Statutory authority and independent body responsible for the development, control and management of 28.4 hectares of land designated for the purpose of a medical centre.</td>
</tr>
<tr>
<td>Western Australian Regional Development Trust</td>
<td>Independent statutory advisory body established under the Royalties for Regions Act 2009 that provides advice on the Royalties for Regions Fund to the Minister for Regional Development.</td>
</tr>
<tr>
<td>Regional Development Commissions</td>
<td>Regional offices to promote regional development.</td>
</tr>
<tr>
<td>Regional Development Council</td>
<td>Advisory body to the Minister for Regional Development on all regional development issues.</td>
</tr>
</tbody>
</table>

Note regarding machinery of government changes - There have been multiple machinery of government changes during the time period relevant to the Special Inquiry terms of reference, which have resulted in changes to public sector agency names, functions and responsibilities. In the Special Inquiry report the agency name that applied at the point in time will be used, unless otherwise specified.

**Machinery of Government – Amalgamated Agencies (Current)**

<table>
<thead>
<tr>
<th>Post 1 July 2017</th>
<th>Pre 1 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Jobs, Tourism, Science and Innovation</td>
<td>Department of State Development</td>
</tr>
<tr>
<td>Department of Commerce</td>
<td>Western Australian Tourism Commission</td>
</tr>
<tr>
<td>Department of Mines, Industry Regulation and Safety</td>
<td>Department of Mines and Petroleum</td>
</tr>
<tr>
<td>Department of Commerce</td>
<td></td>
</tr>
<tr>
<td>Department of Primary Industries and Regional Development</td>
<td>Department of Agriculture and Food</td>
</tr>
<tr>
<td>Department of Regional Development</td>
<td>Department of Fisheries</td>
</tr>
<tr>
<td>Regional Development Commissions</td>
<td>Regional Development Commissions</td>
</tr>
<tr>
<td>Department of Communities</td>
<td>Department of Child Protection and Family Support</td>
</tr>
<tr>
<td>Department of Housing</td>
<td>Disability Services Commission</td>
</tr>
<tr>
<td>Department of Local Government and Communities</td>
<td></td>
</tr>
<tr>
<td>Department of Justice</td>
<td>Department of the Attorney General</td>
</tr>
<tr>
<td>Department of Corrective Services</td>
<td></td>
</tr>
</tbody>
</table>
| Department of Education | Department of Education  
|                        | Department of Education Services  
|                        | School Curriculum and Standards Authority  
| Department of Planning, Lands and Heritage | Department of Planning  
|                        | Department of Lands  
|                        | State Heritage Office  
| Department of Biodiversity Conservation and Attractions | Department of Parks and Wildlife  
|                        | Botanical Gardens and Parks Authority  
|                        | Zoological Parks Authority  
|                        | Rottnest Island Authority  
| Department of Local Government, Sport and Cultural Industries | Department of Local Government and Communities  
|                        | Department of Culture and the Arts  
|                        | Department of Racing, Gaming and Liquor  
|                        | Department of Sport and Recreation  
| Department of Water and Environmental Regulation | Department of Water  
|                        | Department of Environment Regulation  
|                        | Office of the Environmental Protection Authority  
| Western Australia Police | Western Australia Police  
|                        | Road Safety Commission |
THEMES AND FINDINGS

The final report of the Special Inquirer is presented here. The report aims to provide insight into how significant government programs and projects over the period 2008 to 2017 contributed to broader economic and financial outcomes for the State. It also provides recommendations that are intended to prevent the recurrence of the issues of concern and to address the risks that have arisen.

The best outcome for the Special Inquirer would be that adoption and implementation of the recommendations would mean that such inquiries would not be needed in the future because future government projects are managed in a consistent and compliant way and transparency and accountability frameworks are in place to address any issues as they arise.

VOLUME 1 – OVERARCHING THEMES

The first volume of the Special Inquiry report provides an overview of the economic, social and political environment of the period 2008 to 2017 and an explanation of the processes used for the Special Inquiry. It also provides the Special Inquirer’s view on the drivers of Western Australia’s current financial status.

Volume 1 covers specific elements of the terms of reference relating to transparency, governance, and the drivers of financial outcomes for the period 2008 to 2017. It also brings together the following common themes that have arisen through the examination of the separate projects.

- Governance,
- Public sector capability
- Transparency
- Project management
- Procurement and contract management

As the Special Inquiry progressed it became evident that a deeper examination and analysis of two key areas would provide the Government with valuable insight. As a result, Volume 1 includes separate chapters on:

- Government Trading Enterprises; and
- the Royalties for Regions program.

VOLUME 2 – INDIVIDUAL PROJECT REPORTS

The second volume contains separate reports on each program and project listed in the Special Inquiry Terms of Reference. An assessment of the 26 items specified in the terms of reference means that 31 individual reports have been prepared. The additional reports result primarily from the disaggregation of the Pilbara
Accommodation item into an examination of the projects involving The Quarter and Pelago developments in Karratha, the Hedland 125 Service Workers Accommodation project and the redevelopment of the former Port Hedland Hospital site.

**FINDINGS AND RECOMMENDATIONS**

Each of the separate project reports in Volume 2 includes the Special Inquirer’s specific findings and recommendations for those programs and projects. Each project report’s findings and recommendations are intended to be addressed by the relevant agencies involved with those projects unless otherwise indicated.

Each of the chapters in Volume 1 also has findings and recommendations. Most of these are for the Government’s consideration and would generally be implemented by central agencies.

The recommendations are drawn together in themes in the Executive Summary and provided in detail in the individual chapters of the report.
INTRODUCTION

In identifying the “key drivers or failures in decision-making processes” and “lessons learned from the undertakings listed” in the terms of reference, the most important systemic issue is that of poor or low quality governance.

Good governance is a key ingredient for successful projects and government undertakings. Governance arrangements form the basis for decision-making and accountability. Governance over major projects is a foundation for better project planning and management, procurement and contract management, and a higher level of transparency.

GOVERNANCE PRACTICES

Consistent adherence to strong governance practices is a prerequisite to success in any organisation, whether it be in the government, corporate or not for profit sectors.

The Special Inquiry examined the governance arrangements that applied between 2008 and 2017 at several levels, these being Cabinet, departmental, trading enterprise, statutory authority and at the project steering committee level.

The Special Inquiry observed a range of governance structures and practices across government. In the main the governance structures were sound. There were, however, many instances of poor process and decision making which can be sourced back to the lack of consistently good governance practices. These poor practices were a critical contributing factor to the financial outcomes which are at the core of the Special Inquiry’s terms of reference.

Cabinet

The Cabinet is central to the governance arrangements of the Western Australian Government, as is the case for all Westminster systems of government. Even though it is described as an “informal association of Ministers” and its decisions have no legal force, it has “established conventions... which give substance to its formal operations”\(^1\). The Cabinet provides for structured consideration of key issues that government must address. It also provides a forum for considered debate among Ministers. These considerations are usually supported by advice and information from the agencies of government. Operating well, the Cabinet process enables collective decision making, a long established and recognised strength of Cabinet government.

How Cabinet is meant to work and how the public service is intended to interact with Cabinet is set out in the Cabinet Handbook. On its cover page the Cabinet Handbook says it is “designed to assist officers to

\(^1\) Department of the Premier and Cabinet, Cabinet Handbook, (2009), 4.
understand the Cabinet process and prepare papers for submission to Cabinet”. It notes that “It is important that high standards are maintained. Submissions that do not comply with the required standards outlined in the Handbook will not be accepted.” Importantly, the Handbook also sets out how submissions with financial implications should be managed.

Consistent with established conventions, the Special Inquiry has not accessed Cabinet Submissions from the previous administration. The Special Inquiry was, however, able to access a number of business cases and associated documents which supported Cabinet Submissions relevant to its terms of reference, together with working papers and advice provided to Ministers in the normal course of government. That information, together with hearings with officials from across the public sector, provided the Special Inquiry with an understanding of Cabinet’s practices through this period.

The Cabinet held regular meetings, had a Cabinet sub-committee system which dealt with issues in greater detail than is possible in a full Cabinet setting, and was the forum where most major issues of government were decided. There was the customary Cabinet finance committee, the Expenditure Reform Committee, which was renamed by the Barnett Government to the Economic Expenditure Review Committee. Evidence presented to the Special Inquiry indicates the then Premier was a dominant leader when it came to controlling the Cabinet agenda and processes. While this is not uncommon for Premiers, it seems that through the life of the Barnett Government the Premier’s leadership style, together with the practices of the Premier’s Office, were more intrusive in the business of government and the collective behaviours and decision making practices of the Cabinet than seen in recent times.

From the evidence presented to the Special Inquiry on the effectiveness of the Cabinet’s governance practices, the following issues were most notable. These practices have been identified in the context of drawing recommendations for “lessons learned” in financial management practices for future governments.

**Overall plan**

There was no documented, collective or strategic plan or vision that the Cabinet worked to. The Government’s strategic whole-of-government focus or strategy was not known to any officer who appeared before the Special Inquiry. Many said that such guidance would have been valuable.

The absence of a collective strategy was not seen to be an issue by senior Ministers of the previous Government. In his letter to the Special Inquiry, Mr Barnett said in responding to the question of the appropriateness of a clearly stated strategic vision that:

“Any strategic vision is properly part of the pre-election campaign and election commitments. It is not a role for government agencies. The reality is they are reviewed regularly in any event.”

In the Insider Magazine published by the West Australian on 23 November 2017, Mr Barnett is quoted as saying:

“I reject this idea that I was only about mining and didn’t have a vision for the State. I have had a vision for this State since I was first sworn in in 1990.”

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4 Hon. Colin Barnett MLA, Member for Cottesloe, Letter to Special Inquirer, (October 2017) 1.
5 Insider Magazine, the West Australian, 23 November 2017.
In sharing her observations with the Special Inquiry, the present Leader of the Parliamentary National Party of Australia (WA), Ms Davies made a similar observation about the importance of election commitments in setting the vision for the State. She also referred the Special Inquiry to the Governor’s speech opening each term of Government, together with the annual budget process as other sources of the overall direction of government. Ms Davies observed that any organisation operates effectively when there is a very clear direction from its leadership and pointed out:

“I’d have thought that every department should have been aware the government we were a part of had a very strong focus on regional development”.6

In his observations to the Special Inquiry, the former Treasurer and present Leader of the Opposition, Dr Nahan, said:

“I don’t think if we had an overall strategic plan that would have made any difference”.7 He said:

“it was satisfactory that individual agencies had developed their particular strategies to guide their activities”.8 From a personal perspective he said that everyone “knew what my strategic plan was and that was to reduce expenditure growth without stopping the provision of essential services”.9

The Special Inquirer observed that most agencies he had met with had developed strategic plans and had discussed them with their Minister. There was, however, no identifiable link between these plans, nor any process of ensuring coordination of the agencies’ strategic plans.

The Special Inquirer concluded that if the then Premier had a strategic vision for the State, it was not clearly stated to other Ministers and that Government lacked a shared and clear whole of government strategic perspective. This lack of a coherent vision of what the Government was seeking to achieve precluded agencies from developing cohesive plans by which policy and actions were coordinated. This was also likely to have been a contributing factor to the development of a culture across agencies that lacked a binding common purpose.

**Government Financial Management**

**Financial management targets**

The Government is required by the Financial Management Act 2006 to set and report key financial targets in the annual budget papers. The purpose of these targets is to set a discipline for financial management practices across government.

Targets can also be effective in setting a common purpose to fiscal policy and sending clear signals of broader policy directions across the Cabinet and the public service. For instance, having stated that his Government would always achieve a budget surplus, having a target to that outcome was sensible. At the same time, however, the target focussed on retaining the AAA credit rating, the net debt to revenue target of 47%, which had been set by the previous government was replaced by the Barnett Government in the

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6 Hon. Mia Davies MLA, Leader of the Parliamentary National Party of Australia (WA), Special Inquiry Hearing, 6 November 2017.
7 Hon. Dr Mike Nahan MLA, Leader of the Opposition, Special Inquiry Hearing, 6 November 2017.
8 Ibid.
9 Ibid.
first term by a measure of the affordability of net debt. That measure gave less clear policy signals on the importance of retaining the AAA and it was not surprising to see it replaced at the start of the second term by the net debt to revenue ratio. At this time, it was set at 55% reflecting the deterioration that had occurred in the debt position in the interim. This target was set in May 2013 and in October 2013 the AAA was lost. The target was not achieved in any year of the second term.

The Barnett Government set five fiscal targets in its first term of government and introduced four new targets in its second term. These targets and how the Government performed against them are shown in Appendix C.

It is fair to say there was a mixed performance in the first term and poor outcomes in the second. The first term targets included that expenses would not increase by more than population growth and inflation. The target was not met in any of the first three years of that term and was just met in the fourth year.

As is discussed in the ‘Where did the money go’ chapter this strong growth in recurrent expenditures which plagued the Government for much of the two terms created structural imbalances in the budget which would prove difficult to manage when revenue growth receded. The expenditure growth was generated primarily by large remuneration increases across the public service and strong growth in key service delivery agencies especially Health.

The introduction of the Royalties for Regions program also generated many new expenditure proposals requiring decision by Cabinet. Many agencies participated in that process. In several ways the program destabilised budget management practices and created an environment of undisciplined ad hoc funding submissions across many areas of government. These undisciplined practices resulted in expenditure policies and spending that impacted State finances in the second term in measures never seen before. The revised fiscal target in the second term – to hold expense growth below revenue growth – was achieved in only one year.

Reflecting in part the fiscal position that the Government inherited, the first term fiscal target – to achieve a general government sector operating surplus each year – was achieved, though the size of annual surpluses declined during the first term. The financial impact of the first term expenditure policies materialised rapidly. By the end of 2013-14, as the economy and the State’s revenue position fell backwards the recurrent budget moved deeply into deficit. As a consequence, the second term fiscal target – to maintain an annual cash surplus of at least 50% of the general government sector’s infrastructure spend – was never achieved. The failure to achieve this target was a material factor in the blow out in debt witnessed since 2013-14.

The key learnings that the Special Inquirer draws from this experience were:

• fiscal targets provide an opportunity to send clear signals of policy intent;
• in setting fiscal targets it is crucial that every effort is made to achieve them;
• successive failure in meeting key fiscal targets erodes financial discipline and creates a culture of indifference to proper financial governance; and
• lack of respect for financial discipline and any culture of indifference will inevitably create chaotic government finances, loss of control of the budget and negatively impact the State’s credit rating.

Budget management

The annual budget process provides the opportunity for government to review its expenditure and revenue priorities through a comprehensive assessment of existing and proposed programs and projects. Though an exhausting process for Ministers and departments, it is the most effective time to confirm or reset policy and strategy.
The Treasury observed that the disciplines and benefits of the annual budget process broke down during the last government. Rather than there being a single annual opportunity for seeking new expenditure measures through the Budget process, “spending increments [became] a year-round process” and Mid-Year Reviews became “financial policy decision making events akin to mini-Budgets.” The ‘Where did the money go?’ chapter details the extent of new policy decisions contained in the Mid-Year Reviews. It is noted that in the five Mid-Year Reviews prior to 2013-14, $3.1 billion of spending due to policy changes were added over the forward estimates. Mid-Year Reviews since 2013-14 have not separated the policy decisions from parameter changes in the new expense data.

The Special Inquirer noted the insidious nature of these practices. They were done in complete disregard for Cabinet’s rules as set down in the Cabinet Handbook. The Handbook is explicit: “Proposals with financial implications should only be considered during the annual budget process,” the exception being if the Treasurer was satisfied that an expenditure proposal could not be funded by existing allocations. The practice of ad hoc, year-round budgeting reflected a basic lack of discipline and respect across the Government for a central pillar of good government. The Special Inquirer found the importance of the annual budget process was a key governance discipline that Cabinet did not enforce.

Mr Barnett commented on this issue by noting: “It is Treasury’s job to manage government expenditure according to the Budget. This needs to happen throughout the year, not just at Budget time”. On Mid-Year Reviews being seen akin to mini budgets he wrote “The Mid-Year Review is an accounting exercise. As Premier, I always made it clear that this was not a mini-budget.”

The Special Inquirer observed that Treasury’s ability to successfully enforce budget control is only possible if it is supported by Cabinet. When Cabinet discipline is absent Treasury has little authority on which to fall back. As discussed further below, the importance of Ministers and Cabinet supporting the efforts of their public service leaders is critical to effective government. Regrettably this was not always apparent during the years of the Barnett Ministry.

The Special Inquirer has concluded that measures were not set and enforced by Cabinet to exclude or at least limit new expenditure initiatives being approved outside the Budget process. Nor were there any measures initiated to enhance the capacity of Ministers to respond to new expenditure pressures by reprioritising existing budgets.

The Special Inquirer explored this matter with the Treasury which proposed a possible new approach as follows:

“[an] opportunity for increased financial flexibility could be achieved by providing Ministers with appropriate powers to reprioritise funding and/or expenditure across the agencies under their stewardship. Arrangements to support this approach may include the need for legislative changes (for example to the Financial Management Act 2006) and be subject to guidelines approved by the ERC and Cabinet.”

10 Department of Treasury, response to Special Inquiry request for information, received 15 September 2017
12 Hon. Colin Barnett MLA, Member for Cottesloe, Letter to the Special Inquirer, (October 2017) 1.
13 Hon. Colin Barnett MLA, Member for Cottesloe, Letter to the Special Inquirer, (October 2017) 2.
14 Department of Treasury, response to Special Inquiry request for information, received 15 September 2017
Treasury suggested that such an initiative would dovetail with a formal parliamentary close-out to each financial year involving annual “housekeeping” tasks, such as tabling of annual reports in the Parliament and the passage of supplementary funding appropriation Bills; and an Estimates Committee process to enable Parliament to question Ministers and agencies on performance (relative to the original budget) for the financial year just ended.15

The Special Inquirer sees merit in measures such as these.

The Special Inquirer also noted that there must be a focused effort on increasing the knowledge of the public sector on financial management practices, including budget process matters. There were a number of misunderstandings brought to the attention of the Special Inquirer as to what current Cabinet processes and the Financial Management Act 2006 allow and do not allow. These include misunderstandings of the legal ability of agencies and Ministers to approve reallocations of moneys to new programs during the course of a financial year. The need for this greater awareness at officer level was also identified by Mr Barnett when he said: “There is also merit in improving the financial capacity of some agency heads”.16 These matters are discussed further in the ‘Public sector capability’ chapter.

**Quality of financial advice**

As mentioned earlier, the Cabinet Handbook states “It is important that high standards are maintained. Submissions that do not comply with the required standards outlined in the Handbook will not be accepted”17.

Contrary to these Cabinet Handbook requirements, it is clear from the material seen by the Special Inquirer that Cabinet Submissions were not supported by consistently high standards of financial information. This was most evident in the business cases which supported proposals to be funded by the Royalties for Regions program.

This reflected a disregard for proper process by both Ministers and public officers. The Special Inquirer saw a breakdown in or lack of understanding of correct process most starkly illustrated by countless instances of poor consultation across agencies in preparing Cabinet Submissions and most notably the deliberate exclusion of Treasury in its role of overseeing the budget aggregates.

With regard to proposals made under the Royalties for Regions program, Cabinet applied a lower standard of financial scrutiny to these proposals than that applied to other budget proposals. The Royalties for Regions program was referred to as a dual or shadow budget process which was overseen by Cabinet. Whether the creation of this dual budget process was intentional or unwitting is unclear. Nevertheless, the Royalties for Regions program provided the worst systemic examples of financial ill-discipline across government and the best examples of poor quality submissions presented to Cabinet.

Mr Barnett responded to a question from the Special Inquirer on the quality of financial information included in Cabinet Submissions as follows:

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15 Department of Treasury, response to Special Inquiry request for information, received 15 September 2017.
16 Hon. Colin Barnett MLA, Member for Cottesloe, Letter to the Special Inquirer, (October 2017) 1.
“Cabinet Submissions come before the event or project. They are often based around assumptions and forecasts. Treasury should examine these before a submission gets to Cabinet and agreement on the financial details should be reached between the relevant Minister and agency, and Treasury prior to Cabinet. Problems can occur during the subsequent implementation phase. Implementation is the responsibility of individual ministers and their agencies. It is not a direct task of Cabinet. Cabinet sets policy direction and makes the overall policy and financial decision.”¹⁸

The former Premier also observed with respect to Royalties for Regions proposals brought before Cabinet:

“All Royalties for Regions programs come through the Cabinet process. The difficulty can be the large number of comparatively small projects and the large number of third parties involved in contracts. That level of detail is not something that is dealt with at the Cabinet level but it should be dealt with at the agency level. If a Cabinet Submission was considered to be deficient or not appropriate, then it would be deferred. The same would apply if there was disagreement over a submission. The onus is on the ministers and their agencies to sort out the detail at all levels. I would add that these principles applied to all Cabinet Submissions, not only Royalties for Regions submissions.”¹⁹

As far as the Special Inquirer has been able to determine, most, if not all, proposals involving Royalties for Regions funding were approved by Cabinet. Despite views to the contrary being put to the Special Inquirer, a significant number of these proposals were not supported by business cases. For instance, of the 10 specific matters funded by Royalty for Regions and reviewed by the Special Inquiry under the terms of reference, five were not supported by business cases. In many other instances, so called business cases were materially deficient in providing a reliable assessment of the cost-benefit merits of the proposal either in absolute terms or relative to other options. Nor was the risk assessment of the options adequate in most cases.

Another aspect of Royalties for Regions “requests” was that they often failed to take account of the views of other agencies which were impacted by the proposal. The Director General of Finance, Ms Anne Nolan, commented on the Cabinet process for these proposals as follows:

“I think it became form over substance in a very major way…it goes deeper than providing the right handbook or the right checklist. It goes to the way you do business and understanding what a good Cabinet Submission looks like. Many of the Royalties for Regions submissions I saw...were voluminous rather than insightful.”²⁰

With regard to Mr Barnett’s comment on the level of consultation that should occur in the preparation of Cabinet Submissions, the Acting Director General of the Department of the Premier and Cabinet at the time of the 2017 State Election, Mr Smith told the Special Inquirer that this consultation process was too infrequently observed and should have been given higher attention in accordance with the Cabinet Handbook requirements.²¹

¹⁸ Hon. Colin Barnett MLA, Member for Cottesloe, letter to the Special Inquirer, [October 2017] 2.
¹⁹ Ibid.
²⁰ Department of Finance, Special Inquiry hearing, 30 November 2017.
²¹ Meeting between Mr David Smith and the Special Inquirer, 8 September 2017.
Ms Nolan observed that:

“Cabinet Submissions have probably fallen off in quality over time in terms of their accuracy, attention to detail and ensuring they have their facts entirely correct. I think they have got hurriedly written rather than thoughtful pieces we would perhaps like them to be. Consequently, one of the elements that I think contributes to that is a lack of discussion of Cabinet Submissions amongst the government agencies.”

She also commented that:

“Quality of information into a Cabinet to me is the absolute starting point to how they can make good decisions. So how you present that information in a very clear, coherent and well-informed manner seems to me to be the essence of what you would want in a good set of board papers or a good set of Cabinet papers. You know, rubbish in, rubbish out.”

On the issue of the co-ordination comments which accompanied Cabinet Submissions Ms Nolan questioned the effectiveness of the practice. She pointed out that:

“There’s a reticence to hold up the process and say ‘that is wrong’ in a Cabinet comment. We tend to say we’ll pick up issues later in implementation rather than deal with them outright, upfront. There are systemic issues...the failure to focus on the key issues and write them simply so that they’re accessible to other Cabinet Ministers who understand what in fact they’re getting themselves in for and they truly are looked at by Cabinet as a whole is a real issue.”

Dr Nahan commented on the quality of the business cases submitted to Cabinet as follows:

“... so was it the most rational process, effective process? No, it was not. But most of the (Cabinet Submissions) I went through, the big ones, had business cases (and) Treasury had access to them. (That wasn’t) probably as long and as deep and controlling as they wished.”

And on the issue of poor consultation processes for Cabinet Submissions where submissions hadn’t been shown to Treasury he said:

“...if (Treasury) informed me, and I can remember instances when they did, I did my best to stop (the Submission). It wasn’t just Royalties for Regions, departments are always trying to get around Treasury.”

A further troubling feature of the material that went to Cabinet was that officers were not aware of the deficiencies in their business case analysis. This conclusion was unavoidable from the Special Inquiry hearings conducted on the Royalty for Regions programs where it was clear that officers from the Department of Regional Development considered business cases submitted to Cabinet to be of a high standard. They were uniformly of an extremely poor standard. An example of this is found in the Pilbara Cities’ business case which sought $355.5 million of funding without a single expenditure program being identified, and

22 Department of Finance, Special Inquiry hearing, 30 November 2017.
23 Ibid.
24 Ibid.
25 Hon. Dr Mike Nahan MLA, Leader of the Opposition, Special Inquiry Hearing, 6 November 2017.
26 Ibid.
with no strategic or operational risk assessment of any significant depth. When asked by the Special Inquirer about the adequacy of the business cases, the response was that subsequent business cases would justify the expenditure proposals which would be identified at a later time to be funded from the pre-approved pool of funds. This was not the only example of the deficiency of these pre-approved pooled funding arrangements.

The further conclusion reached was that it was questionable if Ministers had an understanding of the quality of the business cases brought before them. In responding to a generic question on this matter, Ms Davies said she had no concern with the quality of the business cases for Royalty for Regions proposals submitted to Cabinet. When challenged on the adequacy of this information base to inform decisions she noted that business cases were just one aspect of Cabinet’s considerations. She thought that the main priority was that Cabinet took decisions: the checks and balances in the system as to whether the Government’s decisions were well based or otherwise were provided by the four-year election cycle.

This observation, if broadly held by Ministers of the previous government, raises questions of the scrutiny given to Royalties for Regions programs, and others, brought to Cabinet for decision.

Coordinated financial advice

Another key element in effective financial management is for Cabinet to receive advice from Treasury on Cabinet Submissions that propose new expenditure or revenue measures. That advice should address the financial implications of both the specific matter before Cabinet and for the achievement of overall fiscal targets. The Special Inquirer was told of numerous Cabinet Submissions with financial implications that were not assessed by Treasury at all and others where Treasury was not provided with adequate time to properly assess proposals. This was of most concern on submissions with large financial implications. This occurred predominantly through inadequate consultation being undertaken across agencies, including with Treasury, in the development of Cabinet Submissions as noted above. It also reflected a disregard for established Cabinet processes as set down in the Cabinet Handbook which required that “The costing of all proposals considered by Cabinet or EERC must be evaluated by the Department of Treasury before they are submitted to Cabinet or EERC.”

A further dimension of this practice occurs when the 10-day rule required by Cabinet is not enforced. The 10-day rule is the time between when a Cabinet Submission is lodged with the Cabinet Office and when it reaches the Cabinet agenda, in which time Cabinet Submissions are to be considered by Ministers with their agencies providing “coordination” comments on the submissions. The Special Inquirer did not receive any data on the frequency with which the 10-day rule was not enforced, but evidence was provided that this occurred most commonly though not only with Royalties for Regions submissions. Regardless of the frequency of these practices, they are unacceptable. The 10-day rule is an essential process to ensure adequate consideration of proposals by Cabinet and relevant departments.

It is notable to contrast established corporate standards by which decisions by a governing body that are unsupported by appropriate financial information are a serious offence.

In his submission to the Special Inquirer Mr Barnett commented on this matter as follows:

“Consultation between Treasury and an agency over a Cabinet Submission is a given. Indeed, the Cabinet Handbook (2013 and 2017) states, “The costings of all proposals considered by Cabinet or [EERC] ERC must be evaluated by the Department of Treasury (Treasury) before they are submitted to Cabinet or [EERC] ERC” and “The Cabinet Secretariat will not normally accept submissions unless the financial implications of the proposal have been evaluated by Treasury” (p. 4).” 28

Dr Nahan made similar comments, noting that Treasury had access to all Cabinet Submissions, some maybe for periods of time less than they would have desired.29

At his hearing with the Special Inquirer, when asked about Cabinet Submissions with financial implications requiring Treasury comment, the Under Treasurer said:

“That requirement was not policed as stringently as Treasury would have liked certainly...we would see from time to time submissions going directly to Cabinet that had financial implications and, you know, there’s a requirement on the summary sheet of the Cabinet Submission that asked the question explicitly, Has Treasury been consulted on the financial implications? Yes. or No. and my view has always been, I think it says it in the Cabinet handbook, if that box is ticked, No, Treasury has not been consulted on the financial implications, it should not go to Cabinet. But there were a number of Cabinet Submissions where that box was ticked No and the submission still went forward to Cabinet.”30

Role of the Expenditure Review Committee

The Special Inquirer was told that changes to the role of the Expenditure Review Committee (ERC) made by the Barnett Government on taking office resulted in a significant reduction in its authority.31 These changes, reflected in the Cabinet Handbook, moved the Committee from a position where “All proposals with financial implications must be considered by the Expenditure Review Committee (ERC) or the Treasurer prior to being considered by Cabinet” to one where “Ministers have the option of submitting submissions with financial implications either directly to Cabinet or the Economic and Expenditure Reform Committee (EERC) in the first instance”. The handbook also stated:

“The deliberations of EERC meetings will be reported back to Cabinet by way of submissions, under the signature of the Treasurer, requesting that Cabinet simply “note” the minutes of the ERC.”32

Mr Barnett’s comments on the importance of the Expenditure Review Committee process were that it is: “…part of the ongoing role of Treasury in conjunction with government agencies. It is a Standing Committee of Cabinet and an important and normal function of government.”33 He went on to say that: “There is scope for Treasury to develop a more continuous financial engagement with agencies. There is also merit in improving the financial capacity of some agency heads.”34

28 Hon. Colin Barnett MLA, Member for Cottesloe, Letter to Special Inquirer, (October 2017) 3.
29 Hon. Dr Mike Nahan MLA, Leader of the Opposition, Special Inquiry Hearing, 6 November 2017.
30 Department of Treasury, Special Inquiry hearing, 20 October 2017.
31 Meeting between Mental Health Commissioner and the Special Inquirer, 8 September 2017.
33 Hon. Colin Barnett MLA, Member for Cottesloe, Letter to the Special Inquirer, (October 2017) 1.
34 Ibid.
The former Acting Director General of the Department of the Premier and Cabinet, Mr Smith noted in discussing this matter with the Special Inquirer that Mr Barnett had a view that Cabinet was the ultimate decision making entity of government and that the changes, diminishing the role of the Economic and Expenditure Reform Committee, reflected that view.

Dr Nahan told the Special Inquirer that he felt the: “Expenditure Review Committee is just a subset of Cabinet...ERC is Cabinet.” He went on to say when he was Treasurer: “the ERC...was focused on cutting costs...and that: “Treasury had a say in everything that had financial implications.”

The Special Inquirer took particular note of the views held by Mr Barnett and Dr Nahan on the effectiveness of the role of the ERC.

The former and current Under Treasurers, however, both commented on how the change in the role of the Economic Expenditure Reform Committee reduced the authority and status of the Committee.

The current Under Treasurer, Mr Barnes said in his hearing with the Special Inquirer that:

“I think as a general rule there was maybe a bit of a dis-connect between Cabinet and EERC. EERC under the former government probably did not have the sort of authority and status that you would typically expect that Committee to have.”

He went on to say:

“...it [the Economic Expenditure Reform Committee] met on a regular basis. Treasury provided advice on issues that came before EERC so in that context it operated as it always has...but it was that interaction between Cabinet and EERC where ...some problems emerged. And by that I mean that Ministers would find a way of effectively going around EERC decisions and getting those overridden. So that’s what I meant by a sort of lack of authority of the EERC process.”

He also went on to say that: “Ministers would sometimes make a subsequent submission directly to Cabinet to effectively override the previous EERC decision.”

Mr Barnes also noted that in Treasury’s briefing papers for the incoming government post the 2017 State election: “...there was a section on the need...to establish for the new Government urgently an Economic and Finance Committee of Cabinet, a la EERC.” He quoted from that paper as follows:

35 Hon. Dr Mike Nahan MLA, Leader of the Opposition, Special Inquiry Hearing, 6 November 2017.
36 Ibid.
37 Department of Treasury, Special Inquiry hearing, 20 October 2017.
38 Ibid.
39 Ibid.
40 Ibid.
“There have been many occasions where initiatives with significant financial implications, either
direct, or through flow on effects, have been submitted and approved directly by Cabinet without
prior scrutiny by Cabinet’s dedicated financial committee, the Economic and Expenditure Reform
Committee. The trend of bypassing EERC in favour of direct consideration by Cabinet appears to
be gaining momentum. In 2015/16 the EERC considered around 35 percent fewer issues than in
2014/15. In comparison the number of issues considered by Cabinet grew by around 10 to 15
percent in 2015/16.

Ministers gain time bypassing the EERC by immediately obtaining approval from Cabinet as the
decision making authority to progress the initiative but lose the opportunity to test the robustness of
the proposal. In this respect also the Cabinet process offers less meaningful engagement with and
scrutiny by Treasury as to whether the initiative delivers value for money outcomes.”

The Treasury said in a written submission to the Special Inquiry that:

“The single most important part of successful and robust management of the Budget is an effective,
disciplined Expenditure Review Committee (ERC) process. The authority of ERC’s decision-making
power is central to achieving and preserving Budget outcomes.

“The authority of an effective ERC includes authority in decision making that is not subject to the
‘unwinding’ of the Committee’s decision, and avoiding the circumventing of ERC by processes or
culture that facilitate bypassing the Committee (such as taking issues directly to Cabinet).”

The ERC, when operating as it should, plays a critical role in government. It allows more detailed
consideration of issues than is possible in Cabinet. The ERC also acts as a funnel for those matters which
require full Cabinet consideration. Well established practice, reflected in the Cabinet Handbook, concerning
the ERC, was turned on its head in the Barnett government. The change in role of the EERC was a mistake.
Worse still was the practice that developed of all Royalties for Regions proposals going to full Cabinet. Mr
Barnett noted that this brought a lot of comparatively small matters before Cabinet and the Special Inquirer
understands the challenges for Ministers to manage very large Cabinet agendas with associated papers
each week was considerable if not unmanageable.

The importance of forward estimates

The forward estimates process has long been a central aspect of the budget framework for all Australian
governments. These estimates are intended to provide government with an indication of the impact of
budget decisions of the day together with trends across the economy on future year’s budgets. This
enables decisions to be taken in good time to manage or prepare for those future circumstances. Across
Australian governments, the impact of most budget measures is now reported over this four-year period and
increasingly over longer periods.

41 Department of Treasury, Special Inquiry hearing, 20 October 2017.
42 Department of Treasury, response to Special Inquiry request for information, received 15 September 2017.
43 Hon. Colin Barnett MLA, Member for Cottesloe, letter to the Special Inquirer, (October 2017) 2.
In October 2008, Mr Barnett described the forward estimates as nothing more than a: “Treasury guess”.\textsuperscript{44} In his written comments to the Special Inquirer he said:

“The Budget is an annual appropriation of funds. The forward estimates are a financial guide to the future. Forward estimates are always subject to changes in the external economic and financial environment. They should be taken for what they are. It is the role of Treasury to do the best it can in preparing forward estimates. Their importance is often exaggerated.”\textsuperscript{45}

Dr Nahan, on the other hand, said he was a supporter of the forward estimates process. In commenting on Mr Barnett’s perspective, he said: “I know Colin Barnett ...had great doubts on the forward estimates. But I never agreed with that and don’t and acted accordingly as Treasurer.”\textsuperscript{46}

Dr Nahan noted, however, that on becoming Treasurer he was concerned with the quality of Treasury’s forecasting practices. He told the Special Inquirer that:

“They didn’t shine on forecasting, iron ore, payroll tax, the pace of the economy...nor did they adequately inform, convince the government of the day about the risk of that.”\textsuperscript{47}

Dr Nahan went on to say that:

“Politicians like to do things. Treasury’s role is to make sure that they have a grasp of their capacity to do that. If you get your revenue forecasts that wildly wrong, this is a criticism of all Treasuries and maybe its endemic to it, maybe in the first term the Treasury’s poor forecasting is partly responsible (for the lack of confidence in the forward estimates)”\textsuperscript{48}

In discussing the forward estimates, the Under Treasurer, Mr Barnes noted:

“Largely the [Government’s] focus was very much on the immediate budget year. Obviously we had to put forward to ERC and to Cabinet our four-year projections as we’re required to under the Government Financial Responsibility Act...which was pretty much on a monthly basis throughout the year.... So from my point of view the trajectory was always on the table and had been well established. But I think it is fair to say that the focus of the former government was very much on the immediate budget year.”\textsuperscript{49}

And on discussing the accuracy of the forward estimates he said:

“...we kept trying to draw attention to the longer run trajectory. Now, we may forecast around that trajectory. The forecasts may prove to be slightly overdone or slightly underdone as time progresses but I think the trajectory is pretty clear.”\textsuperscript{50}

\textsuperscript{44} The Australian, 24 October 2008.
\textsuperscript{45} Hon. Colin Barnett MLA, Member for Cottesloe, Letter to the Special Inquirer, (October 2017) 3.
\textsuperscript{46} Hon. Dr Mike Nahan MLA, Leader of the Opposition, Special Inquiry Hearing, 6 November 2017.
\textsuperscript{47} Ibid.
\textsuperscript{48} Ibid.
\textsuperscript{49} Ibid.
\textsuperscript{50} Department of Treasury, Special Inquiry hearing, 20 October 2017.
The Special Inquirer accepts that the forward estimates do from time to time experience significant fluctuations. That should be expected, however, especially in volatile times. The period in question was exceptionally volatile with large movements in commodity prices such as iron ore and petroleum prices and in the exchange rate. This volatility in a sense increased the importance of the forward estimates. They foretold the need to be cautious in setting fiscal parameters as the swings in prices were unpredictable and large. Rather than accepting that message, it seems the Government decided that the estimates were unreliable and they pressed on with aggressive recurrent and capital expenditure programs. Mr Barnett’s concerns with the usefulness of the forward estimates appear to have led him, and the Government, to overlook a number of other messages about future trends in the State’s finances. For example, the 2008 pre-election financial projections statement contained messages about future finances which would turn out to be problems in the future. It noted that:

- apart from royalty income, the State’s revenue base had signs of weakness;
- the State’s share of GST receipts was falling rapidly and would be as low as 5.7 per cent by 2011/12; and
- the State’s net debt was rising, despite strong projected operating surpluses.51

It is telling in this context, that in a submission to this Special Inquiry reflecting on the period 2008 to 2017, Treasury identified the “significant and prolonged weakness in the State’s revenue base” as being a “major contributing factor to the State’s current budget position”.52

The current Under Treasurer, Mr Barnes also referred in his hearing with the Special Inquirer to the reaction he received on the warnings he has provided on the direction of the GST relativity as follows:

“...And I recall discussions with key players in government at that time where there was considerable doubt expressed about Treasury’s GST relativity forecasts and this was Treasury being typically pessimistic. And I recall quite clearly having the discussion – I can recall quite clearly saying these words – that the relativity projection is virtually a mathematical certainty by sheer nature of the formulae and the data that feeds into it. It was virtually a mathematical certainty that would eventuate. And I think the political hopes were pinned on a political intervention by the Commonwealth to ensure that the relativity would not eventuate.”53

Treasury’s concerns with the trajectory of the GST took time to be heard. In the 2011/12 budget Treasurer Christian Porter said in the budget speech there was an expectation that a review of the GST would see a floor value of 75 cents established in the GST revenue estimates in 2013/14.54 The actual GST estimates included in the 2011/12 budget and across the forward estimates did not reflect that floor being established. While the growth in recurrent outlays was adjusted down to reflect these projections in the GST the capital budget, however, continued to expand. In his 2011/12 budget speech Treasurer Porter also referred to the need to reduce capital expenditures projected in the budget if the GST floor was not set, as expected.55 Mr Porter had left State politics by the time of the 2013-14 budget and the foreshadowed reductions in capital expenditure did not occur.

The Under Treasurer, Mr Barnes confirmed that the budget revenue estimates stayed on course with Treasury’s projections for the GST relativity when he said:

52 Department of Treasury, response to Special Inquiry request for information, received 15 September 2017.
53 Department of Treasury, Special Inquiry hearing, 20 October 2017.
54 Treasurer, Budget Speech, 19 May 2011.
55 Treasurer, Budget Speech, 19 May 2011.
"...at Treasury level that assumption was never made. No commitment was ever given to us at Treasury level and in fact our forward estimates of the GST relativity, I think as the Productivity Commission report highlighted, proved to be quite accurate in that in the 2011/12 Budget when the last out-year was 2014/15 we had forecast a relativity of 0.34 from memory and the actual relativity came in at 0.37."56

Following the 2008 State election, and during the negotiation of the partnership between the Liberal and National parties primarily around the Royalties for Regions Policy, the then Under Treasurer advised that the additional expenditures from the proposed arrangements could take the net debt-to-revenue ratio to about 53 per cent by 2011/12.57 He pointed out that this would result in a loss of Western Australia’s AAA credit rating.58 His concerns were dismissed by the Premier at that time. The AAA credit rating was lost in 2013 as State revenues weakened.

In 2013 the then Under Treasurer, Mr Marney found himself again warning the Premier that he should not try to undertake all of the infrastructure projects he wanted to pursue concurrently. This degree of infrastructure development was not sustainable. The West Australian on 8 March 2013 captured Mr Barnett’s recollection of that discussion as follows:

“Colin Barnett has declared that his Government is “going to do a Jeff Kennett” by seizing on the State’s economic prosperity to push through an ambitious infrastructure agenda.

In his opening speech to the Urban Development Institute of Australia national congress, the Premier said yesterday that WA was going through its “third great period of development” after the 1890s gold rush and the mining boom in the 1960s.

Mr Barnett said Perth, though attractive, was not a “great city” of the 21st century, but a second or third-tier city.

He said while it had a specialised economy, in order to survive the test of time, WA needed to be known as something other than a mining State.

He said Under-Treasurer Tim Marney recently told him that “you can’t rebuild a city all at once”.

“I wanted to say ‘just watch me’, ” Mr Barnett said: “We’re going to do a Jeff Kennett here."59

In discussing the loss of the AAA credit rating, the Under Treasurer said:

“Treasury had been flagging risks around the State’s credit rating for some time both publicly, when we had the rare opportunity, and within government. So it should not have come as a surprise...yet that was certainly the public reaction of the government on the day."60

The Special Inquirer has concluded that if the warnings Treasury provided that the policy settings of the day would cause major difficulties in the future had been heeded, it is highly likely that the State’s current budget and debt positions would have been mitigated, and in a material manner.

56 Department of Treasury, Special Inquiry hearing, 20 October 2017.
58 Ibid.
59 The West Australian, 8 March 2013.
60 Department of Treasury, Special Inquiry hearing, 20 October 2017.
Risk management

The Special Inquirer was unable to assess how the Cabinet agenda was developed and what it contained. As best he could establish the agendas consisted of transactional matters proposed by Ministers and accepted by the Premier. The extent to which the agendas replicated a corporate board agenda was unknown.

The Special Inquirer drew the conclusion, from previous experience, though that much of the business of Cabinet was process based. To the extent that is correct the Special Inquirer proposes that Cabinet look to include more whole-of-government matters and considerations into its deliberations, similar as to how a business might be governed.

Some aspects of what those broader considerations might include, for instance, the need to assess and monitor financial and legal risk as an essential requirement of modern governance practice. All private sector companies would include a risk analysis and assessment on their Board agendas and most would regularly maintain and monitor contract and litigation registers.

The Treasurer’s Instructions which support the Financial Management Act 2006 require agencies to maintain and report on their contracts outstanding. These contracts are not, however, aggregated or reported to the Cabinet either by Ministers or collectively.

The Acting State Solicitor advised that in other jurisdictions both contract and litigation – actual and pending – risk registers were reported, the latter to the Attorney General, the former to the relevant Minister and both from time to time to Cabinet.61 He pointed out that in the absence of these registers, surprises can occur with significant financial implications for the State.62 A recent case arising from the Machinery of Government changes illustrated his point where it was reported that an increase in the size of an agency had meant that the license fees for an IT contract had to rise with significant but previously unrecognised financial consequences.

The Special Inquirer supports the collection and reporting of this information to Cabinet. This would be one step towards ensuring the Cabinet approaches the governance of the State in a manner that properly assesses the State’s risks other than from a political perspective. The Special Inquirer notes that in the past the Cabinet agenda has been based on transacting the business of government. From a governance perspective, however, that has been a narrow remit.

Departmental governance practices

The Special Inquirer did not undertake a comprehensive review of governance practices applying across government departments. Nevertheless, from the 31 case studies reviewed, the Special Inquirer developed insights on governance practices applying across a wide section of the public sector. More specific comments on governance practices in the Health, Transport and Regional Development portfolios have been possible from the specific matters examined by the Special Inquiry in these areas.

In examining departmental governance practices, the Special Inquiry was aware of standards and principles of good governance for chief executive officers and chief employees as established by Part 3B of the Public

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62 Ibid.
While the Auditor General has not undertaken a specific review of the governance arrangements applying across the general government sector, he has pointed out that these issues are reviewed regularly as part of the annual financial audits of agencies undertaken by his Office. The Special Inquiry was conscious of the changes in the 2017 Machinery of Government arrangements which will require substantial changes in governance arrangements across the general government sector.

The Special Inquiry found common features of governance across the departments it reviewed, which included:

- departments have senior leadership teams, usually referred to as corporate executives, which meet regularly under the chairmanship of the Director General (or equivalent);
- an agency’s leadership group includes the main program leaders. The chief financial officer is included in many cases, but not all;
- the leadership group meetings are usually structured around an agenda, with minutes taken and action items identified;
- agencies commonly have developed a strategic plan but the comprehensiveness of those plans is unclear. The Directors General reported discussions with their respective Minister on these plans; and
- departmental audit and risk committees are common, as are active internal audit processes.

Findings made by the Auditor General in his report Governance of Public Sector Boards were consistent with those of the Special Inquiry. The Auditor General also found that areas requiring increased attention included succession planning, management of conflicts of interest and improved identification of strategic risks.

Health sector

The Special Inquirer received a submission from the Department of Health detailing the recent enhancements that had been introduced in its governance structures and practices. The Department of Health’s Director General noted that these changes had occurred since the issues referred to the Special Inquiry had occurred. He described these changes as “the most significant governance reforms to the WA health system in over 90 years (via the Health Services Act 2016).” These reforms included the establishment of the five boards overseeing the State’s health system and the integration of the health service providers (including the Quadriplegic Centre and the Health Support Services) in the governance structure with “significantly more responsibility and accountability.”

From the submissions received and the hearings with the Director General, his officers and with the Under Treasurer, the Special Inquirer concluded the revised governance arrangements were a significant step in the right direction. In particular, the new arrangements established responsibility and accountability at the point of service delivery across the health system. The changes should also enable the Director General to reshape the Department of Health into a focused, effective and streamlined system manager.

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63 Public Sector Management Act 1994.
64 Office of the Auditor General, response to Special Inquiry Request for information, received 13 October 2017.
65 Office of the Auditor General, Governance of Public Sector Boards, (June 2014), 5-6.
66 Department of Health, Submission to the Special Inquiry, (August 2017), 1.
67 Ibid.
68 Department of Health, Submission to the Special Inquiry, (August 2017), 3.
The Special Inquirer also observed that while the operational application of these governance arrangements is still relatively new, the early experience is encouraging. Retaining the structural integrity of these arrangements — especially respecting their points of accountability at Ministerial and departmental levels — will be essential. As is always the case, ensuring that those appointed as Directors to the governance boards have the appropriate skills, experience and understanding of responsibilities of a public sector director, will be essential for the long term success of these arrangements. The Special Inquirer didn’t form a view on the adequacy of the current board Directors but believes it is an issue which will deserve close review as the system matures.

The Special Inquirer concluded that these initiatives had enhanced governance structures across the health sector and should be beneficial in enabling WA Health to achieve its objectives — including the management of its budgets — more efficiently and effectively. The Under Treasurer agreed noting that the new arrangements had strengthened leadership practices.69 This was being reflected in health expense growth in the last two financial years being contained between 4.5 and 5% which he observed was encouraging when compared against average annual growth rates above 8%.70

That said, there is still some way to go in taking the structural reforms and turning them into a health sector which operates as a coherent unit.71 This coherence will be demonstrated when information is shared openly between Health Service Providers and resource allocations are managed to achieve best system outcomes. The Special Inquirer’s findings in two areas of health service delivery — one critical involving the NurseWest arrangements and the other important in the effective operation of the Temporary Personnel: Common User Agreements — are cases in point where there remains much to be done to ensure coordinated and effective practices apply across the Health sector.

**Transport sector**

The Special Inquirer observed the operations of the Public Transport Authority and Main Roads through the prism of its inquiries in the Perth Stadium and Swan River Pedestrian Bridge projects. He did not look at the operations of the Port Authorities.

The Director General of Transport heads the Transport Department, as well as the Public Transport Authority and Main Roads. Each agency operates under separate legal foundations, the Department under the Public Sector Management Act, the Public Transport Authority as a public corporation and Main Roads as a general government agency under its own legislation.

It is apparent that staff within the Public Transport Authority and Main Roads have considerable expertise and their respective achievements over many years have benefitted the State’s development.

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69 Department of Treasury, Special Inquiry hearing, 20 October 2017.
70 Ibid.
71 Ibid.
The Special Inquirer observed that the Public Transport Authority and Main Roads work more competitively than collegiately. Three issues were apparent:

- **Legislative differences**: The two legislative bases for these agencies creates different governance practices and block flexibility in management practices. The Main Roads WA legislation is dated and the Special Inquirer was made aware of a number of aspects of the legislation which cause cost inefficiencies. The Public Transport Authority operates as a statutory corporation but doesn’t have a board of governance, is dependent on annual appropriations to remain viable yet sits separate to normal departmental accountability measures including in procurement.

- **Funding differences**: Main Road’s access to hypothecated revenues through vehicle licence fees takes them outside the budget process and enables them to operate more independently than other agencies. Main Road’s preference for alliance contracting arrangements on major road programs is arguably not always cost effective.

- **Cultural differences**: The cultural differences between the two entities, and the Department of Transport, are long standing and pronounced. The culture of Main Roads particularly is one of a closed shop which is not amenable to external review. These cultural differences flow through to issues of trust between the agencies.

As mentioned, the Special Inquirer looked in detail at Main Roads and the Public Transport Authority’s activities in the Perth Stadium and Swan River Pedestrian Bridge projects. In both projects the striking feature was that the Transport bodies operated through a separate Steering Group to the main Stadium Steering Committee. The Transport Steering Group oversaw all of the transport developments which support the new stadium’s operations. The Public Transport Authority held the budget for these works and its relationship with Main Roads was set down in a Memorandum of Understanding which specified Main Roads’ responsibilities and its reporting requirements to the Public Transport Authority.

The Department of Transport’s former Director General was instrumental in ensuring that this separate Steering Group was established to oversee the transport developments. Whereas the main parties involved in the Stadium project formed a “one team” project group and were located together at the Stadium site the transport bodies chose not to be part of the team.

As is well documented elsewhere in this report, the Swan River Pedestrian Footbridge has encountered major setbacks. The Special Inquirer has established these difficulties derived in part from the separation of the transport entities from the Stadium project group. This lack of close engagement first materialised at the time contracts were signed appointing the principal contractor for the bridge construction. Virtually immediately after the signing a significant contract variation was required to alter the bridge’s landing point on the Burswood side of the river. The lack of communication with other agencies on these design issues was a major factor which gave rise to the need for these changes. The difficulties became more serious when the bridge’s steel construction was awarded to a sub-contractor who had proposed to build it off-shore. Main Roads’ approach in managing the contract and communicating developments have been the source of much dissatisfaction and were assessed by the Special Inquirer to be unsatisfactory.
The Special Inquirer has concluded that the Transport agencies seek independence in managing their responsibilities to the point where it is counter-productive. Greater transparency must be introduced into their operations. He shares the view of the Under Treasurer, Mr Barnes who said the transport structure:

“…should be much more of a portfolio governance model. I don’t think the Department of Transport is performing that role to the extent that it should be… it is largely the reason why we have a Department of Transport to take that portfolio approach to the Public Transport Authority, Main Roads and the Port Authorities…to bring them together into a transport portfolio and manage it as a portfolio. Not as individual, and sometimes competing agencies.”

The Department of Transport’s Director General noted that the Machinery of Government changes recently introduced required Transport, including the Public Transport Authority, Main Roads WA and the Department to become a more integrated and coherent organisation. He was of the view that good progress was underway towards these outcomes. The Special Inquirer supports the need for these changes.

**Regional Planning**

The Royalties for Regions program presents a case study of how not to go about introducing and managing a new program of large expenditures across the vast area of regional Western Australia.

The governance arrangements for this program were critical to its success, or otherwise.

These governance arrangements had several features. They included a dominant role for the Minister in his or her ability to determine what would and wouldn’t be funded, a central role for the Department of Regional Development in determining the standards by which projects would qualify for funding and a range of peripheral roles for other entities including the Regional Development Trust and the regional development commissions.

The program was introduced with ambitious political objectives that proved to be undeliverable. At no time did the program have a comprehensive strategic plan. Had this occurred, there would have been greater recognition of the complexity of the program. It was launched at a time of high resource sector activity, rapidly increasing costs and demands for community services, especially housing in the Pilbara, which had not been seen for more than 40 years. The objectives set to guide decisions on project and program selection were unmeasurable.

The Cabinet failed in establishing standards by which it would fund projects. It did not establish measures which would enable the benefits from the projects to be assessed and it created a process which debased the integrity of the established budget system as Ministers and their agencies were able to access funding for projects which would otherwise not be funded in more robust and traditional budget assessment processes.

The Cabinet process became extremely busy in dealing with relatively small proposals and ones involving third parties which complicated assessments. A shadow budget process was created which did not assist in overall State financial management.

Reflecting the rapid growth in activity the Regional Development portfolio’s workforce grew from 158 FTE at June 2008 to 309 by June 2017.

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72 Department of Treasury, Special Inquiry hearing, 20 October 2017.
The Department of Regional Development was required to ensure all programs funded from the Royalties for Regions program were supported by a business case. This task was not satisfied both quantitatively (as many projects were not supported by business cases) and in ensuring that business cases met adequate standards.

As a consequence of the gaps that existed in the planning and approval processes a number of projects have proceeded when they would have benefited from stronger intervention at the agency level. These include problems at the concept level – much of the Pilbara Housing projects – or design level, the Ord River Expansion. The Department was not alone in this process. Other agencies such as Housing – Hedland 125 – and the Office of Energy – Pilbara Underground Power – similarly did not appear to provide appropriate and necessary advice about shortcomings with these proposals being pursued.

In highlighting these concerns the Special Inquirer recognises these were heady times and the Government had objectives with relatively short timeframes. From time to time this placed public servants in difficult positions of needing to provide the Minister with reasons as to why an idea should not proceed. It would seem that these reasons were not provided as directly as they might have been.

It is imperative that Ministers understand that it is the duty of public servants to provide frank and fearless advice and it is the duty of Ministers to listen to it, though not necessarily to accept it. The entire structure of government in our system collapses where public servants fail to provide frank and fearless advice. If this failure is due to ministerial intimidation or a Minister who is not prepared to countenance unwelcome advice the issue should be confronted with the most senior officers of the public service and the Cabinet. Instances of truculent Ministers or weak department heads, who are not prepared to provide, when needed, unwelcome advice, should not be ignored. Unaddressed, such failures can be corrosive. All governments and Ministers should look at ways to work with their public servants respectfully and collaboratively.

Government Trading Enterprises and statutory authorities

More than 300 boards and committees, many of which have separate statutory bases, exist across the Western Australian public sector. Some of these entities are classified in the general government sector and are directly engaged in the State’s annual budget process. Some sit outside this sector and have differing degrees of engagement in the State’s budget process. Apart from a relatively small number – such as GESB and the WA Treasury Corporation – all boards and committees are included in the State’s net debt measure and, therefore, are important to its credit rating.

Despite there being a significant reduction in the number of these entities in recent years, and while many have small impacts on aggregate financial targets, the variety of their governance, financial management and accountability arrangements is of concern to the Special Inquirer. This inconsistency in governance arrangements clouds accountability practices and confuses performance assessment-both absolutely and comparatively. The Special Inquirer notes that previous reviews have also called for more uniform practices to be adopted across these entities.

Some examples of variable governance practices drawn from the Inquiry’s examination of the 31 case studies are as follows:

73 Office of the Auditor General, Governance of Public Sector Boards, (June 2014), 4.
74 Economic Audit Committee, Putting the Public First, (October 2009).
The larger Government Trading Enterprises comprising Western Power, Synergy and the Water Corporation have legislative structures which should drive financial behaviours to achieve high levels of accountability and administrative efficiency. The issues reviewed by the Special Inquirer suggest these standards have not been achieved and that these entities sit in “no man’s land” between public and private enterprises. This uncertainty in role has been reflected in tensions between boards demanding commercial independence and Ministers seeking information to enable them to meet Parliamentary and other Ministerial accountabilities.

LandCorp has a legislative structure similar to the Government Trading Enterprises mentioned above but has commercial performance requirements affected by the provision of community service obligations (CSOs) payments. Land development projects which have strong social objectives in housing or community amenity and which will not generate a commercial rate of return are examples of how community service obligation payments arise. Where these payments are built into LandCorp’s performance objectives they are reported in its Annual Report. The identification and funding of these payments was discussed with LandCorp at its hearing but the Special Inquirer was left unsatisfied as to the transparency of these arrangements. The Port Authorities have a similar legislative structure to LandCorp.

The Metropolitan Redevelopment Authority’s Act is characteristic of others in ingraining inconsistency between the entity’s statutory functions and its financial performance requirements. The MRA Act required the Board to operate on a self-funding basis but does not specify how the Board should act when asked to undertake activities which were dependent on a budget subsidy or access to debt funding. These requirements were integral parts of the Elizabeth Quay project. The Act provides for ministerial directions concerning the functions of the Authority and its financial performance but unlike legislation for other bodies does not enable the Board to seek a community service obligation payment in return.

All statutory authorities operate in ways which increase risk to the State but where the quantification of that risk is often unknown. For instance, there is no consistent practice across statutory authorities as to how they access legal advice and how that advice is briefed. The State’s contingent liabilities from these practices are unknown. This problem was evident in Verve’s commitment to a loan guarantee to a third party which was under-reported to Treasury. The guarantee was for $150 million.

It has not been possible to examine more comprehensively the governance and financial accountability aspects of the performance of all statutory authorities. These matters as they concern Government Trading Enterprises are addressed in the ‘Government Trading Enterprises’ chapter.

The Special Inquirer has concluded there should be an urgent and comprehensive review of the legal status of the State’s boards and committees with the objective of standardising the statutory arrangements, including the governance and accountability requirements.

Governance of major projects

Three of the 31 case studies examined by the Special Inquirer involved reviewing the role of steering committees established to oversee the construction of major and complex projects, and the implementation and transition issues associated with these projects. The governance arrangements applying in each case were similar yet the outcome for one- the Perth Children’s Hospital- was unsatisfactory.
In the case of the Fiona Stanley Hospital and the Perth Children’s Hospital Steering Committees, the Department of Health’s Director General was the Chair. In both cases, Strategic Projects’ Executive Director – a Treasury officer at the time – had responsibility for overseeing the respective master contractors – the builders. While Strategic Projects’ Executive Director was in a theoretical sense subordinate to the Director General, the dual nature of the governance arrangements resulted in the governance structure being described as a “joint” chair arrangement. For Perth Stadium, the steering committee was formally and actually chaired jointly by the Department of Sport and Recreation’s Director General and Strategic Projects’ Executive Director. The steering committees for all projects comprised representatives from key departments, commonly at the Director General level.

The structure of these steering committees was determined, in part, by the Public Works Act 1902. The Public Works Act specifies that the Minister for Public Works is responsible for building construction where the agency does not have construction powers. That requirement, in turn, resulted in two Ministers being accountable to Cabinet for each project, these being the Minister for Health and the Minister for Public Works for the two hospitals, and the Minister for Sport and Recreation and the Minister for Public Works for Perth Stadium. The Special Inquirer heard that the Public Works Act imposes outdated red tape on projects and confuses accountability issues at many levels, including among Ministers. It is understood that the need for reform to the Public Works Act has been long recognised.

In all cases except for the Perth Children’s Hospital, the construction phase of the projects ran smoothly, being broadly on time and on budget. By comparison, the construction of Perth Children’s Hospital was difficult. The cause of these difficulties are explored in detail in Volume 2, Perth Children’s Hospital.

The structure, composition and objectives of the steering committees for each project appear appropriate. Where a Director General was unable to join the Committee due to work pressures (as in the case of the Under Treasurer on the Perth Children’s Hospital’s peak governing committee), the relevant agencies were represented by appropriately senior officers. That said, the Special Inquirer notes with concern that in some cases the representation on steering committees by officers below Director General level resulted, from time to time, in less than adequate advocacy of an agency’s responsibilities. Directors Generals need to ensure that having taken on these responsibilities they attend most meetings and that their delegates are competent to represent the agency and carry the full authority of the Director General for this purpose. It would be desirable that members of Steering Committees – at all levels – undertake training in the key requirements and responsibilities they are taking on before projects progress.

The Special Inquirer observes elsewhere that the recent move of Strategic Projects from Treasury to the Department of Finance is appropriate. This move ensures that the Treasury oversight of these projects is from a risk and financial perspective, and not confused with the function of overseeing a builder. That said, Strategic Projects provides essential expertise and experience to agencies which are from time to time charged with developing major projects but due to the infrequency of this task, have none of the skills capability required.

The Special Inquirer supports strongly the continued role of Strategic Projects as the central source of oversight of more complex and major construction projects across the public sector.

For much of the time during all the major projects, the governance arrangements worked well. Inevitably for projects of considerable size and complexity, difficulties emerge. This is not just a public sector experience.
Many projects in the private sector also experience such problems. The public accountability and transparency of major public projects, however, is more acute and when difficulties arise it must be expected they will be heavily scrutinised. A number of construction issues involved in the Perth Children’s Hospital emerged early in the project and a range continue post practical completion. Resolving these difficulties has not been assisted by uncompromising behaviour between the Department of Health and Strategic Projects over which entity is best placed to resolve the issues.

With the building of Perth Stadium, the main issue has been with the oversight of the Swan River Pedestrian Bridge development. Until June 2017, development of the bridge sat outside the direct remit of the Perth Stadium Steering Committee. The separation of the public transport developments associated with the stadium – involving bus, train and pedestrian traffic – to be overseen by a separate steering group from the Steering Committee which oversaw the Stadium development, was a mistake. It introduced unnecessary complexity in the overall governance structure. It also created unnecessary duplication of reporting arrangements, less than appropriate oversight of project risks and a third line of accountability into Cabinet. These matters are discussed further in Volume 2, Perth Stadium and Swan River Pedestrian Bridge.

A final aspect of the major project review concerned the planning that needs to go into the development of these projects and when announcements should be made about project costs and timeframes. For the Perth Stadium and Perth Children’s Hospital projects there was a twelve months planning period which fed into the project definition plans (or equivalent) for both projects. The Perth Stadium project should become a case study in how this process must be undertaken. The benefits of that process have included minimal design and scope variations in the construction phase and a budget outcome which is very close to the target announced with the project definition plan.

The Special Inquirer notes that announcing project design, project costs and construction timeframes with the benefit of detailed planning provides a more stable base on which to undertake major projects, than the alternative base of constantly defending costs and time blowouts.

The Special Inquirer has concluded that the Steering Committees for major projects should have the following composition and role:

- Where the Director General of the agency which will be responsible for operating the asset has the time and experience to dedicate to the task, that person should chair the Steering Committee.
- Where the Director General does not have the requisite time or experience an independent chair should be appointed. This chair could be from the public or private sectors.
- Strategic Projects’ Executive Director should be a member of the Steering Committee and be responsible for managing the master contractor. The Executive Director must be answerable to the Chair.
- The other members of the Steering Committee should be senior members of the public sector. Preferably these members would be Directors General but where that is not possible in all cases the Directors General delegates must have the authority to represent their agencies.
- The Steering Committee must have clear reporting requirements from the project group responsible for delivering the project.
- The Steering Committee must ensure that the project group dealing with all dimensions of the project operates from one place and adopts a “one team” approach to the project.
The Cabinet should establish a sub-committee of Cabinet to oversee the project and report to Cabinet on progress. There should be an independent Minister on this Committee. The Committee should receive briefings from the chair and Strategic Projects’ Executive Director on a regular basis.

Major projects should undergo extensive planning, design development and detailed financial analysis before public announcements are made of sensitive issues such as budgets and completion dates.

Strategic projects are defined as those which have a value of $100 million or more. The Special Inquiry reviewed a number of smaller projects, many undertaken under the Royalties for Regions program, and discussed the key features of the Steering Committee arrangements for these projects with the State Solicitor and the Director General of Finance. Key issues to arise from these processes were:

- These projects often do not have Steering Committees but in the main they should.
- Steering Committees must include representatives from agencies outside the delivery agency to ensure external assessment.
- A chair must be appointed to the Steering Committee with clear lines of accountability and reporting to senior officers if not the Director General or equivalent.
- There must be a standard set of materials against which the Steering Committee must report and from the project group which reports to the Committee.
- The Steering Committee must establish frequency of reporting arrangements with the project group which reports to it and from the Steering Committee to the senior accountable officer.
- There must be a risk register established for all projects, both strategic and operational.
- Steering Committees must engage legal advice through the State Solicitor’s office.
- Ensure there are mechanisms for following up matters arising.

Participating on a Steering Committee is akin to joining a board of governance. A responsibility of that role is that members are accountable for all aspects of the Committee’s responsibilities. In these cases, while members bring specific expertise and agency representation that does not excuse them from these broader responsibilities. The Special Inquirer notes that to equip members of these Committees training programs should be developed to inform members of their responsibilities.

FINDINGS

Cabinet – key findings

1. Cabinet’s financial management practices were severely compromised by the development of a dual budget process to accommodate the Royalties for Regions program.
2. The perspective of senior Ministers about the effectiveness of the Cabinet processes and budget management practices through the review period (2008-2017) did not accord with those of senior public servants, suggesting a lack of communication at the highest levels of government.
3. The lack of a coherent, co-ordinated State plan from the Government meant policy development and financial management were uncoordinated and constantly in “catch up” mode.
4. The breakdown in control over the budget process saw a rapid pace of recurrent expenditure growth develop from early in the first term. The wage settlements offered across the sector created structural
imbalances through the budget. These pressures broke the budget surpluses and saw debt grow rapidly when the revenue declined.

5. Cabinet did not enforce – and quickly lost control of – the quality of financial information contained in Cabinet Submissions, especially those dealing with Royalty for Regions projects.

6. Cabinet required to consider and approve all new spending proposals but did not enforce the rule that spending proposals be supported by business cases. Further, many business cases were flawed, some without any defined investment activities and most with inadequate risk assessments. Cabinet’s authority was diminished by these actions.

7. Cabinet accepted these flawed business cases. This suggests that there was a lack of understanding across the Ministry of what constituted a rigorous business case. The alternative conclusion that Cabinet was aware of but unconcerned by the poor quality of business case documentation that it received is unlikely.

8. Changing the traditional role of the Expenditure Review Committee and reducing its authority was a mistake. It contributed substantially to the failure to contain growth in budget expenditures. It allowed for many trivial matters to proceed directly to Cabinet and crowded the Cabinet agenda with minutia.

9. The disregard of Treasury’s warnings of future risks to the budget based on the budget’s forward estimates contributed materially to the State’s current financial position.

10. Cabinet Submissions were not developed through adequate consultation and collaboration across the public sector. Their quality suffered as a consequence.

11. The breakdown in Cabinet’s financial governance was accompanied by a reduction in attention to detail and due process on financial matters across the public sector.

12. Cabinet agendas did not adequately include matters directly related to State risk and measures to manage those risks.

**Other Key findings**

13. Governance arrangements at the Departmental level appear satisfactory, although the recent Machinery of Government changes provide the opportunity to strengthen these arrangements.

14. The governance arrangements introduced in the Health sector in recent years are structurally sound and operationally promising. Health has further work to do in streamlining its central administrative arrangements and in developing system wide coherent practices.

15. The Transport sector is in need of major structural changes to achieve efficient and effective governance and coherent and integrated administrative arrangements. Greater transparency must be introduced into the procurement and management practices of the transport agencies.

16. The Main Roads Act is in need of review to modernise its provisions and reduce red tape costs.

17. A comprehensive review of the legal status of the State’s boards and committees is required with the objective of standardising as far as possible the different statutory arrangements, including the governance and accountability requirements applying to government boards and committees.

18. Central monitoring of Government Trading Enterprises needs to be enhanced at both the Ministerial and Treasury levels.
19. The quality of meeting minutes at all levels but especially at board level across the State’s corporate bodies must be reviewed to ensure they provide an understandable and complete record of meetings and decisions taken. A summary of what constitutes good minute taking can be found at Appendix D.

20. The governance arrangements applying to major projects are appropriate and the role of Strategic Projects should be retained.

21. Steering Committees formed to guide major projects need consistent and strict governance structures and practices.

22. Where across agency oversight is required, Directors General need to ensure that those taking part in supervision and coordination are competent to represent the agency and are authorised accordingly, and that they report up to the Director General to ensure highest level practice is being undertaken.

23. The level of understanding of key aspects of financial management, procurement and contract management, business case analysis and risk management practices is deficient and needs strengthening at all levels of government.

RECOMMENDATIONS

Cabinet – key recommendations

1. Cabinet’s oversight of the Royalties for Regions program must be incorporated into the budget process so that any semblance of the dual budget process is eradicated.

2. The Government must determine, publish and regularly update key strategic priorities. The Premier should discuss these priorities with Directors General frequently.

3. Directors General must develop their strategic priorities in alignment with those of the Government and discuss and seek approval of those priorities with their Ministers.

4. The Cabinet Office must be instructed to ensure that all agencies with a relevant interest or a genuine need to know are fully consulted before Cabinet Submissions are accepted by the Cabinet Office. This should be confirmed by Directors General personally signing off on the process.

5. The 10-day rule for seeking Cabinet co-ordination comments must be observed. Coordination comments must be checked by Directors General to ensure Cabinet has all information relevant to the Submission.

6. Departments must consult with Treasury early in the process of preparing Cabinet Submissions with financial implications for the State.

7. All submissions with a financial impact for the State must be submitted through the Expenditure Review Committee. No submission with a financial impact should be allowed to go to Cabinet without an Expenditure Review Committee decision.

8. Cabinet must rebuild the integrity of the annual budget process. To do this, it must consider measures which require and enable Ministers to meet new funding pressures from within approved budget limits.

9. Cabinet must expand its agendas to include matters that enable Ministers to monitor key risks that may be present or emerging in areas such as contract management and litigation management.

10. Cabinet must update the Cabinet Handbook to reflect these arrangements.
OTHER KEY RECOMMENDATIONS

11. The Public Sector Commission must ensure all departments have core governance practices applying through their organisations and the Auditor General should audit the consistency of these arrangements within 12 months.

12. The governance and accountability arrangements for Government Trading Enterprises and other statutory authorities must be standardised, to ensure the objectives of these entities – between commercial and non-commercial requirements – are clear, how ministerial directions are treated and reported and how the entities interface with the budget process. Legislative changes should follow as necessary.

13. Cabinet must establish a ministerial role in the nature of an “Ownership Minister” to ensure that Government Trading Enterprises achieve appropriate financial performance and have adequate risk management practices. In particular, this Minister must insist on the keeping of adequate minutes so that approvals can be transparent and reviewable. A summary of what constitutes good minute taking can be found in Appendix D.

14. Treasury must be required to undertake an enhanced monitoring role over the Government Trading Enterprises and must be resourced adequately by the Government Trading Enterprises to undertake this role.

15. Strategic Projects must continue to be responsible for managing the principal contractor on major projects.

16. The Steering Committees for major projects must be supported by strong governance arrangements, including clear chair roles and responsibilities, single point Ministerial accountabilities and agency representation by Directors General. Steering Committees must have oversight of all aspects of projects. The transfer of key aspects – for example, transport – to a separate process, as occurred with Perth Stadium, should not be repeated.

17. Major projects must have a detailed planning phase overseen by the Steering Committee. Public announcements of sensitive design, project costs and project timeframes should occur at the completion of this detailed planning phase.

18. The Public Works Act 1902 should be replaced by more efficient and effective legislation while retaining the role of the Minister for Works.

19. The Transport portfolio should be subject to review to introduce greater transparency in procurement and contract management, increased communication with external parties and more coherent and integrated policy development and administrative practices need to be introduced.

20. The Main Roads Act should be reviewed and revised to include contemporary provisions.

21. The Auditor General should be required to undertake triennial governance audits of departments as part of their annual financial audit, with the recommendations from these audits being included in chief executive officers’ and chief employees’ performance indicators.

22. The Public Sector Commission should be required to develop a capability statement to sit beneath the Public Sector Management Act 1994 to elaborate on the requirements of Part 3B s.29 (1)(a) of the Act, in which chief executive officers and chief employees are charged with provision of leadership, strategic direction and a focus on results for that department or organisation, so that the expectations on chief executive officers and chief employees across government are clearly understood.
PUBLIC SECTOR CAPABILITY

INTRODUCTION

Successful project outcomes are dependent on a number of aspects. One of the most critical is capability at all levels of decision-making, project planning, project management, risk management, and every other aspect of large project undertakings.

This section identifies several initiatives which would enhance capability across the public sector. These initiatives involve enhancing the public sector workforce’s capability as well as the creation of new entities to expand capability.

LEADERSHIP AND AUTHORITY

The Special Inquirer noted that over the years a common feature of effective public services across Australia was the presence of strong and coordinated central agencies. Given the allocation of responsibilities across departments, the central agencies in Western Australia comprise the Departments of the Premier and Cabinet, Treasury, Finance, the Public Sector Commission and the State Solicitor’s Office. Reflecting Cabinet seniority, the Department of the Premier and Cabinet is seen, at the bureaucratic level, to be the leader of the public service. It has a central coordinating role in ensuring the implementation of government policy is well executed. Together with other central agencies the Department of the Premier and Cabinet must ensure overall standards of good administration and policy development are available to government.

In return it is incumbent on the Department to exercise strong leadership across the public sector. The Special Inquirer was struck by the need for strong and decisive leadership across the public sector. This is most required to draw out a common purpose across the sector. Another requirement is to deal with conflicts between agencies which emerge from time to time. The conflicts that exist at the Perth Children’s Hospital and which have emerged between Transport and the Stadium Steering Committee are two examples where this leadership is required.

The Special Inquirer observed a diminution in the overall influence of the central agencies over the period of review 2008-17. This was primarily a consequence of resourcing impacts on staffing levels and of the actual and perceived authority of these entities. The agency which experienced the most marked reduction in influence was the Treasury. The Under Treasurer has argued strongly to the Special Inquirer that during this period, Treasury’s capability and role were reduced as was its authority. Its authority suffered in line with the reduction in the authority of the Expenditure Review Committee. It appears as well that its level of engagement with government declined as it was excluded from many areas where it had responsibility.

The increasing role of ministerial offices in the period 2008-17, especially the Premier’s office, was a factor mentioned regularly in hearings that shifted the point of influence from central agencies to Government. The Premier’s Office was very active in participating between Ministers, departments and other agencies on a wide
range of matters. This was raised in hearings to the point that the Premier’s office was widely seen as the most powerful office in deciding operational and administrative directions at both the Ministerial and bureaucratic level. The Special Inquirer recognises the importance of the role of the Premier’s Office. To the extent a balance can be reached between its role and that of the central agencies government effectiveness will be enhanced.

Department of Treasury

In the case of Treasury, the Under Treasurer, Mr Barnes advised the Special Inquiry that the resourcing available for employee costs to his Department over the period since 2008 had declined in nominal terms by just under 1% ($29.8m to $29.6m) while the rest of the general government sector grew by 54% ($19.1 billion to $29.4 billion). The chart below illustrates these trends.

Table 1 Core Treasury Employee Costs vs General Government Expenditure

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<th>Core Treasury Employee Costs</th>
<th>General Government Expenditure</th>
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<td>2008-09</td>
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Table 1 Notes:
- 2008-09 – 2010-11 extracted from Department of Treasury and Finance.
- Treasury employee costs include annual pay increases.
- Core Treasury represents total Treasury employee costs excluding Strategic Projects and Asset Sales.
- 2008-09 – 2010-11 corporate costs were allocated based on Treasury’s percentage of total employee costs.

The Under Treasurer also pointed out that retaining his best and brightest people was compromised by his lack of resources to employ people at competitive levels. He noted by example the fact that the Health Department could offer his staff roles at two levels higher than Treasury was able to fund. He also pointed out that this position was even more exaggerated when it came to comparisons with the Government Trading Enterprises in which case he noted: “we are hopelessly out resourced both in terms of numbers of people but also the seniority and frankly the remuneration of those people.”

The rundown in capability of the Treasury exposes the State to great risk. As discussed in the ‘Governance’ and ‘Where did the money go?’ chapters, the ability of Treasury to provide accurate estimates of trends in

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3 Department of Treasury, response to Special Inquiry request for information, received 25 October 2017
4 Department of Treasury, Special Inquiry hearing, 20 October 2017
5 Ibid.
6 Ibid.
economic and financial aggregates has been identified as a reason as to why Mr Barnett did not respect the forward estimates which had provided warnings of impending difficulties in State finances. The need to build Treasury’s expertise in dealing with the Government Trading Enterprises is another reason why this issue needs to be addressed.

As Dr Nahan pointed out: “If you scrimp on Treasury you run into problems.”

The Special Inquirer was presented with arguments from third parties that supported Treasury’s resourcing being enhanced and for it to have a broader role such as in monitoring the Government Trading Enterprises and other public corporations. It was also noted that Treasury will need to ensure it recruits strategically and that its profile across the public service is increased. The Special Inquirer took that advice to suggest the public sector was looking to engage more meaningfully with Treasury.

**State Solicitor’s Office**

In the case of the State Solicitor’s Office, the Special Inquirer noted with concern the tendency for agencies to engage legal advice independently of this Office and for the Office not to have universal access to legal positions being taken by agencies. This exposes the State to risks, especially financial risks. Strengthening the State Solicitor’s Office by requiring all agencies, including the Government Trading Enterprises, to procure their legal advice through it as well as providing the Office universal access to agencies’ legal positions would desirable.

The Special Inquirer understands enhancing the State Solicitor’s Office in these ways may have resource implications in an environment of already high demand for services. The Acting State Solicitor observed that many of his officers were already operating well beyond normal hours, some up to 220% of the normal working week.

The Acting State Solicitor advised, as well, that the independence of his Office would be enhanced if it were to revert to a standalone entity separate to the Department of Justice. He said that while enhancement of role may be seen by some as being more perception than reality, it would nevertheless be important in identifying the importance of the Office’s role.

The Special Inquirer supports the need for central agencies to be more strongly resourced and believes there should be a more coordinated effort for these entities to work together. Given the current financial circumstances, this will need to be a goal that is achieved over time but the objective needs to be established immediately.

**MEASURES TO ENHANCE FINANCIAL MANAGEMENT**

A number of financial management issues were brought to the attention of the Special Inquirer which warranted highlighting as they had systemic implications. These included:

- increasing understanding of financial management practices;
- the need for an Infrastructure WA;
- reforming hypothecated revenue arrangements; Enhancing the role of the Chief Financial Officer across the public service;
- enhancing the role of the Auditor General.

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7 Hon. Dr Mike Nahan MLA, Leader of the Opposition, Special Inquiry Hearing, 6 November 2017.
8 State Solicitor’s Office, Special Inquiry hearing, 28 September 2017.
9 State Solicitor’s Office, Special Inquiry hearing, 19 October 2017.
Financial Management Issues

The Financial Management Act 2006 and the associated Treasurer’s Instructions provide the legal basis on which the State manages its finances. The Treasury manages the general government and public non-financial corporation sectors within the provisions of this legislation. It reports the aggregates of these sectors and their combined totals which contribute to net debt under the provisions of the Australian Bureau of Statistics State Accounts.

Understanding the details of these arrangements can take time.

It was clear from the Special Inquiry hearings, in particular, that many officers were unfamiliar with the provisions and requirements of this legislation. It transpired in most cases that these officers relied on the technical expertise of others (generally the Chief Financial Officer) in this area. In other cases, it was apparent that agencies seek to test provisions of the Act and associated practices. How deliberate that action is was not assessed.

The most common issue identified by the Special Inquirer was the poor understanding of the ability for agencies to reallocate appropriated moneys to new activities without approval. The general perception was that this was possible where new funds would not be called upon. The need for the Treasurer’s approval through the Expenditure Review Committee was not always recognised.

In other areas common issues which emerged included the following:

- Agencies are entering into financial obligations without prior funding approval. The reporting of financial liabilities, either actual or contingent is a dimension of the same issue. The particular example reviewed by the Special inquiry concerned the Muja refurbishment and involved Verve Energy’s undertaking to guarantee the borrowings of a third party without formally advising Treasury of that event.
- Agencies are not observing expense limits which frequently leads to the emergence of structural deficits in agency accounts. The only solution to these issues often is increased appropriations to the agency which undermine overall fiscal strategies.
- Agencies are not abiding by the requirements of the Strategic Asset Management Framework and reporting revisions to project costs resulting from tenders varying materially from initially approved limits. Specifically, this involves agencies reallocating “savings” from tender processes to other aspects of a development or to other projects entirely.

The Special Inquirer believes it would be beneficial if agencies were encouraged to access training in these provisions. As many Members of Parliament also had limited understanding in this area, similar training should be available to them as well.

The Chief Financial Officer

The Chief Financial Officer is the senior finance officer in an agency. This position performs a role that is crucial in ensuring sound financial practices and reporting are observed.

The seniority of this role is not afforded the level it deserves in many agencies. In some the Corporate Executive does not include the Chief Financial Officer, but should. In smaller agencies in particular, the Chief Financial Officer might be at the third level of an organisation.

The Under Treasurer expressed concern about the role definition, status and qualification requirements for
the CFOs across the sector.\textsuperscript{10} He also explained efforts Treasury had taken in seeking to raise the professional status of CFOs in the public sector. These efforts included building a network of Chief Financial Officers so they were able to learn from each other. He agreed that including Treasury on the selection panels for Chief Financial Officers across the public service would be beneficial.\textsuperscript{11}

The Special Inquirer believes the status and expertise of Chief Financial Officers deserve greater recognition across the public sector.

**Infrastructure WA**

Few of the projects examined by the Special Inquirer had the benefit of detailed planning before being announced. A principal exception was the Stadium which originated from the 2007 Major Stadium Taskforce Report. Even in that case, however, details of the development were still undecided before the projected cost of the project was announced. That announced cost proved to be more than 30% below the final cost.

Of greater concern, however, was the ad hoc process used by the previous Government to determine its infrastructure objectives and selection of projects. As has been observed, Mr Barnett decided he wanted to emulate the efforts of Jeff Kennett, a previous Premier of Victoria to revitalise the city. The subsequent “Bigger Picture” developments occurred in a few years without long periods of planning or as part of any coherent plan of development.

The experience of the Royalties for Regions program was an even starker example of policy development on the run. Many of the housing initiatives undertaken in the Pilbara, for instance, were responses to the pressures of the resource construction boom rather than elements of town planning based on considered assumptions of future population trends.

The Auditor General published several Performance Audit Reports on individual capital projects over this period. His report on Major Capital Projects in 2012 found, amongst other things, that “the expected cost variance of the 20 sampled non-residential building projects is 114% above their original approved budgets. Ninety percent of the variance in project budgets occurred during the evaluation phase of the projects when the project business case was developed and project scope and costs were more accurately defined”.\textsuperscript{12}

In order to address these matters there is a clear need for enhanced planning of the State’s infrastructure. There is also a need for an enhanced understanding of the adequacy and sustainability of the State’s current infrastructure stock. There is currently not a detailed understanding of these issues.

The Federal Government and other States have established dedicated bodies to undertake this work. Infrastructure Australia led the way and now most other States have created comparable bodies. The business community has long argued for the creation of an Infrastructure WA as has the current Government.

The establishment of an Infrastructure WA statutory body is proposed. The main features of an Infrastructure WA would be:

- a statutory body with an independent (private sector) chair which reported to the Premier;
- a board comprising senior public servants and private sector representatives;

\textsuperscript{10} Department of Treasury, Special Inquiry hearing, 20 October 2017.
\textsuperscript{11} Ibid.
\textsuperscript{12} Office of the Auditor General, Major Capital Projects, (October 2012).
• an agency which undertook periodic and detailed analysis of the State’s current infrastructure position and which looked across the period beyond the forward estimates as to the State’s future infrastructure needs;
• the scope of analysis would be broad including projects of an economic, social and environmental focus; and
• the analysis would include detailed case study analysis of future projects.

Infrastructure WA should not be a “doing” entity. The Strategic Projects group should be resourced to continue to undertake the engagement and oversight of master contractors, while Infrastructure WA would oversee the strategic direction of the infrastructure agenda.

The work of the Infrastructure Coordination Committee, an existing body comprising senior public servants, would be incorporated into Infrastructure WA.

Hypothecated Revenues

The State raises revenues in several ways. Most revenues from taxes and charges are applied to the Consolidated Account and are available for the general purposes of the State. The State’s share of the goods and services tax is similarly provided for the general purposes of government.

A second source of funding has conditions attached to the use of the revenues raised. When this happens the revenues raised can only be used for the purpose specified by the law (or in the case of grants from the Federal government by agreement). These revenues are referred to as hypothecated revenues. If there is to be a change in the purpose to which those funds are to be applied, legislative amendment would be required. A number of Commonwealth grants are received by the State with similar conditions attached to the use of these funds. These grants are referred to as tied grants.

Principal examples of hypothecated revenues are the motor vehicle licence fees which fund road construction and the Royalties for Regions program. In total, key hypothecated State revenues were $2.125 million in 2016-17 having increased from $1.046 million in 2008-09. In addition, grants from the Commonwealth with specific conditions attached totaled $6.020 million in 2016-17 up from $4.104 million in 2008-09.13

The revenues raised by hypothecated measures have advantages and disadvantages.

The principal advantage is that there is an assured amount of funding dedicated to a particular purpose. The principal disadvantage is that the amount of funding available for the purpose is set regardless of the needs at the time. At the time of creating these hypothecated revenues, the projected amounts may have been adequate for their purpose but that is most unlikely to remain true over time.

By locking up these revenues for specific purposes, the government’s ability to allocate the revenues available to it for the best economic, social and environmental purposes of the time cannot be achieved. These arrangements can also create less than efficient use of the funds as the accountability of agencies charged with applying the funds often is less transparent than for other agencies.

By not enabling greater flexibility in the use of these funds, today’s political leaders are effectively conceding their predecessors had greater wisdom in the allocation of these moneys than they do. That is an unlikely proposition.

13 Department of Treasury, response to Special Inquiry information request, received 8 November 2017
The Under Treasurer, Mr Barnes raised many issues of concern with the limiting nature of the hypothecated revenue measures.\(^\text{14}\) In addition to their reducing budget flexibility, he observed that at a time when the State is required to borrow money (up to $4.6 billion in 2016-17) on the international capital markets, it makes little sense that hypothecated revenues can remain in State accounts earning less interest than the State’s borrowing costs.\(^\text{15}\)

**Enhancing the Auditor General’s Powers**

Throughout the course of this Inquiry the Auditor General’s Performance Audit reports have provided a consistently valuable source of information. In several areas, the Special Inquirer decided that matters did not need further review as they had been adequately canvassed by previous Auditor General studies.

In other cases, the Special Inquirer was concerned to see that despite the Auditor General issuing a series of reports on matters – the State’s Major Capital Projects (report referred to earlier) - being an example – inadequate responses from agencies and the public sector more broadly meant that no action was taken to address the concerns being raised.

In the hearing with the Under Treasurer this matter together with the issue of qualified financial audits were raised. Mr Barnes said the lack of response from the public sector to these findings was a fundamental issue in the public sector. He said: “There is a lack of consequence for poor behaviour. There is a lack of incentive to try and encourage good behaviour.”

He went on to say:

“…my personal view is that that is the root cause of a lot of issues that we are currently dealing with… I am not talking about remuneration, but there must be other mechanisms where we can incentivise good behaviour and good performance and where we can have meaningful consequences for poor behaviour and poor performance.”

The Special Inquirer noted these concerns and agrees they need to be addressed. The Leadership Council of Directors General might decide to identify measures which would address the Under Treasurer’s concerns.

These practices are concerning. If key accountability agencies such as the Auditor General are not going to be heard and their recommendations embraced then a central pillar of the State’s governance structure will be diminished.

The Auditor General was asked for his views on the adequacy of agency responses to his Reports. In response he noted:

“The effectiveness of follow-up to audit recommendations varies considerably across agencies. From our annual Financial Audits, we are aware that some agencies diligently follow-up audit recommendations, while other recommendations remain outstanding year after year. Our bi-annual Audit Results Reports track, summarise and report the number of issues identified during annual financial audits that remain un-addressed.”\(^\text{16}\)

\(^{14}\) Department of Treasury, Special Inquiry hearing, 20 October 2017.

\(^{15}\) Ibid.

\(^{16}\) Office of the Auditor General, response to Special Inquiry request for information, received 25 August 2017.
The Auditor General went on to say:

“It is a key role of the Public Accounts Committee to follow-up agency actions on the recommendations of the Auditor General. The work of the PAC keeps agencies accountable for their response to AG recommendations and is hugely valued by our Office. The process is currently selective, which is a strategic and effective approach as one agency being called to notice through a PAC follow-up causes all agencies to pay attention. Selective reporting on agency follow-ups is an important reminder to the sector that they are accountable and subject to Parliamentary scrutiny.”

On the issue of how other jurisdictions go about this task the Auditor General said: “My observation is that they rely to a greater or lesser extent on a combination of PAC and AG follow-up arrangements.”

The Auditor General raised one area where he would like to see enhanced powers provided to his Office. This concerned the lack of authority under the Auditor General Act 2006 to access Cabinet documents and documents subject to legal professional privilege when dealing with matters which have been held confidential by Ministers principally due to commercial-in-confidence considerations. The Auditor General noted this lack of power had impacted on the audit program and in some cases, has prevented the issuing of opinions. He notes these matters had been addressed by the Parliament’s Joint Standing Committee on Audit which recommended in 2016 that:

“the Treasurer urgently amend the Auditor General Act 2006 to clearly provide the Auditor General with the power to compel a person to provide information required, including documents subject to legal professional privilege, Cabinet confidentiality or any other public interest immunity.”

The Acting State Solicitor was asked about this proposal. He responded that he would only be comfortable if the copies of legal advice the Auditor General was seeking access to remained privileged in the hands of the Auditor General. That is the Auditor General could satisfy himself that legal advice existed but would be unable to divulge the nature of that advice. The Acting State Solicitor emphasised the need for privilege to ensure legal advice remained “frank and fearless”.

The Special Inquirer believes this matter must be addressed as an important issue in public accountability and transparency.

WORKFORCE CAPABILITY – PROGRAMS AND PROJECTS

Insights into the public sector workforce’s capability were gained from the Special Inquirer’s hearings, requests for written information and public records and submissions received. The capability of the public sector to perform its role is relevant in assessing the key lessons to be learnt which emanated from frequent system failure, skill level deficiencies or other substandard elements.

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17 Ibid.
18 Ibid.
19 Ibid.
20 Ibid.
22 Ibid.
Elsewhere in this report it has been observed that the public sector is an essential and highly valuable resource to government and the State. In key areas of public service delivery, highly competent professionals such as teachers, nurses, doctors, police, child and family care and corrective service officers all perform and provide essential services across the State. Correctly, there is considerable community admiration for these professionals as well as substantial reliance on their services. By comparison, in corporate and professional advisory service areas, it would appear that staff have been under-recognised by government in recent years and capacity within these teams has borne the brunt of budget savings measures.

It is tempting, in the context of a report such as this, to focus upon failure – failure to produce a coherent business case, failure to keep adequate records, failure to work with staff in another department, or even failure to predict a change in the international market. It is important to remember, however, that the structure and function provided by government in Western Australia is one which provides world standard administration and services. And while it is easy to dwell on the shortfalls of each initiative within this report, it must be remembered that the report documents the conceptualisation and delivery of excellence. Be it with capital infrastructure projects such as two world class hospitals, or a state-of-the-art stadium which could host a large part of a Commonwealth Games competition, there is no doubt that the Western Australian public sector performs at least as well as any government service within the developed world. Such evidence is not necessarily limited to civic buildings or bridges. Policy described within this report tells of creative ways to overcome the expense of engaging agency nursing staff, or quicker and cheaper ways to transcribe doctors’ notes about patient care.

Such achievements are testament to the extraordinary leadership within the sector, where individuals committed to serve the public consistently deliver above and beyond the call of duty. The achievements of Ministers so often depend upon the support of a team of public servants who time and time again turn ministerial vision into reality, who prepare the plans and budget documents in line with strategic intent, and who are behind virtually every briefing which equips each Minister to navigate his or her portfolio in a highly competent manner.

The media is quick to criticise these servants of the public, and the public is equally quick to contribute to this criticism. But when looking at the shortcomings of a range of processes which underpinned much public activity over the last eight years, it is important to remember the strengths and commitment of the public servants who delivered, time after time – as requested.

The Public Service has developed a strong focus on buying in expertise to address immediate needs, rather than developing internal skills. It would appear that the various reviews and “efficiency dividends” – public service jargon for budget cuts – of recent year’s frontline and visible services have been maintained at the expense of the strategic skills of public policy and project planners. When faced with competing demands for resourcing, Ministers and Directors General have seen these latter skills as expendable from within departments. This has led to a false saving as such skills have had then to be purchased externally as and when required.

The reliance on advice from outside the public sector was a strikingly common observation made through the Inquiry’s reviews. This practice covered all dimensions of policy advice through to organisational reform and administration and occurred across departments and Government Trading Enterprises.

The benefits from internalising the knowledge from outsourcing practices are recognised but poorly captured. The Special Inquiry observed similar practices at Board and executive levels where both Synergy and Western Power have in recent years looked externally for expertise to reform their corporations. The depth of corporate knowledge in both entities was the weakest of virtually all agencies engaged by the Special Inquiry.
In commenting on these trends, the Under Treasurer, Mr Barnes pointed out that the loss of staff with key policy development skills had been most noticeable in the small to medium sized agencies.23 He warned of the risk of the diminishing number of people with strong skills who were more likely to leave due to burn-out from mounting pressures.24

The identification of these pressures emerged through other hearings. The Director General, Department of Finance, Ms Anne Nolan said the public sector has “a remarkable set of skills and capabilities that people need to value.”25 She lamented, however, that “If I was to say to my younger self, If you’re interested in public policy, I wouldn’t stay in government. I’d go somewhere else and advise back into government”.26 She went on to say that the sector needed to be more proactive in developing its people through structured training and development programs.27 She also highlighted the importance of recruiting young talented people into the sector even in difficult financial times.28

Ms Nolan thought frustration with the policy development role in government was a major challenge. That frustration emanated from pressure for a quick fix and an early announcement rather than having the patience required to pursue good policy outcomes. The difference between burn-out and frustration she drew was that those with frustration are more likely to stay in the system but lose their passion for change.29

Similarly, in some areas the sector appears to have developed practices that are less than ideal. The notion that the public sector has a culture in which all officers are working for the betterment of the State appears to have diminished in recent years to the point that such a proposition, when put, is met by some with cynicism and others with mirth. It follows that the level of trust between government and the public sector needs to be rebuilt and that the workforce’s skill levels need rebuilding.

These issues are noticeable across many areas of the Public Service. The Directors General and Chief Executives have a relatively greater coherence in approach to issues and reasonable levels of mutual respect. This group is vitally important to the successful development and implementation of the Government’s agenda and efforts to build the group as a high performing body must be given priority. It is understood that the Premier has recently established a Leadership Council of Directors General for this purpose.

The Special Inquirer also became aware that key person dependency features were emerging in some agencies which came with high risks and needed to be recognised by Ministers and public sector leaders.

The lack of leadership, corporate engagement, observance of due process, attention to risk management and collaboration across the public sector through middle ranking levels was of greater concern.

A simple mark of this trait was the inability of some departments and Government Trading Enterprises to recover records of transactions, advice and meetings in anywhere near an acceptable timeframe, if at all. The failure to be able to retrieve documents and information was too frequent for professional organisations

23 Department of Treasury, Special Inquiry hearing, 20 October 2017.
24 Ibid.
25 Department of Finance, Special Inquiry hearing, 30 November 2017
26 Ibid.
27 Ibid.
28 Ibid.
29 Ibid.
and data management is in urgent need of attention across the public sector. The lack of corporate knowledge in many agencies did not help the task of record retrieval. In many cases the Special Inquirer was faced with very senior officers who had an inability to inform it, as they were not in the Service at the time the issue in question arose and nor could their staff locate necessary records.

The availability of skills across the public sector in key areas of project management, contract management, procurement and financial management appear to have diminished in a relatively short time frame. This was an observation from almost everybody who appeared before the Special Inquiry. The area of risk identification and management is another skill which is deficient across the public sector. The Inquiry’s review of business cases which had poor risk assessments was common.

The Acting State Solicitor commented that throughout the sector there is a very patchy understanding of key aspects of sound contract management, from the inception and negotiation phases to the longer term management of established contracts. These deficiencies were evident in a lack of understanding of the importance of document control, risk allocation, and the need for early engagement of legal input to contract negotiation and development. It was also pointed out that too frequently the State was disadvantaged where those officers who were involved in developing contracts differed from those required to manage the same contracts.

The solution to these issues is multi-faceted and includes the raising of awareness of officers to the risks involved in contract management. It also includes ensuring that Directors General take a keen interest in how contracts are being managed and how they are performing, as well as initiatives including the development of standard form contracts and the early engagement of the State Solicitor’s Office in contract negotiations.

Another striking deficiency in skill capability was seen in the recognition of what constituted an adequate business case to support new programs and projects. As has been discussed throughout this Report, the Special Inquirer examined a number of business cases referred to in the terms of reference, as well as looking closely at a wider sample in the Royalties for Regions program. The generally poor quality of business cases reviewed was concerning. The ongoing incidence of these issues was difficult to comprehend since the deficiencies have long been recognised, including by the Auditor General in his published reports over the past eight years.

In other areas, several additional concerns were evident. These included:

- the inability to hear or respond to concerns raised by the Auditor General was echoed in other areas, which identified cultural issues of concern through the public sector;
- the lack of strict observance to the rules of engaging with Cabinet as set down in the Cabinet Handbook;
- the frequency of attempts to circumvent Treasury’s ability to comment on expenditure proposals;
- the lack of depth of understanding of key features of the Financial Management Act 2006, the Treasurer’s Instructions and the State Accounts; and
- the preference by some agencies to use private lawyers rather than the State Solicitor because such advice was thought to be more accommodating.
Not all of the fault for this deterioration in standards and discipline should rest at the feet of public servants. Many practices occurred at the encouragement, if not insistence, of Ministers. The Special Inquirer is concerned that Ministers and Members of Parliament may not fully appreciate key aspects of what constitutes good governance, sound contract management, appropriate risk allocation or even the key features of the Financial Management Act by which the State’s finances are managed. Many of these are concepts, practices and skills to which many elected politicians would have had little exposure before entering Parliament. The practice of undertaking training to enhance skills is common across professions. Newly appointed judges, for instance, must undertake training about their new roles despite years of experience practising before the courts. Also, as with new or intending company directors, a targeted training program and ongoing professional development is invaluable.

**FINDINGS**

**Leadership and Authority**
- The authority and influence of central agencies declined through the period 2008-17.
- Treasury, in particular, suffered a major degradation in resourcing and authority.
- There is considerable risk in allowing agencies to seek and brief their own legal advice.

**Enhancing Financial Management**
- The public sector’s understanding and compliance with the Financial Management Act and associated regulations needs reinforcing.
- The capability status and recognition of Chief Financial Officers need to be elevated across the sector.
- The State must improve its analysis of the infrastructure requirements across WA and establish rigorous planning and research capability in the area of infrastructure provision.
- The Government must change the management of hypothecated revenues. It is no longer feasible for vast amounts of money to be isolated from normal budget management practices, and more so in times of significant financial stress for the State.
- The role of the Office of the Auditor General as a key accountability agency needs to be reinforced. The ability of the Auditor General to have access to Cabinet papers and privileged documents in determining whether withholding of information from public release is acceptable needs resolution.

**Workforce Capability**
- The public sector has high levels of capability as demonstrated across front line service delivery and in the development of projects and programs which are world class in quality and innovation.
- The Public Service’s capability in key areas of governance, financial management, risk management, project and contract management and business case development are not well-developed.
- Record and data management capability across the public service needs to be enhanced.
- The public sector’s commitment to a common purpose need to be re-established.
RECOMMENDATIONS

Leadership and Authority

• A program of rebuilding the resourcing and authority of the central agencies must be established immediately. Given the budget pressures it is recognised that securing increased funding may take some time.

• The State Solicitor’s Office’s status must be enhanced by creating it as a separate office. All legal advice obtained by State agencies, including Government Trading Enterprises, must be sourced through the State Solicitor’s Office. The State Solicitor must have access to all legal advice provided to State agencies.

Workforce capability

• The training opportunities available to public servants and politicians need to be enhanced to include skill development in governance, financial management, risk management, business case development and project and contract management.

• The public sector must renew its commitment to the recruitment of graduates.

• The records management and data management practices of the public sector need to be scrutinised more regularly by the Auditor General. The quality of meeting minutes at all levels, but especially at board level across the State’s corporate bodies, must be reviewed to ensure that they provide an understandable and complete record of meetings and decisions taken. A summary of what constitutes good minute taking is provided elsewhere in this report.

Measures to enhance Financial Management - Recommendations

• A training program needs to be developed by Treasury to enhance understanding of the provisions of the Financial Management Act 2006 and its associated regulations.

• Infrastructure WA should be formed to undertake periodic and detailed assessments of the State’s infrastructure base and of future infrastructure requirements across the short (four years), medium (ten years) and longer term. The scope of Infrastructure WA’s analysis would include projects of an economic, social and environmental focus. This analysis would include detailed case study analysis of future projects.

• The Government must review its management of hypothecated revenues. As a default position these revenues need to be considered in the same manner as consolidated revenue subject to budget review. If necessary legislative changes to address these issues need to be pursued.

• The powers of the Auditor General must be extended to enable access to Cabinet papers and documents the subject of legal professional privilege. This matter should be addressed by the Attorney General as soon as possible.
INTRODUCTION

Trust is important in our society for the success of both public policy and practice. Trust is necessary to ensure the confidence of the community. This is especially so with respect to economic activities which relate to public finance and its administration. According to OECD, trust in government is deteriorating in many countries.1

"The global economic crisis has undermined trust in government. Today only four out of ten citizens in OECD countries say they have trust in their national authorities... But measures can be taken to rebuild trust... Governments need to be more inclusive, transparent, receptive and efficient. For that, they need to put their fiscal houses in order, deliver high quality services to their citizens and provide open and transparent data."2

Citizens trust public services such as police and health professionals significantly more than they trust government itself. Without trust in government, social problems such as persistent unemployment, rising inequality and a variety of global pressures result. OECD advises that there are six domains in which governments must strive to win back trust. These are:

- reliability – governments have an obligation to minimise uncertainty in the economic, social and political environment;
- responsiveness – trust in government can depend on citizens’ experiences when receiving public services;
- openness – open government policies that concentrate on citizen engagement and access to information can increase public trust;
- better regulation – proper regulation is important for justice, fairness and the rule of law as well as in delivering public services;
- integrity and fairness – integrity is a crucial determinant of trust and is essential if governments want to be recognised as clean, fair and open; and
- inclusive policy making – understanding how policies are designed can strengthen institutions and promote trust between government and citizens.

All of the above factors are pertinent to the Special Inquiry, where concerns relate to cost blowouts, governance arrangements and decision making processes. Chief among these issues is a lack of transparency, where all of the above factors appear not to have been managed in a way which invited public scrutiny.

Providing Western Australian taxpayers with open, honest and complete information through continuous disclosure about government projects is a useful way to promote accountability and to build trust. Inevitably, it brings criticism about decisions, debate and even unrest regarding costs and timeframes, and occasionally

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1 oecd.org – OECD Home>Directorate for Public Governance > Trust in Government as of 30 October 2017
2 oecd.org – OECD Home>Government at a glance, 2013, Governments can do more to regain trust, says OECD report
concerns about progress. Despite these potential negatives, transparency through continuous disclosure avoids the shock that the community can face when government finally informs the public of a significant problem on a major project long after the problem has become apparent to those close to the project.

The scope of the Special Inquiry included analysis of the validity of the use of ‘commercial-in-confidence’ reasons to justify non-disclosure to the public of contract information. Commercial-in-confidence is a classification that identifies information that if disclosed may result in damage to a party’s commercial interests, intellectual property or trade secrets. Commercial-in-confidence is often used as a reason for not sharing information about government contracts or projects.

This reference is relevant to many cases in recent times. In the event that a Minister decides not to provide information to Parliament, he/she is required to inform the Auditor General accordingly. This then triggers the Auditor General’s obligation to provide an opinion to Parliament.

Up to the end of the 2016/17 financial year, there were 148 such notices received from Ministers. The Auditor General issued a negative opinion for 62. In other words, the Auditor General believed that over 40 per cent of the ministerial decisions not to release information to Parliament were inappropriately made. For the Western Australian Government’s report card on transparency, this must surely constitute an unacceptably low mark.

In addition to the examination of the use of ‘commercial-in-confidence’, the Special Inquiry has determined that there has been a general lack of transparency in major projects over the period examined.

**A definition of transparency in government**

Transparency generally refers to the openness of government to public scrutiny. It includes access to government information, performance data, implementation of policies, conduct of programs and projects, financial outcomes, and rationales for decisions.

In the context of this report, transparency relates primarily to government activities in managing large capital projects, other strategic high risk projects, and projects with high interest from the public; and in the disclosure of information about major government contracts.

Throughout the examination of the programs and projects that form the Terms of Reference for the Special Inquiry, evidence of over-use of ‘commercial-in-confidence’ and lack of transparency about project decision-making and progress reporting was uncovered. Other areas of concern to the Special Inquirer were the lack of policy with respect to record keeping and the lack of provision of relevant information to governing entities such as boards and Ministers.

**Benefits of transparency**

As mentioned above, providing Western Australian taxpayers with open, honest and complete information through continuous disclosure about government projects is a useful way to promote accountability and to build trust. Inevitably, it brings criticism about decisions, debate and even unrest regarding costs and timeframes, and occasionally concerns about progress. Despite these potential negatives, continuous

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3 Special Inquiry into Government Programs and Projects, Terms of Reference
disclosure avoids the shock that the community can face when government finally informs the public of a significant problem on a major project long after the problem has become apparent to those close to the project.

**Western Australian Accountability Frameworks**

In Western Australia, an accountability framework comprising:

- Office of the Information Commissioner;
- Office of the Auditor General;
- Ombudsman;
- Corruption and Crime Commission; and
- central government agencies such as the Departments of Treasury and Finance and the Public Sector Commission

is charged with oversight of integrity measures. These measures assist with providing openness in many aspects of major projects. Their principles carry over to other authorities, which in turn have their own requirements for transparency in functions within their scope. Further information about the accountability framework is provided at Appendix E.

In any discussion about an increase in transparency and other accountability measures, it is important to note that strict accountability rules also apply to the corporate world. A failure to meet such requirements can now carry serious consequences.

Mandatory disclosure in the corporate world protects shareholders and promotes investor confidence and includes reporting and audit requirements, directors’ reports and financial reports, and other mandatory disclosure requirements of regulators such as the Australian Securities Exchange and Australian Securities and Investments Commission.

Thus, strict rules of transparency now govern the corporate world. Breaches are well publicised, and the Australian Securities and Investments Commission penalties are usually accompanied by significant reputational damage. It is therefore not an unreasonable expectation that the rules which apply to the corporate world where shareholders make a choice to invest, should apply equally to the world of government, where citizenship entitles society to similar protections.

When the company in question is the Firm of Government, and the taxpayers are the shareholders, the bar must then be placed even higher. Corporate shareholders can choose their investments carefully, taking note of likely dividends as well as transparency and ethical company behaviour. Government shareholders, however, are allocated their shareholding in government by virtue of their residence and citizenship. The general meetings of their firm are held only every four years through state elections. It is therefore essential that the trust of the voter is preserved from one general meeting – that is, state election – to the next, for in the interim, Western Australian shareholders are powerless to have an effective say.
EVALUATION IN RELATION TO THE SPECIAL INQUIRY

The Special Inquiry identified a wide range of concerns as they relate to transparency.

Use of Commercial-In-Confidence

The Special Inquirer acknowledges there are circumstances where the use of commercial-in-confidence as a reason to withhold information is valid. This relates to the following criteria:

- If the information is commercial-in-confidence to a commercial counterparty, it must be specifically identified.
- The information must be ‘commercially sensitive’. This means that the information should not generally be known or ascertainable.
- Disclosure would cause unreasonable detriment to the owner of the information or another party.
- The information was provided under an understanding that it would remain confidential.

A number of government agencies including Synergy, Western Power, the Department of Transport, Strategic Projects, the Department of Health, the Department of Sport and Recreation and VenuesWest have used ‘commercial-in-confidence’ in relation to the programs and projects in the Special Inquiry’s Terms of Reference as a reason not to provide contract details.

Some agencies held that commercial information should not be shared through this report. It is accepted that there may be valid reasons for withholding information.

Synergy and Western Power have entered into significant contracts for services with a small number of consultant firms. The details of these contracts have been provided to the Special Inquiry but both Government Trading Enterprises were not willing for those details to be published on the basis of future negotiations. The Special Inquirer has reviewed the contracts and considers that the particular services provided would relate to one-off work and therefore does not believe that disclosing contract information would have any effect on future negotiations.

Contracts and project information about the Perth Stadium that have been withheld include information about naming rights, the reasons for the selection of the Burswood site, and commercial negotiations with future users of the stadium. Withholding of this information seems reasonable.

Failure to provide full information

The Special Inquirer has found that some agencies are choosing not to provide full information even though there are mechanisms to do so.

Although there are existing measures for reporting on land asset sales, some agencies involved in the sales of their freehold land have failed to share information about market values.

The Royalties for Regions program has been deficient in providing information to the public around the rationale for regional building programs, the actual expenditure on those programs, and the management of ongoing costs.

4Office of the Auditor General Western Australia
Major project information disclosure

One of the most significant issues identified by the Special Inquiry in relation to lack of transparency is the withholding of information about estimated project costs and actual project costs. In many instances, the Special Inquirer could not easily identify total project costs. In some cases, agencies have reported total project costs that do not reconcile with the findings of the Special Inquirer. In other cases, the number and complexity of contract variations has made it very difficult to determine the final costs. In many projects, government agencies have failed to report on ongoing costs the State is incurring or will incur at the completion of the project.

In terms of the work of the Special Inquiry, being unable to access project business cases was a significant problem. Agencies claimed that because the business cases went to Cabinet, they were ‘cabinet-in-confidence’. While this was later determined by the State Solicitor not to be the case, the default response from many agencies was to withhold information.

Perhaps the most important element of disclosure missing from major projects is that which is about keeping the public informed about those projects. People are kept in the dark about total costs for building infrastructure, about the ongoing costs, the reasons they are being built, and most importantly, about the progress of projects.

Other jurisdictions

Useful lessons can be learned from the approaches in other countries. Both the United Kingdom and New Zealand provide regular reporting on major projects. In the United Kingdom, the report gives an overview of the number and value of complex and strategically significant projects and programs. There is information on progress and a Delivery Confidence Assessment.

New Zealand taxpayers have very high expectations of accountability over the use of public funds. Progress of major projects is regularly reported with a focus on attention to the governance of those projects at both the political and bureaucratic level. Treasury assesses each project and reports to Cabinet. The reports indicate the level of confidence relating to delivery, the position of the project in its lifecycle, expenditure to date and the expected whole of life cost.

New Zealand Treasury is implementing an Investor Confidence Rating whereby state agencies are rated based on specific criteria. The rationale for the rating program is that government needs to be sure that it owns the right assets, is managing them well, has sustainable funding, and is managing risks to the whole of government balance sheet. The performance indicators determine the rating which provides information for investors (Cabinet and Ministers) on an agency’s capacity and capability to realise a promised investment result if funding were committed.

The Parliament of Australia has established the Parliamentary Budget Office to provide Senators and Members of the House of Representatives with independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of policy proposals.

One of the main objectives for the establishment of the Parliamentary Budget Office was to enhance the transparency and public understanding of election commitments and the budget and fiscal policy settings. The Parliamentary Budget Office was established under the Parliamentary Service Act 1999, as amended by the Parliamentary Service Amendment Act 2011. Since 2012, the Parliamentary Budget Office has provided over...
7,000 costings and budget analyses to parliamentarians and parliamentary officers. It has also released 28 pieces of self-initiated research. The Parliamentary Budget Office’s access to information from government agencies is governed by a Memorandum of Understanding with the heads of those agencies.

The Australian Prime Minister, Treasurer and Minister for Finance make and sign off on statements of support to the Parliamentary Budget Office. There is a Memorandum of Understanding between the Parliamentary Budget Office, the Department of Treasury, the Department of Finance and all heads of Commonwealth bodies listed in relation to the provision of information and documents to support the functions of the Parliamentary Budget Office.

The Special Inquirer concluded early in the Inquiry that a body modelled on the Commonwealth’s Parliamentary Budget Office should be established in Western Australia.

The election campaigns in 2008, 2013 and 2017 were each characterised by dispute over election costings. In 2008 and 2013 in particular the issues of the Ellenbrook rail line and the Max Light Rail versus Metronet program and their respective costs were disputed vigorously. The ability to access independent authority, such as a Parliamentary Budget Office, would have been beneficial at that time to bring greater objectivity to the costing process.

In addition to costing election commitments the Special Inquirer believes a Parliamentary Budget Office would also assist to bring greater transparency, in a contemporary time frame, to the debate over major projects. That would have been particularly so in the conduct of the Roe8 extension debate leading into the 2013 election where issues around the adequacy of the business case for that project was debated.

The cost of a Parliamentary Budget Office in Western Australia would not be large. It will be essential that appointments made to the Office are concluded free from political involvement and strictly on merit.

The Special Inquirer notes that both the current Government (in 2013) and the Opposition Leader in his reply to the 2017 Budget proposed establishing a Parliamentary Budget Office.

**TOWARDS A COMPREHENSIVE GOVERNANCE FRAMEWORK**

As mentioned earlier in this chapter, a strong accountability already applies to the corporate world by way of ASIC. The ASIC governance principles cover, among other things, ethical and responsible behaviour, integrity in corporate reporting and timely and balanced disclosure of information. The Government of Western Australia also promotes governance principles for government entities. The Public Sector Commission’s website publishes the Good Governance Guide for public sector agencies. The nine principles within the guide are based on the eight ASIC principles and cover domains such as government and public sector relationship, ethics and integrity, finance, communication and risk management.

This guide presents a robust framework which could ensure transparency and underpin the commercial and infrastructure activities of the Western Australian State Government. If applied rigorously to all public sector agencies, it would enhance the public’s perception of responsible government, and in turn, build trust, rather than erode the relationship between citizens and their elected representatives.

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5 Public Sector Commission website: Home > Public administration > Public sector governance > Good governance guide for public sector agencies - as of 30 October 2017
FINDINGS

1. The Western Australian public is entitled to receive relevant information that assists in the understanding of Government decisions, performance and plans. This is how taxpayers hold their public sector accountable.

2. It has been found that the default response to requests for contract and commercial information is to claim ‘commercial-in-confidence’.

3. The public is not fully informed about the commencement of major projects. There is a lack of willingness to provide detail about reasons for commencing projects, how options were analysed, the project’s full expected costs – including ongoing costs, and the expected benefits.

4. Major projects involve large contracts. There is a lack of transparency around the commercial negotiations, even where there would be no disadvantage to any party.

5. There is a lack of reporting on the progress of projects. The public is repeatedly shocked about elements of major infrastructure projects.

6. Sharing of the details of final costs and outcomes, and the realisation of benefits, does not occur.

7. The Auditor General has previously recommended greater transparency through regular reporting to Parliament on the status of major capital projects. The recommendation included reference to project performance, timelines, and budget and that Treasury use the information to play a more active role in overseeing agency compliance with the Strategic Asset Management Framework.

RECOMMENDATIONS

To heed the advice of the OECD, and win the trust of the community, the following measures should be taken.

Information about Government programs and projects should be open for scrutiny including governance arrangements, project business cases, risk management information, procurement planning and contracts, options analysis, financial analysis, project progress reporting, and project closure reports with lessons learned.

Reliability – minimise uncertainty in the economic, social and political environment

1. The principles of transparency shown below should be championed by Cabinet as adding value to government outcomes. Ministers wishing to redact information from tabled documents will need to provide good reasons at the time of refusing to release that information to make sure that transparency prevails – and is seen to do so.

2. A transparency framework tying together the principles, measures for oversight such as those described above (Investor Confidence Rating and/or Parliamentary Budget Office) and continuous disclosure must be determined and published by Government.
Responsiveness – trust in government when receiving services
1. All central government and service agencies must act in an exemplary manner with respect to transparency. They must enforce this approach among all other government entities, including Government Trading Enterprises.
2. The way in which government projects are managed needs to promote accountability. The oversight mechanism and the leadership within the public sector should work collaboratively to this end.

Openness – access to information
1. Guidelines that define the types of information that can be released and when it can be publicly released should be included in the scope of reporting. This will provide the public with clarity about why information is withheld.
2. Contracts entered into by government should be publicly available for viewing and contract details for major construction projects greater than $5 million and supply contracts greater than $2 million should be tabled in Parliament.
3. All such information should be placed on the relevant agencies’ websites once the information has been tabled in Parliament.

Better regulation – for justice, fairness in delivering public services
1. Measures to change the default response to requests for information about projects from ‘no’ to ‘yes’ should be taken. There is a need for culture change and leadership to promote transparency. A government that wishes to build trust through accountability must be fully transparent, and be seen to be transparent.
2. All entities including Government Trading Enterprises should use the Tenders WA system to record tender and contract award details for government projects.

Integrity and fairness – clean, fair and open government
1. Consideration should be given to removing limitations on the Auditor General to access and disclose information.
2. Government needs a precise working definition of commercial-in-confidence approved by Cabinet. The definition will need to be well understood and agreed to by the Government and the public sector and be understandable to the community. Active engagement with government agencies and shared understanding with all stakeholders will be paramount to achieving this objective.
3. The Government will need to work with suppliers to ensure that suppliers understand that transparency is a key objective of government. If suppliers support government, there will be less reliance on commercial-in-confidence and other confidentiality clauses in contracts.

Inclusive policy making – understanding policy design
1. Public sector Directors General and Chief Executive Officers should collaboratively form the project accountability framework. It will be important to determine the information to be shared and how the public will be informed.
2. Principles for exemptions to such release of contract information should be developed and agreed upon.
### Transparency Principles

The community of Western Australia is entitled to know how taxpayer’s money is spent through the disclosure of information.

Establishment of any government project should include reference to accountability and transparency. Projects need to include arrangements which ensure the community can be and will be well-informed about the obligations of government.

Public interest should be considered in all investment evaluation and procurement decisions. The public should be given the opportunity to contribute to the planning stages of a government project.

Transparency and good governance increase confidence and trust. Agencies and Government Trading Enterprises should have a default position of openness about all aspects of government projects.

Withholding information from the public on the basis of ‘commercial-in-confidence’ should be the exception, not the rule and reflect a very tight definition around trade secrets and harm to the public interest.

Information should be made available to the public in a timely, accessible and easily understandable way following standardised and meaningful practices.

All suppliers need to support government in driving transparency in order to build public trust in their services.

Confidentiality provisions in conditions of tender and contracts should not conflict with statutory disclosure obligations or these principles.
INTRODUCTION

The Special Inquirer has examined and analysed more than 30 programs and projects entered into by the State Government between 2008 and 2017. In the course of the Special Inquiry, government agencies were requested to produce all documentation relevant to the matters being examined and respond to questions and requests from the Special Inquirer for additional clarification. The material examined by the Special Inquirer included:

- business cases;
- project development plans;
- project management documents;
- financial data and reports;
- legal advice;
- board and steering committee reports; and
- audits and other formal reviews of the programs and projects.

The projects examined by the Special Inquirer have generally been delivered in one of the following ways.¹

Capital projects – through partnership between two agencies

For example, where government service delivery agencies such as the Department of Health or the Department of Sport and Recreation wish to construct high value infrastructure, they are required to engage another government agency that has the authority under a “works” Act, such as the Public Works Act 1902, to deliver the asset. The projects examined by the Special Inquirer that were delivered in this manner are as follows:

¹ There are often other agencies involved in asset delivery such as LandCorp or the Department of Primary Industries and Regional Development.
<table>
<thead>
<tr>
<th>PROJECT</th>
<th>SERVICE DELIVERY AGENCY</th>
<th>ASSET DELIVERY AGENCY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiona Stanley Hospital (infrastructure)</td>
<td>Department of Health</td>
<td>Department of Finance (Strategic Projects)$^2$</td>
</tr>
<tr>
<td>Perth Children’s Hospital (infrastructure)</td>
<td>Department of Health</td>
<td>Department of Finance (Strategic Projects)</td>
</tr>
<tr>
<td>Perth Stadium – stadium infrastructure only</td>
<td>Department of Local Government, Sport and Cultural Industries$^3$</td>
<td>Department of Finance (Strategic Projects)</td>
</tr>
<tr>
<td>Karratha Health Campus</td>
<td>WA Country Health Service</td>
<td>Department of Finance (Strategic Projects)</td>
</tr>
<tr>
<td>Queen Elizabeth II Medical Centre car park</td>
<td>Department of Health</td>
<td>Department of Finance (Strategic Projects)</td>
</tr>
<tr>
<td>The Quarter</td>
<td>LandCorp and Department of Primary Industries and Regional Development</td>
<td>LandCorp</td>
</tr>
<tr>
<td>St John of God Midland Public Hospital</td>
<td>Department of Health</td>
<td>Department of Finance (Strategic Projects)</td>
</tr>
<tr>
<td>Ord River Irrigation Expansion Project</td>
<td>Department of Primary Industries and Regional Development</td>
<td>LandCorp</td>
</tr>
</tbody>
</table>

When Strategic Projects or Building Management and Works manage the delivery of a government asset, such as a hospital or a stadium, the overall project is much larger than the completion of the buildings and infrastructure. For example, in the case of a hospital there is a large responsibility for the commissioning of that hospital. The overarching responsibility for the delivery of a new hospital sits with the Department of Health. The Department of Finance’s role is to plan and manage the project for infrastructure delivery which includes managing the master contractor – that is, the builder or construction company.

**Capital projects – constructed by a service delivery agency under their own authority**

The projects examined by the Special Inquirer that were delivered in this manner are as follows.

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>PRIMARY AGENCY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perth Stadium – Rail and bus infrastructure</td>
<td>Public Transport Authority</td>
</tr>
<tr>
<td>Perth Stadium – Swan River Pedestrian Bridge, roads and traffic bridge Elizabeth Quay</td>
<td>Main Roads Western Australia</td>
</tr>
<tr>
<td>Muja Power Station – Muja AB</td>
<td>Metropolitan Redevelopment Authority</td>
</tr>
<tr>
<td>Project Vista</td>
<td>Synergy$^4$</td>
</tr>
<tr>
<td>Woodlands transmission line</td>
<td>Western Power</td>
</tr>
<tr>
<td>Hedland 125 Service Workers Accommodation Pelego</td>
<td>Department of Communities$^5$</td>
</tr>
<tr>
<td>Former Port Hedland Hospital Site</td>
<td>Department of Communities</td>
</tr>
<tr>
<td>Pilbara Underground Power project</td>
<td>LandCorp</td>
</tr>
<tr>
<td></td>
<td>Horizon Power</td>
</tr>
</tbody>
</table>

$^2$ Formerly part of the Department of Treasury.
$^3$ Formerly the Department of Sport and Recreation.
$^4$ Formerly Verve Energy.
$^5$ Formerly Department of Housing.
Projects delivered by local government authorities

The projects examined by the Special Inquirer that were delivered by local government authorities are as follows.

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>PRIMARY AGENCY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wanangkura Stadium</td>
<td>Town of Port Hedland</td>
</tr>
<tr>
<td>The Ningaloo Centre</td>
<td>Shire of Exmouth</td>
</tr>
<tr>
<td>Bulgarra Regional Sports Complex</td>
<td>City of Karratha</td>
</tr>
</tbody>
</table>

Non-construction projects

The Special Inquirer also examined the following non-construction projects.

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>RESPONSIBLE AGENCY</th>
</tr>
</thead>
<tbody>
<tr>
<td>GovNext-ICT</td>
<td>Office of the Government Chief Information Officer</td>
</tr>
<tr>
<td>Fiona Stanley Hospital – Facilities management and support services (contract with Serco)</td>
<td>Department of Health</td>
</tr>
<tr>
<td>NurseWest arrangement</td>
<td>Department of Health</td>
</tr>
</tbody>
</table>

Outcomes

While some of the projects have resulted in successful outcomes, others have been delivered with minor issues or have ongoing problems that are yet to be resolved. Too often, however, the vast majority of projects examined by the Special Inquirer have not reached expectations.

The following items that were included in the Special Inquiry Terms of Reference are not listed above.

- Road Safety Commission and RugbyWA partnership – Western Force
- Land Asset Sales Program
- Temporary Personnel Services Common Use Arrangement
- Department of Health Major IT procurement
- Department of Health outsourcing of non-clinical services
- Western Power and Synergy consulting contracts
- Net Feed-in Tariff Scheme

These items are programs, not projects, and are therefore not within the scope of this chapter on project management.
WHAT GOES WRONG IN PROJECTS?

Too often the outcomes of government projects are sub-optimal. There are questions over fitness for purpose, cost overruns and time delays. Even after delivery, projects often fail to meet expectations for revenue and benefit or their ongoing costs were more than anticipated. As a result, government projects often disappoint taxpayers and communities.

Points of failure for projects are often linked to poor project management. In the context of this discussion project management refers to:

- governance and oversight;
- planning;
- the application of project management disciplines;
- financial analysis and management;
- risk management;
- procurement;
- contract development and management;
- commercial negotiations;
- benefits realisation; and
- very importantly, relationships.

Unfortunately, in one way or another all of these issues has negatively impacted most of the projects examined by the Special Inquirer.

The contributing factors and drivers of projects not meeting expectations or negatively influencing community confidence, include:

- lack of transparency and accountability;
- poor planning;
- a lack of capability and capacity;
- inconsistencies between policy and practice between agencies and projects; and
- failure to establish and adhere to standards.

Oversight and governance

The governance frameworks applied to the projects examined by the Special Inquirer varied significantly. They are discussed further in the Governance and Capability chapter in Volume 1 of the Special Inquiry report and in the individual project reports provided in Volume 2.

Planning

For major projects such as those examined by the Special Inquirer, planning is required at several levels. The Special Inquirer found examples of inadequate planning at all levels between 2008 and 2017.
Whole of State infrastructure planning

Western Australia did not have a long-term infrastructure strategy or plan during the period examined. This contributed to changing infrastructure priorities, poorly integrated outcomes, a lack of bipartisan support for major projects, decreased confidence and a lack of certainty among stakeholders, and ultimately impacted investment.

In the Perth metropolitan area it has been said that the State tried to do too much at once. At a time of peak construction activity occurring across the Pilbara’s resource industry, the State’s actions in developing a number of major infrastructure projects at the one time were unhelpful. This development depleted the State’s already stretched construction sector, strained oversight capability across the public sector, pushed prices higher and resulted in delays across several projects.

These projects were commenced without an overall State plan which was most evident in regional areas. Regional projects were often undertaken with a sense of urgency in an effort to catch up with demand pressures and funded from “large buckets of money” set aside by a Cabinet decision. One example was the Pilbara Cities program which was allocated $1.7 billion of Royalties for Regions funding for projects that were identified after the funding was set aside. There was no State-level plan underpinning this program or for the broader development of regional Western Australia.

Other jurisdictions have sought to address these issues through the establishment of independent infrastructure advisory bodies which have a range of functions, including planning for long term infrastructure needs.

Whole of project planning

One of the key issues identified by the Special Inquirer was a lack of coordination between the project and the outcome. When service delivery agencies, such as the Department of Sport and Recreation or the Department of Health, are ultimately going to be responsible for the outcome from the investment in infrastructure, it is vital that they are thoroughly involved in the initial project planning.

The disconnect between project and outcome can be exacerbated when announcements about projects are made prematurely.

The service delivery agency and the asset delivery agency have joint and separate accountabilities. It is generally the responsibility of the service delivery agency to undertake comprehensive project planning to:

• identify the problem it wishes to solve;
• ensure that the project aligns with the business goals and objectives of the agency and the State; and
• formulate the overarching plan to achieve the desired outcome.

Whole-of-project planning involves defining the intended outcome at the beginning by describing the business need and working through possible solutions. It is important that the people from the agency who will have responsibility for the outcomes are involved in the decision-making at the beginning of the project. During project planning it is also important to review the lessons learned from other projects and to define the benefits sought from the investment.
Case examples

The following are some projects examined by the Special Inquirer that have undertaken comprehensive planning and others that have not. Further details are provided in the project reports included in Volume 2 of the Special Inquiry report.

Perth Children’s Hospital and Perth Stadium

Both the Perth Children’s Hospital and Perth Stadium (not including the associated transport infrastructure or the Swan River Pedestrian Bridge for the purpose of this discussion) were announced on a costed basis but without detailed plans being prepared for their development. Fortunately in both cases the responsible agencies requested a 12 month period for them to complete detailed planning for the projects.

In the case of Perth Stadium, the Department of Sport and Recreation assumed responsibility to ensure it fully understood the best design techniques, what had worked and what had not worked for similar projects elsewhere, the available technology and numerous other design aspects. The Department worked together with the asset delivery agency – Strategic Projects – to ensure that the final design of the stadium would be world class.

A similar planning process was undertaken for the Perth Children’s Hospital and an impressively designed, modern and attractive hospital has been built to treat and assist the State’s children. The planning for the Perth Children’s Hospital differed to that of the stadium, however, as the Department of Health – the operating agency – was not as fully engaged in the planning phase as it should have been.

Formal design reviews were completed at three prescribed phases of the hospital’s planning – the concept design, the schematic design and the detailed design. It is understood that Department of Health representatives commented on the formal reports, attended detailed design presentations and endorsed all three designs.6 The Department of Health advised the Special Inquirer, however, that it was:

“...reliant on the expertise, project management and coordination undertaken by Strategic Projects... (including for) approval of concept, design and drawing development processes and also fixtures, furnishings and equipment selection processes.”7

The Department of Health now has issues with the design. It maintains that:

“...one of the issues which may emerge at PCH [the Perth Children’s Hospital] is because it was not necessarily viewed as a functioning hospital in totality, the supply chain has a number of issues with it. ... The dock’s very small on a very busy site. The storage around the dock is very limited. The imprest rooms up near the wards are quite small and there’s not a lot of storage capacity.”8

The Department of Health has admitted that “Health was somewhat more passive than they should have been...particularly given the personalities involved”.9

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6 Department of Finance, response to questions on notice (16 November 2017)
7 Department of Health, response to questions on notice (13 November 2017)
8 Hearing – Department of Health 18 October 2017
9 Hearing – Department of Health 18 October 2017
Regional projects

Regional projects delivered by local shires and councils between 2008 and 2017 started with the disadvantage of being without a high level plan. The local councils received funding from a “bucket” which was allocated to Pilbara Cities for example and used it to build local facilities. As the objectives for the “large bucket of money” were unclear the local councils were less than sufficiently engaged and certainly not driven in any particular direction. To compound this issue, the projects they undertook with the funding were very poorly planned.

Wanangkura Stadium in South Hedland is one example which demonstrates the negative outcomes that can result from poor project planning. After being identified as an urgent priority for the Town of Port Hedland, planning for the Wanangkura stadium was so poor that the outcome is a facility that is poorly laid out, lacks functionality and floods annually!

Non-construction – GovNext-ICT

The Government Chief Information Officer’s GovNext-ICT program has been well planned at the whole-of-government level. The strategy is clear and understood and the objectives are well defined and link to an overarching State-wide digital strategy. The GovNext-ICT business case was strong and the outcome is an established contract arrangement that will facilitate the transition of government agencies to “infrastructure-as-a-service” for their information and communications technology.

The Special Inquirer considers that for the whole program to be a success there needs to be leadership and coordination of an integrated plan for implementation by the whole-of-government. Such a plan would establish timelines and standards for all agencies, provide support and guidance, lead collaboration between agencies and ultimately lead to better outcomes.

Project management planning

Once planning for the whole project has been undertaken, detailed project plans for the separate elements should be developed. The elements might include construction, future facilities management, future operational management, transport infrastructure, land preparation and other areas.

Defining the scope of the project is one of the most important aspects of project management planning. Poorly defined project scopes often lead to costly contract variations. Most cost overruns in the projects examined by the Special Inquirer were at least partly because the project scopes were not adequately defined.

Detailed project financial analysis and estimates should be prepared for approval by the Department of Treasury. This information was not prepared for many of the Royalties for Regions projects examined by the Special Inquirer. Further, the Department of Treasury was either not consulted or in many cases was consulted but provided with inadequate time to assess the proposals.

The Special Inquirer has found that risk management, a key aspect in the design and planning of projects, was done poorly. The Swan River Pedestrian Bridge at the Perth Stadium is a major project in its own right and a key part of the effective operation of the Perth Stadium precinct. This project has failed, however, as a result of poor risk management by Main Roads Western Australia.
The risk management frameworks, risk registers and risk reporting arrangements for many projects were cursory at best, with the exception of the Perth Stadium project which had a detailed risk register. Most of the Pilbara Accommodation projects funded by Royalties for Regions had no effective risk assessment. The fact that these projects were ineffective in achieving their objectives, such as reducing rents in the Pilbara, reflected this lack of risk planning.

The Department of Transport did not show any commitment to good risk management practice for the planning and delivery of the transport infrastructure servicing Perth Stadium. This was confirmed by a member of the steering group overseeing the transport planning who informed the Special Inquirer that no risk plan was ever tabled at the steering group’s meetings.

The risk management practices of Western Power and Synergy in the projects examined were inadequate. This surprised the Special Inquirer given the commercial status assumed by both entities. Both Western Power and Synergy have assured the Special Inquirer that their risk management practices have improved.

Planning of regional projects has generally been unsatisfactory.

Too many projects did not have adequate financial analyses. Some were not provided to the Department of Treasury for approval or assurance. Many Royalties for Regions projects did not detail ongoing costs or thoroughly analyse projected revenues. Many projects examined went significantly over budget. Thorough financial analysis and assessment by Treasury would have significantly mitigated the risk of large cost blowouts.

The Special Inquirer identified a number of other planning issues during project planning. Most of these can be summarised as a failure to develop and use an adequate business case.

The importance of the business case

The Special Inquirer was concerned at the number of projects funded by Royalties for Regions which did not have an adequate business case. Even more concerning was that some projects had no business case at all.

The Department of Treasury’s Strategic Asset Management Framework states that “A business case is prepared for all investment proposals with a total capital cost of $1 million or more.” This did not occur for many projects examined by the Special Inquirer which were valued at significantly more than $20 million, well above the $1 million threshold.

A sound business case provides the basis for a successful project. Its purpose is to outline the reasons for the project, to define its parameters and provide suitable detail for informed approval of the investment decision.

10 Department of Treasury: Strategic Asset Management Framework Overview (undated)
The business case includes a description of the business need and an analysis of options to address that need. It should provide:

“...a robust appreciation of the scope, benefits, costs, schedule and risks for the options that were supported in-principle. It proposes a recommended option and alternative options based on an objective appraisal of their relative strengths weaknesses and risks”.

The business case should include reference to change management and communication and the project management disciplines to be applied, such as regular reporting or monitoring.

The Strategic Asset Management Framework outlines other expectations that were unfulfilled by many of the projects examined by the Special Inquirer, including:

- benchmarking and quantitative analysis to determine the likely total cost, including recurrent costs;
- a range of potential procurement arrangements and strategies; and
- advice and information on the finance arrangements that may be feasible.

For those projects that did not have an adequate business case, the Special Inquirer found:

- a waste of valuable resources;
- a lack of clarity around priorities for projects;
- limited research and analysis of options for badly defined business needs;
- cursory attention to risk management and stakeholder management; and
- questionable alignment with the goals of the State, region and agency.

A business case should present a clear and compelling argument for the Government and include a blueprint for the targeted future state through the definition of the plan and its alignment with objectives, transparent underlying drivers, well researched and rigorously analysed options and clearly defined benefits with specific metrics and delivery timeframes.

11 Ibid.
12 Ibid.
13 State Services Commission, New Zealand Government: GateWay Review Lessons Learned Report (December 2013)
PROJECT MANAGEMENT DISCIPLINES

The projects examined by the Special Inquirer which achieved the best outcomes used sound project management disciplines. For example, Strategic Projects and the Department of Health successfully delivered the St John of God Midland Public Hospital through thorough planning and the application of proven project management methods and tools.

Relationships

The Special Inquirer found that strong professional relationships are one of the most important factors in project success or failure. Where relationships have been constructive and collaborative, such as between the three agencies working on the Perth Stadium project (Strategic Projects, the Department of Sport and Recreation and VenuesWest), this has been very positive for the project. Similarly, the Department of Health and Strategic Projects worked very well together on the St John of God Midland Public Hospital and Fiona Stanley Hospital.

Relationships between the Department of Health and Strategic Projects have been strained, however, almost since the beginning of the Perth Children’s Hospital project. It is vital that project leaders identify and take action where there are people who are not working constructively with others.

The Department of Health’s Director General agreed, telling the Special Inquirer:

“I think it [the relationship between the Department Health and Strategic Projects on the Fiona Stanley Hospital] worked because infrastructure…wasn’t late. And actually we had an infrastructure project director, who, whilst part of SP [Strategic Projects], actually related to Health and reported to Health and was reactive to Health. On this project [the Perth Children’s Hospital]…it’s been down potentially to personnel on the site and they have not had that – they’ve been divorced…”

Strategic Projects - Project Management Framework

The Special Inquirer acknowledges that some State agencies use their own project management methods, some of which are sound. The Special Inquirer has found that the disciplines used by Strategic Projects are consistent with the Strategic Asset Management Framework, have useful tools, are used consistently across projects, can be applied in a flexible way and apply strong principles of project management.

Strategic Projects has a specialised team available to provide leadership, support and guidance on projects, while its methods and practices are easily transferred and do not rely on its direct involvement in projects. The Special Inquirer understands that the Executive Director for the Government’s Metronet project has consulted with the Strategic Projects’ Executive Director in recognition of the soundness of the approach. This also occurred previously with the Elizabeth Quay project.

14 Hearing Department of Health 18 October 2017
Although some agencies were able to provide records requested by the Special Inquirer, most had delays in locating some records and many records could not be found at all. Strategic Projects, however, was able to provide all requested material immediately, which demonstrates that records management at Strategic Projects is excellent.

The “lumpy” nature of infrastructure projects in Western Australia means that maintaining the appropriate level of expertise at Strategic Projects has been difficult to manage. The Special Inquirer believes that a long-term plan, such as that outlined in the Infrastructure WA proposal, and broadening the Department of Finance’s responsibilities to use its expertise in project management will improve stability and provide a much needed basis for building project management capacity across government more generally.

WHAT ELSE CAN BE DONE BETTER IN PROJECT MANAGEMENT?

The Special Inquirer has made other observations about the elements of project management that require improvement across government. Briefly they include the following:

- Consideration of lessons learned from previous projects.
- Definition of the intended benefits and analysis of benefits realisation.
- Financial analysis and detailed costings for projects undertaken in consultation with procurement experts, asset management experts and financial experts. This will provide a full understanding of project costs, operational revenue and cost expectations and future asset management.
- The inclusion of quality management and assurance in project plans and business cases.
- Planning stakeholder management, engagement and communications.

Auditor General’s report: Major Capital Projects (October 2012)

The Special Inquirer considers it to be disappointing that this report prepared by the Auditor General more than five years ago seems to have been largely overlooked.

The Auditor General’s key findings included the following:

- The expected cost of the 20 projects examined was 114 per cent more than the total original approved budget estimates.
- Fifteen of the 20 projects reviewed were delivered later than planned and significant scope and design changes were the key reasons for cost and time variance.
- In some cases project budgets and timelines were announced before detailed evaluation had occurred and project business cases had been approved.
- There was often a lack of evidence to show that an existing business case remained valid following changes in the project scope.
- There were many weaknesses in accountability and transparency around funding and procurement decisions, and facilitating awareness for Parliament and the public.

Land assembly

The Special Inquirer received a submission from the Department of Finance outlining the benefits of centralising the land assembly function. This is provided at Appendix F.

15 Western Australian Auditor General’s Report: Major Capital Projects (October 2012)
TRANSPARENCY AND ACCOUNTABILITY

It is inevitable that aspects of projects do go wrong. Too often, however, the community does not hear about project issues until the projects are significantly delayed and/or well over budget. For projects that do not have adequate planning or appropriate project management disciplines, it would be very difficult to report progress against the plan.

The status of major projects should be communicated regularly to the public. It should be clear who is accountable and explanations for delays, cost overruns or changes in scope should be provided.

In 2012 the Auditor General said that “Parliament and the public must search various different information sources and even then may only get a limited understanding of progress against cost and time targets.”\(^{16}\)

Little has happened since 2012 to improve this situation.

Government agencies request and receive very large amounts of funding for projects. While many report regularly and thoroughly to their steering committees, there are many that do not. It is concerning that there is limited, if any, visibility for the public.

Project assessment

The New Zealand Treasury regularly assesses major projects and provides an information release to the public.\(^{17}\)

Major projects reporting indicates whether a project is on track to deliver the intended benefits within the existing constraints. Major projects are assessed on a five-point monitoring delivery confidence scale.

Comprehensive annual reports are provided, with interim reports released in between. The reports comprehensively cover progress, budget, whole-of-life cost and commentary from Treasury and the responsible agency. The April 2017 interim report is provided at Appendix G.

FINDINGS

1. Between 2008 and 2017 there was no whole-of-State integrated infrastructure plan to guide investment, manage priorities and arrange resources.

2. There was no overarching Royalties for Regions strategy to ensure priority programs and projects were identified and prioritised. Some projects appeared to be developed “on the run” or insisted on by the Minister rather than being properly planned and assessed.

3. Detailed planning of the asset to be built is critical before key terms of a project are announced and definitely before procurement stages commence. The operating agency for the asset must own this planning process. It must also own the business case and be engaged consistently in the development of the project.

4. It is imperative that the steering committee established for a major project has control of and perfect visibility over the entire project.

5. There is a deficit of project management skills across the Western Australian public sector. It is important to retain and grow project management skills in government. Risk management skills also need developing.

16 Western Australian Auditor General’s Report: Major Capital Projects (October 2012)
6. The Department of Finance’s Strategic Projects and Building Management and Works business units have developed sound project management methods based on the requirements of the Strategic Asset Management Framework. The expertise of these business units must be developed and the Strategic Asset Management Framework methods institutionalised. The method provides flexibility, tools, records management expertise and strong project management principles.

7. The GovNext-ICT program was well planned but further planning is required to ensure that each agency’s GovNext-ICT transition plans are integrated.

8. The centralisation of land assembly and approvals for major projects would result in significant efficiencies and opportunities for coordinated continuous improvement.

9. There is inadequate transparency around reporting and assessment of project progress and performance.

**RECOMMENDATIONS**

1. The proposal to establish Infrastructure WA is supported. It is envisaged that Infrastructure WA will provide the framework for long and medium term infrastructure planning, prioritisation and decision-making and that plans will be integrated and easily understood.

2. Government must develop a cohesive, integrated, and prioritised infrastructure plan for the State. The Department of Finance should become the lead agency for project management. This would involve it leading projects or providing consistent principles, standards and methods to agencies undertaking their own works.

3. The Department of Finance must provide functional leadership, guidance, support, tools, education and expertise across government based on the Strategic Asset Management Framework. Implementation of this recommendation would increase mobility of project resources across government and allow for rapid identification of skills gaps that can quickly be addressed.

4. A focussed effort must be made to build skills in risk management as part of the training programs proposed to be introduced for the Public Service.

5. To enhance transparency and accountability, the Special Inquirer repeats the recommendations of the Auditor General from 2012:
   - Government should consider options to provide regular and enhanced reporting to Parliament on the status of major capital projects. These options might include a consolidated report or coordinated reporting. Performance should be reported against the original approved timeline and budget rather than the practice of inconsistent and disparate information provided on individual agency websites or annual reports.18
   - The Department of Treasury should retain copies of key submissions and approvals project documents to enable effective tracking of project development and oversight of agency compliance with the Strategic Asset Management Framework.

6. The Government should consider implementing a reporting regime similar to that of New Zealand Treasury (as demonstrated in Appendix G).

7. The land assembly and approvals functions for major projects should be centralised under the leadership of the Department of Finance.

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18 Recommendation from the Western Australian Auditor General (October 2012)
“As procurement comprises almost half of the Government’s annual expenditure, the potential for significant savings and increased efficiencies are substantial.”

M C Wauchope, Public Sector Commissioner

INTRODUCTION

The procurement of goods and services is a key element in all significant projects. When it is done well it can enhance outcomes. When done poorly, however, it can negatively affect costs, timeframes and the achievement of a fit-for-purpose end result.

The Special Inquirer’s examination of a range of projects, all of which involved procurement, has led to the conclusion that improvements can be made through leadership, education and the application of consistent standards.

In the Western Australian public sector, leadership in procurement is split into two main groups:
1. goods and services used by government in projects and day-to-day operations; and
2. services used by government in construction of infrastructure, known as “public works”.

According to the Acting State Solicitor, contract management in the public sector is poor. Failure by government agencies to define the roles and responsibilities of those charged with managing contracts and ensure that contract managers have the required skills, is leading to a waste of resources. Suppliers of goods and services to government are rarely performance managed and often do not have their outcomes properly monitored and validated.

The Acting State Solicitor advised the Special Inquirer that:

“From my experience [common features of poor contract management] would be the governance surrounding the decision-making in relation to the procurement process, the decision-making in relation to the contract award, the decision – or the lack of decision-making governing contract management...”

1 Hearing – State Solicitor, 28 September 2017
2 Ibid.
General government goods and services – State Supply Commission Act 1991

The Department of Finance leads a whole-of-government approach to the procurement of goods and services. The Department oversees compliance with the State Supply Commission Act 1991 and seven policies which cover the following topics:

- value for money;
- probity and accountability;
- open and effective competition;
- common use arrangements;
- procurement planning and contract management;
- sustainable procurement; and
- disposal of goods.

The Department of Finance also oversees the application of the Buy Local Policy.

The Department of Finance provides guidance, support, tools, education and oversight to all government agencies, but not to Government Trading Enterprises.

The Special Inquirer’s examination has found that the tender processes conducted by government agencies for the procurement of goods and services are generally compliant with policy. The Special Inquirer notes, however, that improvements can be made in agencies’ procurement planning and contract management.

The desire of government agencies to meet compliance requirements means that too often the focus is on the process, rather than the outcome.

Procurement for public works

Procurement for works is not centrally led. Agencies that undertake works projects act under their own legislation. For example, Strategic Projects acts under the Public Works Act 1902, while the Housing Authority in the Department of Communities operates under the Housing Act 1980.

Procurement processes examined in the Inquiry indicate that procurement for works practices is not consistent and that there is potential to gain efficiencies and improvements in quality.

Procurement issues identified during Special Inquiry

A number of agencies examined by the Special Inquirer did not plan their procurement well and subsequently had to rush to meet timeframes. Failure to plan procurement properly can lead to significant problems. For example, the Shire of Exmouth appointed a builder for the Ningaloo Centre without completing adequate due diligence. The builder went into voluntary administration before construction commenced.

Even when planning appears to be solid, deficient risk management during procurement can also lead to problems. Main Roads Western Australia undertook what appeared to be a robust procurement process for the Swan River Pedestrian Bridge. The risks associated with the contractor’s proposal to build the bridge substantially offshore, however, were not recognised and were therefore not managed.
In its joint submission to the Special Inquirer, Consult Australia, the Association of Consulting Architects, the Australian Institute of Architects and Master Builders Western Australia noted that “One of the biggest issues facing procurement in Western Australia is risk management”.  

Some entities appear to have disregarded good practice wilfully and failed to properly evaluate tenders or offerings from standing arrangements. The Special Inquirer found that neither Synergy nor Western Power could produce written assessments or evaluations completed for the procurement of consulting services worth many millions of dollars. Both entities also implemented large variations on other projects for work that the Special Inquirer considers should have been the subject of open tender competition.

Lack of procurement expertise and capability leads to poor outcomes. The completion of Wanangkura Stadium by the Town of Port Hedland involved the procurement of services for an audit of existing Town-owned community facilities, a feasibility study for new facilities, architectural design, construction and project management. The Town of Port Hedland used the wrong rates to select consultants and evaluated tenders based on intention to use local sub-contractors without checking whether local sub-contractors were actually used. As with a number of other entities, the Town of Port Hedland used variations to an existing contract instead of going back to the market for a new service.

On the Pilbara Underground Power Project, Horizon Power allowed contractors to start work without formal contracts. There was a lack of appropriate knowledge about local conditions and contractors were engaged without there being certainty of adequate funding.

In general government, processes for the procurement of goods and services are prescribed by policy. Most government agencies follow the rules most of the time but this does not mean that they always achieve good outcomes. Tendering and contract award are just part of a procurement process – planning needs to occur before the process begins. Procurement planning should be occurring at the same time as the business case is being developed. Relevant stakeholders should be consulted and various options for procurement models tested.

**Procurement for public works**

The procurement process for public works is more complex and more open to interpretation than the process for goods and services. On large projects using the Strategic Projects project management framework, procurement plans have been developed and used. In this context the procurement of the services of a main or master contractor is usually the largest transaction.

Procurement processes lead to contract development, which requires specialist skills - especially negotiation skills. The Western Australian Government has a strong and involved State Solicitor’s Office that is ready and willing to assist agencies with contract negotiations. Some agencies do not engage the State Solicitor’s Office, however, believing that they can negotiate contracts themselves. The problem is that few members of the public sector have the skills to manage the balance between the competing desires of protecting the Government and achieving the best project outcome. There is a trade-off.

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3 Consult Australia, Association of Consulting Architects, Australian Institute of Architects, Master Builders Western Australia: Submission to the WA Commission of Inquiry into Government Programs and Projects, Procurement in WA Government as ‘model client’ (21 July 2017)
Functional leadership in New Zealand

The New Zealand Government’s “Procurement Functional Leadership” model drives performance in procurement through:

- strong leadership;
- acceleration of improvement in public sector commercial acumen;
- procurement capability and capacity; and
- reduction of duplication through collaboration and consolidation.

The model provides better oversight and opportunities for the collection and analysis of valuable data and information on government procurement.4

Contract development

Planning for contract management is also vital. All contracts should be managed but those that are highly complex, such as the Department of Health’s Serco contract, VenuesWest’s contract with VenuesLive for Perth Stadium and the whole-of-government management of the three consortia offering the GovNext-ICT solutions, require specialist management to ensure that suppliers meet their key performance indicators and will produce the required outcome.

The State Solicitor’s Office is of the view that there is a lack of governance across contracts delivered by the State, particularly those that are not Strategic Projects contracts. The Acting State Solicitor advised the Special Inquirer that there is a need for consistency in the development of contracts across all government projects.5

Poorly developed contracts may lead to an inability to recover costs should remedial works be required. When problems emerged with the engineering drawings for the Wanangkura Stadium project in Port Hedland, the Town of Port Hedland was advised that omissions in the contract meant that it would be unable to recover costs for remediation works arising from failures by contractors.

An issue raised for consideration is the allocation of risk between the Government and contracted parties. This was identified by Consult Australia, the Association of Consulting Architects, the Australian Institute of Architects and Master Builders Western Australia in their joint submission to the Special Inquirer, which stated that:

“At present, risk is often being allocated not according to who is best able to manage it but according to bargaining power...The use of standard, fair contracts negotiated between industry and government, with input from relevant stakeholders, will reduce the need for costly legal review or negotiations, and gives all parties the comfort of knowing that risk and reward is allocated fairly to help avoid some...negative outcomes.”6

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4 Procurement Functional Leadership (PFL) www.procurement.govt.nz/procurement (17 June 2016)
5 Hearing – Acting State Solicitor, 31 October 2017
6 Consult Australia, Association of Consulting Architects, Australian Institute of Architects, Master Builders Western Australia: Submission to the WA Commission of Inquiry into Government Programs and Projects, Procurement in WA Government as ‘model client’ (21 July 2017)
Contract management

The Victorian Auditor General has stated that:

“Effectively managing contracts is a fundamental good governance issue. It provides appropriate checks and balances so there is assurance that the contractor is providing the required services at the required standard, and that there is efficient and economical use of public funds.”

The Acting State Solicitor informed the Special Inquirer that “…there is an absolute need across the sector for better contract management which on the whole I would describe as very poor”.8

The Special Inquiry encountered a number of examples of poor contract management. One of the best known of these is the Department of Health’s Centralised Computing Services contract. The $44.9 million contract grew through 79 variations to a total value of approximately $175 million. In a review of the contract, the Auditor General found:

“…numerous and fundamental weaknesses in Health’s management of the contract, ranging from a lack of identified need for the multimillion dollar variations, to a failure in delegation and authorisation procedures, and from an absence of performance monitoring to inadequate checking of the accuracy of invoices.”9

Some of the drivers of poor contract management identified during the Special Inquiry and confirmed by the Acting State Solicitor during his hearing with the Special Inquirer included the following:

- A lack of defined responsibilities and accountabilities for contract managers.
- A low level of capability and understanding of the requirements of good contract management.
- Reluctance of contract managers to enforce the contract, manage supplier performance and apply abatement when required.
- Failure of agency leaders to interrogate the management of contracts and the performance of contract managers.

State Solicitor’s Office support

The State Solicitor’s Office provides a significant opportunity for all agencies to improve their contracting processes in terms of documentation and procurement processes. The Acting State Solicitor sees the State Solicitor’s Office’s role “to assist agencies to achieve contractual arrangements that reflect the long term objectives of government”.10

Currently unless government agencies choose to involve the State Solicitor’s Office, there is no other mechanism to understand the magnitude of government’s contractual arrangements or the risks associated with them.

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7 Victorian Auditor-General’s Report: Managing Major Projects (October 2012)
8 Hearing – Acting State Solicitor, 28 September 2017
9 Western Australian Auditor General’s Report: Health Department’s Procurement and Management of its Centralised Computing Services Contract (February 2016)
10 Hearing – Acting State Solicitor (28 September 2017)
The Acting State Solicitor gave the example of risk associated with technology licensing. When Machinery of Government changes are made licensing costs can double overnight. But this risk is not always taken into account because there is no central contract risk register.

Similarly, the State Solicitor’s Office currently has no means of understanding agencies’ contingent liabilities in relation to contract disputes or litigation.

**FINDINGS**

1. The Western Australian Government’s procurement legislative framework is complex making it complicated for government agencies to use and complex for providers of goods and services to the Government to participate in government contracts.

2. Government agencies and suppliers are required to understand and interact with two distinct sets of procurement policies, processes and practices, these being State Supply Commission policies for purchasing goods and services, and ‘works’ policies for public works. This issue is exacerbated where agencies and suppliers deal with more than one agency with enabling legislation for public works, as these frameworks also differ.

3. There is a significant amount of legislation relating to procurement, some of which is duplicative and inconsistent.

4. Individual agencies have different procurement powers and there is a lack of centralised quality management and assurance.

5. Lack of clarity in procurement legislation leads to the repetitive need to obtain legal advice and confusion in the market as different types of contracts are used in apparently similar circumstances.

6. While the Department of Finance sets the whole-of-government goods and services procurement policy, there is no corresponding power for one agency to set a whole-of-government public works procurement policy. This causes fragmentation and leads to inefficiency as government agencies and suppliers need to meet the requirements of multiple procurement policies.

7. The current framework does not provide optimal support for the Western Australian Government’s commitment to social and economic outcomes for all Western Australians. Such provisions could include maximising local content, providing opportunities for jobs on government projects and supporting small and medium businesses and Aboriginal businesses.

8. There is currently no mechanism for collecting and analysing total procurement data which means that government is missing opportunities to monitor the achievement of objectives and understand inefficiencies and non-compliance.

9. While there is generally a good understanding of the transactional requirements of purchasing goods and services in government agencies, there is less knowledge around procurement planning and contract management and all aspects of managing complex procurement require improvement.

10. The skill base for the development of large government contracts is deficient. There is a lack of negotiation skill in the public sector. Contract management arrangements are not always properly planned and are not resourced adequately to manage suppliers’ performance and achievement of clear objectives and outcomes.

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11 Hearing – Acting State Solicitor, 31 October 2017
11. A number of agencies and Government Trading Enterprises examined by the Special Inquirer have not undertaken proper evaluation of tenders and view the evaluation process as a compliance exercise. Tender evaluations must be substantiated.

12. A standardised and flexible decision-making framework that supports contract development, specifies the decision maker and required decision date and provides proper escalation paths would provide clarity and lead to better understanding of responsibilities in procurement and contract management.

13. The State Solicitor’s Office is well placed to assist agencies to define clearly the allocation of risk between the agency and the supplier.

14. The Department of Finance’s Strategic Projects and Building Management and Works business units have a procurement framework for public works that supports the tender process.

15. It is important to build procurement, contract development, negotiation and contract management skills across the public sector. Contract managers need to fully understand their responsibilities.

**RECOMMENDATIONS**

1. Streamlining the procurement legislative framework into a single, cohesive Procurement Act would address significantly the Special Inquirer’s findings above. A depiction of a proposed framework provided to the Special Inquirer by the Department of Finance is shown at Appendix H.

2. Authority for procurement should be delegated to a single designated Minister.

3. Consolidation of procurement and the appointment of the Department of Finance as the functional leader and a one-stop-shop for support should incorporate the following elements:
   - a contemporary Procurement Act with important social and policy objectives enshrined;
   - removal of duplication and inconsistency in procurement policy;
   - retain agencies’ autonomy and reduce red tape;
   - promote transparency, equity and opportunity for local businesses;
   - education programs for all agencies to build capability in procurement, contract development, negotiations, contract management and supplier performance management;
   - efficient allocation of resources between goods, services and works procurement under a joint framework;
   - provision of standards, policy and practice across government;
   - collaboration with major buying agencies and agencies responsible for Aboriginal policy, training and infrastructure; and
   - centralisation of procurement and contract management data and information to allow for ongoing analysis and the identification of opportunities for aggregated buying, improvements in practice and capability gaps that require education.

4. Government agencies should be required to inform the State Solicitor’s Office of their intentions to enter into contract negotiations, even if they plan to use other legal services.

5. Policy should be developed to require all agencies to maintain a contract risk register and to provide the information to the State Solicitor’s Office quarterly for reporting to the Attorney General.

6. Policy should be developed to require all agencies to maintain a litigation risk register for all contracts.

7. Policy on materiality thresholds relating to Recommendations 4, 5 and 6 above needs to be agreed by all relevant agencies.
INTRODUCTION

The Special Inquiry has reviewed nine matters that were managed by or involved Synergy, Western Power, Horizon Power and LandCorp. These were as follows:

- Synergy billing system
- Muja Power Station – Muja AB
- Synergy consulting contracts
- Western Power’s Project Vista
- Woodlands transmission line
- Western Power consulting contracts
- Elizabeth Quay
- Pilbara Underground Power Project
- The Quarter

Findings for each of these projects can be found in their separate reports provided in Volume 2.

The Special Inquirer was not asked to examine any matter concerning the other major public corporations that exist in Western Australia. During the course of his inquiries, however, it became apparent to the Special Inquirer that a number of Government Trading Enterprise issues had arisen, or had been raised during the period of review. This raised questions of the future role and activities of these enterprises.

The main issues are how do these enterprises fit into the structure and operation of government and how should they interact with government to ensure optimal outcomes are achieved.

Overview of Western Australian Government Trading Enterprises

Government Trading Enterprises are public non-financial and financial corporations which have commercial objectives and derive their primary source of revenue from the sale of goods and services in a commercial environment.

Collectively, Government Trading Enterprise asset investments account for a substantial proportion of the State’s Asset Investment Program and have a significant impact on the Government’s finances (including net debt) and its financial targets.

1 The Department of Treasury: Strategic Asset Management Framework, Government Trading Enterprises (undated)
The larger Government Trading Enterprises operating in WA are Synergy, Western Power, Horizon Power and the Water Corporation. These corporations have virtually identical legislation and operate under a corporatised management and governance model.

LandCorp and the State’s public port authorities are also Government Trading Enterprises with commercial obligations. While also trading as Government Trading Enterprises, these entities have provision for non-commercial activities, otherwise known as community service obligations such as the provision of public open spaces built into their operating requirements. This is commonly achieved through a discount to their commercial performance targets.

The Gold Corporation, Racing and Wagering Western Australia and the Western Australian Treasury Corporation are also classified as Government Trading Enterprises.

The current legal basis of Government Trading Enterprises originated in the late 1980s as national competition policy reform brought significant changes in the perceived and actual role of these enterprises. The reforms of that time subjected State corporations to the requirements of private sector competition law. Directors were exposed to equivalent provisions of the Corporations Act and many enterprises were prepared for privatisation. A major argument for corporatising these entities at that time was to enable them to be transitioned to private ownership.

In the absence of any policy to privatise these bodies it is often observed they sit in a confused governance environment. It is clear in Western Australia that many Cabinet Ministers in the past have found their working relationship with Government Trading Enterprises to be difficult.

The management of assets and asset investment in Government Trading Enterprises is important because there needs to be a balance between the commercial way they run their businesses and the significant impact they have on the State’s financial position. 2

The board of a Government Trading Enterprise has governance authority over its enterprise and it operates at an arm’s length relationship with the Government. The chairperson of the board is accountable to the Minister, who is in turn accountable to Parliament. A tension exists between how Government Trading Enterprises pursue their commercial objectives and how they meet the needs of Cabinet Ministers operating in a Parliamentary system.

The boards have statutory obligations to act in accordance with the Government Trading Enterprises’ objectives and must also accommodate the objectives of the Government as the sole owner of the business. 3

As mentioned, the larger Government Trading Enterprises in Western Australia have similar legislative provisions. All are required to obtain Ministerial approval for certain transactions under their Acts. Should a Minister require the board to act in a manner which may conflict with the performance criteria set for the entity, most Acts require that the Minister issues a written direction and tables the direction in Parliament. The board is entitled by law to seek financial compensation from the Government to cover the costs of these actions so as to ensure its financial performance is not disadvantaged. These are purposeful legislative provisions to maintain transparency and accountability in the relationship between boards and executive government. These powers have been used rarely in Western Australia.

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2 Ibid.
3 Ibid.
This report

The focus for this chapter is on two electricity corporations – Synergy and Western Power. Projects undertaken by these two entities form a significant part of the Special Inquiry Terms of Reference with these being six of the 31 items examined.

In reviewing the range of matters related to these entities, the Special Inquirer has made several observations of their performance over the period 2008 to 2017. These corporations, at both board chair and chief executive officer level, have stressed that the matters reviewed originated some time ago and that substantial improvements have been effected in their operating practices and standards in recent years.

The Special Inquirer acknowledges these efforts. Systemic deficiencies across the Government Trading Enterprises and larger public corporation structures and their interface with government and the broader public sector in the period of the review, however, need to be highlighted so that current policy makers can determine the best way forward.

ELECTRICITY CORPORATIONS

Synergy, Western Power (and Horizon Power and previously Verve Energy) are energy companies under the Electricity Corporations Act 1995. Under the Act they are required to have a board and a Chief Executive Officer.

Under section 68 of the Act, certain transactions undertaken by Government Trading Enterprises require Ministerial approval. These include contracts or other arrangements that are equal to one per cent of the written down value of the consolidated fixed assets and investments of the corporation or the sum of $20 million (whichever is the greater).

Section 70 sets out requirements for the Minister to be consulted on major initiatives or courses of action that are likely to be of significant public interest.

The Act also requires Strategic Development Plans to be submitted to the Minister no later than two months before the start of the following financial year. Matters to be included in strategic development plans include economic and financial objectives and operational targets, competitive strategies, pricing, productivity, financial, capital, and personnel requirements. The plan is to cover five years (unless a lesser period is agreed with the Minister). The board and Minister must endeavour to agree on the draft plan as soon as possible. These plans are not published nor tabled in Parliament.

In addition to the Strategic Development Plan, the corporation is required under section 97 to provide a draft Statement of Corporate Intent to the Minister. These Statements cover the period for the 12 months ahead. The Government Trading Enterprises must include community service obligations, specific performance targets, an outline of objectives and scope of functions, an outline of main undertakings, the dividend policy and the type of information to be given to the Minister. These Statements are tabled in Parliament.

Under section 106, the corporation must provide quarterly and annual reports to the Minister in respect of operations. The annual report is tabled in Parliament.

4 Electricity Corporations Act 2005 (V2, 8 Dec 2016)
Under section 111 the Minister can give directions to a corporation with respect to the performance of its functions, and is entitled to have information which is in the possession of the corporation.

The board makes an annual recommendation to the Minister about the payment of a dividend to the Treasurer:5

“...the intention of the Act was to strengthen the existing accountability to the Parliament and people of Western Australia, and not to weaken it in any way....To suggest that Western Power is not directly accountable to the Parliament would be to suggest that Western Power is not accountable to the people of Western Australia.”6

SPECIAL INQUIRY FINDINGS OVERVIEW

Overview

Western Power and Synergy (and formerly Verve Energy) provided the Special Inquirer with a significant amount of documented evidence in relation to the matters under examination. Synergy’s record keeping, however, was well under the standard required by the State Records Act 2000. Western Power’s record keeping appears to be satisfactory but it was unable to provide some requested documentation.

All matters under consideration from both entities indicated poor planning and project management, unsatisfactory governance, lack of transparency, inadequate contract management, and all were managed using practices that would not meet the standards of general government. Most projects examined did not meet general government requirements in terms of procurement practices, consultation with the Department of Treasury and other government stakeholders, and some failed to provide information to the Minister and Parliament.

Decisions of significant value and risk have been made at executive level or Board level that a government department would have had to defer to their Minister or Cabinet with the endorsement of the Department of Treasury.

In the matters reviewed, projects were over budget, and in the case of the Synergy billing system, total costs could not be provided. There were circumstances where the Minister appears not to have been informed despite matters being of interest to the public – a requirement under section 70 of the Act.

Synergy entered into a guarantee arrangement for $145 million without consulting Treasury, and Western Power’s contract for the refurbishment of its head office had over 700 variations, indicating poor planning and poor contract management.

All four energy corporation projects reviewed had poor or non-existent business cases. Some did not consider a range of options or have proper financial analysis. Treasury was not consulted on these projects and other government expertise was not engaged.

The Special Inquiry held hearings with current and past employees and Board members from Western Power, Verve Energy and Synergy. Western Power and Synergy claimed that their present day practices are more

5 Ibid.
sound than in the past and they both recognised that projects and procurement had not been satisfactorily managed in the past. They still maintain, however, that their commercial objectives and legislative provisions exempt them from having to meet the same standards as the rest of government in project management, procurement, contract management and transparency.

Western Power and Synergy had strong boards over the period under review. The Special Inquirer believes, however, that there has been a long term lack of understanding across many of the directors of the boards about how government works, the requirements of a Minister in a parliamentary setting, the reasons for the standards set in government (including the need for documented records), and the impact that their decisions have on the Government’s financial outcomes, risk profile, public image and reputation.

**GOVERNANCE AND REPORTING**

In July 2009, the Economic Regulation Authority noted that there were substantial deficiencies in Western Power’s management and governance processes in relation to operating and capital activities. The document noted failure in processes and documentation, assessments of capital projects and programs against the requirements of the new facilities investment test. It further found there had been over-design and over-engineering of capital projects, shortcomings in governance processes that included poor cost estimating and limited competition amongst potential suppliers. Further there was evidence of overcharging of Western Power by contractors enabled by poor contractual arrangements and management.7

Government Trading Enterprises command use of considerable resources in the community. They are not alone in that position as major departments of State such as Health, Education and Transport are comparably large consumers of resources. While those departments are exposed to annual transparency demands of budget scrutiny, the Government Trading Enterprises are not. Compared with departments, Government Trading Enterprises reveal little about their future plans either in their published Statements of Corporate Intent or through the annual budget process. These reporting requirements were challenged in the Inquiry’s hearings where Western Power stressed it was subject to review by the Economic Regulation Authority. While that is the case, these reviews are done periodically and certainly not annually.

Western Power also argued that through the provision of Statements of Corporate Intent, Strategic Development Plans and Strategic Asset Management Plans it meets high levels of reporting and accountability. The Chief Executive argued at the hearing that he would be relaxed if all these documents were published.8 This is a matter which should be considered as the Special Inquirer is of the view that would enhance accountability and transparency without compromising the commercial remit of these enterprises.

In recent years the Public Utilities Office has had a role advising the Minister for Finance on Government Trading Enterprise related issues. Prior to this, the Government had the Office of Energy undertake this task, and before this function was established, the Department of Treasury oversaw the operations of Government Trading Enterprises. Western Australia differs from other States in not having a Minister who oversees the commercial performance of Government Trading Enterprises. In other States these Ministers are known as

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7 Draft Decision on Proposed Revisions to the Access Arrangement for the South West Interconnected Network, Economic Regulation Authority (16 July 2009) [p89-90]
8 Hearing – Western Power (29 September 2017)
Shareholder Ministers with the title reflecting their interest and responsibility. The Special Inquirer believes the oversight of Government Trading Enterprises needs to be enhanced and supports the establishment of a Shareholder Minister. The Treasury should be required to develop its capability in this area to ensure oversight of the Government Trading Enterprises is at the most capable level possible.

Western Power and Synergy are required to gain Ministerial approval for major new expenditures in accordance with sections 68 and 70 of their Act. The Under Treasurer in his hearing opined that the Government Trading Enterprises see the section 68 process as “a bit of a nuisance compliance exercise” and noted that in the past they have frequently been logged at the last minute with Treasury being given very little time to review and provide advice.9

Mark Barnaba, previous Chair of Western Power, expressed concern about the Board’s inability to hire or fire the Chief Executive Officer or to have control over remuneration. He further noted that the Board had no control over the balance sheet. He was of the view that the incentive for the corporation is to make only a very small profit because if the profit is too large, the entity is criticised as being inefficient (in that they were charging customers excessively).10

A final observation on governance issues concerns the appointment of directors to boards. This has long been an area of considerable contention as too often positions have been filled on the practice of political patronage. Western Australia learned many lessons from the WA Inc experience of the 1980s as to how damaging these practices can be. Board chairs who met with the Special Inquirer stressed how important it was for boards to be diverse and have directors with the necessary skills, experience and backgrounds. On a positive note, no chairmen raised concerns regarding the boards with which they were working, or in the case of retired chairmen, the boards with which they had worked, but all stressed how, when being appointed, they had made it clear to their Minister that this was an important matter.

**Statements of Corporate Intent and Strategic Development Plans**

Government Trading Enterprises are not exposed to the same market disciplines of listed companies and operate with far less checks and balances on their performance. The Statements are intended to provide transparency and accountability on the Trading Enterprises.

Government Trading Enterprises are required to provide Statements of Corporate Intent and Strategic Development Plans annually. The Special Inquirer found the Statements of Corporate Intent to be bland documents with limited information for the public. The Statements do not cover past performance and seem to be more in the nature of marketing documents.

In its 2008/09 Statement of Corporate Intent, Synergy discussed the Synergy billing system project. This project cost over $90 million and was delivered amid errors to customers, time lags and a cost blowout. Notwithstanding the importance of the project to the electricity consumer, only two lines were devoted to informing the public of how the initiative would improve efficiency and effectiveness. There was no mention of the cost or risks.11

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9 Hearing – Under Treasurer, Michael Barnes (20 October 2017) [p18]
10 Hearing – Mark Barnaba 9 Nov 2017 [p8-9]
11 Synergy Statement of Corporate Intent (2008/09)
In the 2009/10 Statement of Corporate Intent, Synergy stated that the replacement of the system would be completed in 2009 and would reduce costs to the consumer. There is no mention of the budget or the quantification of savings. Nor is there reference in the 2010/11 Statement of Corporate Intent to the final cost or the problems that arose when the project went live.

Western Power’s Statements of Corporate Intent throughout the period of the examination do not mention the investment in the head office refurbishment ($83.7 million).

There was a mixed view among the trading enterprise executives and board members on the usefulness of these documents. The Chairman of Western Power’s presented the following view on the two documents:

“There’s been discussion as to how much value it (SDP) does add. What I would say is that, ... before anybody... throws the baby out with the bathwater (it needs to be) clear what would replace it because there needs to be something that is similar... because it’s a method of communication. And - and, yes, there is a certain degree of onerousness about it but not to the point where I think it’s too onerous to do. Mind you, I think the Government have a different - slightly different view.

The previous chair of Synergy confirmed that the statements were a procedural matter but was of the view that they had improved in recent times. In discussing that improvement, Mr Rowe said:

“I got concerned about this was just going through the motion, box-ticking exercise which was a waste of time for everybody. If we did it properly and the Minister signed off, then it gave me something to hold the Minister accountable to.”

Mark Barnaba, former chair of Western Power, was more frank:

“I think it was more compliance... That didn’t mean .... that time wasn’t put into it; they weren’t done with the best efforts. But what it means is that there wasn’t a partnership towards trying to work with something which actually ... guided the organisation strategically.”

The former Minister for Water said she found the Statement of Corporate Intent and Strategic Development Plan useful “if they were given appropriate weight by the Minister.”

At his Inquiry hearing, the Under Treasurer noted that there had been an improvement in the development of Statements of Corporate Intent and Strategic Development Plans over time. He noted, however, that they are of limited value and that most of the Government Trading Enterprises view them as a compliance exercise only. Despite the fact that Strategic Development Plans are intended to inform Treasury of upcoming investment proposals, the Under Treasurer noted that Treasury has often seen examples of funding submissions from Government Trading Enterprises for asset investment which had not been mentioned in the documents.

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12 Synergy Statement of Corporate Intent (2009/10)
13 Synergy Statement of Corporate Intent (2010/11)
14 Western Power Statements of Corporate Intent (2008/09-2016/17)
15 Hearing – Western Power (29 September 2017)
16 Hearing – Mark Barnaba (9 November 2017)
17 Hearing – Leader of the National Party (6 November 2017)
18 Hearing – Under Treasurer, Michael Barnes (20 October 2017) (p14)
TRANSPARENCY

Western Power and Synergy have a history of claiming commercial-in-confidence as a reason for refusing to provide information about contracts. One such example of this was in response to questions from the then Leader of the Opposition in 2016 about the aggregate cost of contracts or engagements per supplier for Horizon, Synergy and Western Power. When questioned in Parliament, the Minister for Energy stated that for Horizon Power, public disclosure of contract values would adversely affect its commercial interests, that Synergy considered the contracts commercial-in-confidence, and that disclosure would adversely affect the commercial interests of Western Power. Interestingly, the question also included the Public Utilities Office which responded with the total costs.19

In all hearings with current Board members and Chief Executives of Synergy and Western Power, the commercial-in-confidence view was upheld. The Special Inquirer agreed that commercial negotiations in relation to contracts for suppliers to manage ongoing provision of goods and services should be kept confidential. When challenged by the Special Inquirer as to how providing information about one-off contracts, especially for services, could adversely affect future negotiations, the responses from the Board members and Chief Executive Officers were vague but firmly upheld the view.

Interestingly past chairs of these boards had a far more relaxed view of the potential commercial compromise that would result from being more transparent in these processes. For example, Mark Barnaba said:

“I don’t think it would compromise their remit at all. It’s a good point you make, being part of government. The GTEs feel they are much more part of industry than they feel they’re part of government.”20

During early research for the Special Inquiry, the Under Treasurer and other current and past ex-Department of Treasury staff informed the Special Inquirer that although there had been some recent improvement, Synergy and Western Power had in the past provided very little information to Treasury when discussing budget needs.

PROCUREMENT

The Special Inquirer asked Western Power about the basis upon which it considered that it should not be held to the same standard as the rest of government in the procurement of goods and services. The response21 was that Western Power is a government trading entity that does not have the status, immunities or privileges of the State, is not a public sector body, is subject to independent regulation by the Economic Regulation Authority and has statutory obligations to act commercially and endeavour to make a profit. The Chief Executive Officer of Western Power replied that Western Power does not publish contracts over $50,000 like the rest of government and claims that to do this would have a negative impact on future commercial negotiations. Although Western Power claims to have realised significant commercial savings through its procurement, it is difficult to understand how introducing more competition, probity and transparency into purchasing goods and services could negatively impact outcomes. The Special Inquirer believes that exposing the trading enterprises to these tests could improve outcomes.

19 Extract from Hansard p4646a (16 August 2016)
20 Hearing – Mark Barnaba, 9 November 2017
21 Letter and response to questions on notice – Western Power contracts (6 September 2017)
Synergy’s response to the same questions noted the 2014 implementation of a procurement and contract management system to ensure consistent and robust procurement practices were in place. Synergy’s response stated that annual audits of procurement and contract management processes have returned satisfactory ratings. Despite requests for this information, Synergy only provided the Special Inquirer with an audit report on the system itself.22

Both Synergy and Western Power maintain that they have appropriate procurement policies and frameworks. Direct comparison with the State Supply Commission framework that governs the rest of government, however, shows that there are significant differences in the promotion of open and effective competition and the publication of information.

In 2009, Western Power obtained advice from Geoff Brown & Associates relating to its expenditure governance. In considering the planning and procurement processes for new facilities investment, Geoff Brown & Associates found that the planning and procurement processes applied during the first access arrangement period, and particularly early in this period, were deficient in a number of respects. These included:

- poor processes of cost estimation, resulting in an absence of a sound basis for cost control in the execution of capital projects and programs;
- a possibility that specifications for products and services may differ from industry standards, resulting in a potential for less competition between suppliers and higher costs;
- over-specification of some assets;
- a low level of rigour in analysis of options for large capital projects;
- a lack of integration in planning for the transmission and distribution networks resulting in potential for inefficient investment, particularly in zone substation assets;
- poor processes of contract management with suppliers, resulting in potential for significant over-charging by suppliers; and
- inclusion of excessive contingency provisions in funding increases for projects, approved late in project implementation.23

**PROJECT MANAGEMENT**

In its Review of Expenditure Governance for Western Power in July 2009, Geoff Brown & Associates Ltd noted:

“...we identify and discuss weakness in the way specific projects and programs have been developed and implemented, but these issues appear to be related more to the extent to which the processes have been applied in practice, rather than the quality of the processes themselves. It appears that Western Power now recognises that there is room for improvement in the delivery of projects ...” 24

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22 Letter and response to questions on notice – Synergy Contracts (7 September 2017)
“We think there is also scope for a more rigorous options analysis of large capital expenditure projects…. Our review of the control of large one-off capital expenditure projects indicated a number of process weaknesses that appeared to be systemic. These included poor cost estimating, a failure to adequately define the project scope during the development phase and the inclusion of excessive contingency provisions in funding increases approved late in the implementation phase.”

The Under Treasurer noted that the Barnett Government Cabinet made a decision that Government Trading Enterprises were to comply with the Strategic Asset Management Framework, but that getting that to happen in practice and getting them to value it was a challenge.

Review of the Western Power projects for the refurbishment of its head office and some depots (Project Vista), and the relocation of transmission lines in Woodlands, and Synergy’s billing system project and Muja Power Station project indicates that the quality and completeness of business cases were poor. There was inadequate emphasis given to identifying and managing risk and financial analysis was not satisfactory. The final cost for all four projects was significantly higher than the expected cost. This indicates low capability in project management and financial literacy, and the need for a higher level of commercial acumen.

Both Synergy and Western Power have stated that their project management capability has improved in recent years.

**INTERACTION WITH MINISTERS**

The Leader of the National Party observed that:

> “The challenge I found as a Minister was that arms-length process, and so …having them (the GTE) in step with what Government policy or direction was – that’s an interesting dynamic between a Minister and a GTE.”

She went on to note that the Minister may not necessarily have the level of information that a departmental representative might have.

The Minister’s concerns relate to the lack of awareness of demands on Ministers and their need for information by Government Trading Enterprises and indeed most public corporations.

The Special Inquirer notes that the interface between the Minister and the boards of the corporations which report to them is far too infrequent. While recognising that practices vary across Ministers, from the Special Inquiry’s review it was clear that many Ministers did not engage with their boards on a regular basis. When those engagements occurred they were said to be too frequently in the nature of meeting briefings. No records of these meetings appear to have been maintained. In instances of compliance with sections 68 and 70, the Special Inquirer was told often that while no documentation was available, these matters would have almost certainly been covered in those briefings.

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26 Hearing Under Treasurer (20 October 2017) p15
27 Hearing – Leader of the National Party (6 November 2017)
THE CASE FOR REFORM OF ALL GOVERNMENT TRADING ENTERPRISES

The Special Inquirer believes that there is a need for a structured review of the governance and operating arrangements between Government Trading Enterprises and the Government. This would be focussed on introducing clearer protocols for the Government Trading Enterprises on providing information to government regarding their operations, how the Government Trading Enterprises keep their Minister informed of their activities and what information is provided to the public on the Government Trading Enterprises plans for a period longer than 12 months. The Government Trading Enterprises should be required to report to Treasury on a more timely and comprehensive basis on all aspects of their operations. And the legislation for Government Trading Enterprises should be standardised, especially in the treatment of non-commercial requirements imposed on Government Trading Enterprises by Ministers.

Reviewing these matters for the Government Trading Enterprises would be a first step. The even more complex labyrinth of legislative provisions and management practices which exists across the State public sector corporations is resulting in a framework that is difficult to oversee and which facilitates non-transparency.

The Department of Treasury has provided the Special Inquirer with a submission recommending governance reforms for Government Trading Enterprises. Over the period of this Special Inquiry (2008-2017), there have been a number of reports that have highlighted problems associated with the framework in which the Government Trading Enterprises, particularly the energy corporations, work.

The Under Treasurer, sees a need for umbrella legislation to achieve consistency across the Government Trading Enterprises in core financial provisions of their enabling legislation and core governance and approval requirements.28

Economic Audit Committee October 2009

In October 2009, The Economic Audit Committee published its “Putting the Public First” report. Many of the recommendations, especially those around improvements in working with the community services sector, have been successfully implemented.

There were, however, several recommendations relating to Government Trading Enterprises that have not been implemented and remain relevant today.

Department of Treasury submission

The Department of Treasury provided a submission to the Special Inquirer on “Potential Governance Reforms for Government Trading Enterprises”. The entire submission is provided in full at Appendix J.

The submission raises a number of issues that have been substantiated by the examinations of this Special Inquiry. These include the following issues:

- Lack of transparency or apparent benchmarking of remuneration for Boards and executives.

28 Under Treasurer hearing 20 October 2017 (p.19)
• Inadequate governance around the appointment of Board members and the lack of strong performance agreements.
• Failure by Government Trading Enterprises to adhere to legislative provisions requiring Ministerial approval for certain transactions.
• Inconsistency between provisions in the Acts governing various Government Trading Enterprises.

Findings

The Special Inquirer found that from its separate reviews, Western Power, Synergy and Verve Energy have demonstrated the following shortcomings:

• Poor project outcomes due to deficiencies in planning, inadequate governance and lack of accountability.
• Failure of Boards to demand relevant information about projects:
  - such as full total cost in the example of the Synergy billing system project;
  - the rationale for over 700 contract variations in Western Power’s Project Vista;
  - the risks relating to a $145 million guarantee given in Verve’s Muja Power Station project; and
  - proper justification for the decision to place transmission lines underground to satisfy nine residents at a cost of nearly $3 million.
• Ongoing refusal of Government Trading Enterprises to provide information on the basis of commercial-in-confidence in relation to one-off consulting contracts where openness could not affect future negotiations.
• Failure to keep Ministers fully informed of matters such as the cost of Western Power’s office refurbishment ($87 million) and the failure to meet the Minister’s expected timeframes for bringing back-office services back onshore (up to two years later than the previous extension authorised by the Minister).

In May 2017, the Government announced a new wages policy with zero increases for four years for those whose remuneration is determined by the Salaries and Allowances Tribunal. Currently the Government has no legislative or regulatory ability to impose that policy on the Government Trading Enterprises. The best that can be done currently to limit wages growth in these environments is for the Premier to write to the Board asking it to comply and relying on the goodwill of the boards.29

Western Power and Synergy view

The current Chairs and Chief Executives of Synergy and Western Power30 claim that their corporations are required to meet standards that are equal to or better than those of government. They equate their requirements to those of the private sector.

The Special Inquirer, however, has the view that the standards are set internally and do not meet the full requirements of either government or the private sector. They are not exposed to tests of potential takeover nor continuous exposure requirements. Nor are they scrutinised by ASIC or APRA or other private sector oversight.

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29 Under Treasurer hearing 20 October 2017 (p19)
30 At the time of the hearing, Lyndon Rowe was the Chair of Synergy and the reference reflects his evidence as Chair. Since the hearing in September 2017, Lyndon Rowe has been replaced as Chair of Synergy.
bodies and they do not meet the government standards for asset management, investment, financial reporting, budget processes, procurement, major capital project delivery or remuneration of employees. It would seem that these two corporations have the best of both worlds in that they have minimised their standards obligations.

Colin Beckett (Chair, Western Power) stated in his hearing that the Government Trading Enterprises need to have the highest standards of procurement and other investment practices and the Government should have confidence that funds are spent in a way which represents getting the best value for the community. He noted that procurement processes are “perfectly adequate” and referenced a recent audit by the Auditor General.31

On the issue of there being greater transparency of procurement activity Mr Beckett said:

“Transparency is a good thing. I have no question about that. So I’d start off with basic transparency. Then it comes down to commercial reality. My view is that there should always be the availability for genuine - you know, in this case we’re part of government in that there should be ability for whoever the Government would like to come in and have a look and say, ‘Let’s have a look at your processes’ and, you know, it’s all on the table.”32

Mr Beckett went on to say that even though Western Power’s procurement practices are not always conducted on an open tenders basis they do not stimulate the market any less than other government practices. Both Mr Beckett and the Chief Executive Officer, Guy Chalkley, also stated that Western Power’s relationship with Treasury is “better than probably people are aware.”33

On 28 September 2017, Lyndon Rowe (the then Chair of Synergy) stated during his Inquiry hearing that to have accountability there must be autonomy and “you’ve got to make up your mind whether you want a Government Trading Enterprise or whether you want a government department”.34

Kim Horne, Deputy Chair of Synergy said that in his view, Synergy should behave like a listed company and: “hold these organisations to a higher standard, higher than government. Hold it to private enterprise standard.”

Former officers of Synergy and Western Power

The role of the electricity corporations

Former Chief Executives and members of the Boards also attended hearings with the Special Inquirer. Most agreed that the current status of the electricity corporations required review.

When asked about the current model for governance of Government Trading Enterprises, Paul Italiano, former Chief Executive Officer of Western Power noted:

“The concept of a State-owned corporation is sound in theory, but agency theory plays out in a really powerful way. The objectives of the shareholder are very rarely fully aligned with the

31 Western Power Hearing 29 September 2017
32 Ibid
33 Ibid
34 Synergy Hearing 28 September 2017
objectives of a commercially run enterprise of any sort with government ownership.

Ministers, governments are accountable to the electorate for performance metrics that are quite different from the commercial imperative of a corporatised entity. ....

There is a misalign between what the shareholding Minister tends to require and what the company is operating under its legislation to do. It is manageable, but it's always ... a source of tension. ....

It is the clear intention of this to place these organisations into the market to operate in a way that is no different from a company that's privately owned to ensure competitive neutrality between jurisdictions and so the academic principle is well understood, but in practice it plays out in quite a challenging manner.35

Peter Mansell, former Chair of Western Power, is not in favour of the current model for Government Trading Enterprises: “... I think it's a broken model .... it just doesn’t work .... I don’t think it satisfies anyone.... This halfway house is very unsatisfactory.36

Mark Barnaba argued that the incentive arrangements are confused. As he said “But there were very different incentive systems which are quite different than it being either private or completely public - because it was this odd animal called the GTE”. 37 Mr Eric Hooper, former Deputy Chair of Synergy noted that the role of Synergy needs to be defined and clarified: “Were we there to be an instrument of State in terms of energy policy? .... For the consumer and keep pressure on prices? .... To be a dividend stream?”38

Transparency

Former personnel also differed from current personnel in their views about the use of commercial-in-confidence and lack of transparency.

Mr Mansell does not agree with the argument that transparency about contracts compromises the entity’s commercial position:

“I would see no harm in a Western Power being transparent.... Having to publish our plan. If this is what it’s going to cost and this is what it did cost, I actually don’t have a problem with any of that because the taxpayers are interested and the Minister needs to know”.39

Mr Hooper stated his views about openness in procurement that: “...transparency is pretty important, .... So aren’t you better off having a transparent process .... That will give you the best chance of getting the best outcome in terms of who you select to do the work”.40

Other authorities

There is a number of statutory and other authorities in Western Australia that operate in a similar way to the Government Trading Enterprises. That is, they operate under corporatised principles and often independently of government standards. Many have objects and functions which are contradictory and the gaps in

35 Hearing Mr Paul Italiano, 17 November 2017
36 Hearing, Mr Peter Mansell, 17 November 2017
37 Hearing Mr Mark Barnaba, 9 November 2017
38 Hearing, Mr Eric Hooper, 22 November 2017
39 Hearing, Mr Peter Mansell, 17 November 2017
40 Hearing, Mr Eric Hooper, 22 November 2017
governance and accountability provisions are confusing for those on boards or in management positions. Some examples from the Inquiry are discussed below.

The Public Transport Authority is a public corporation but not a Government Trading Enterprise. There is no board. The Department of Treasury provides an operating subsidy to the Public Transport Authority. This subsidy is increasing at a rapid rate and approaching $1 billion by the end of the current forward estimates period. According to the Under Treasurer, the Public Transport Authority provides the difference between fare revenue and costs and requests that Treasury subsidises the difference. This is not an efficient corporate model.

On the other hand, the Metropolitan Redevelopment Authority is required to finance its operations in a self-funding manner. At the same time, it has been asked to undertake projects which make it unavoidable to fund its operations through a reliance on debt, a strategy which would not be acceptable in a private structure.

Main Roads Western Australia has a large revenue stream that is hypothecated (that is dedicated to a particular expenditure purpose) to roads. The Under Treasurer told the Special Inquirer that hypothecated revenue across Western Australia is a significant problem. Growth in hypothecated revenue arrangements and the associated build-up of cash balances in special purpose accounts limits the Department of Treasury’s ability to manage the budget. The Under Treasurer notes that where agencies such as Main Roads, the Road Safety Commission and Royalties for Regions have high levels of hypothecated revenue, government is restricted in its ability to harvest savings. When these agencies are directed to reduce expenditure, the cash balances merely build up.

The Under Treasurer notes that the cash balances in hypothecated revenue special purpose accounts totalled over $2 billion if Royalties for Regions is included. In the meantime, Treasury is going to financial markets to borrow money to cover net debt which increased $4.6 billion last year.41

RECOMMENDATIONS

- The Special Inquirer endorses the recommendations of the submission by the Department of Treasury (Appendix J). These recommend that the Government commit to:
  - undertake a review of the structure of government’s commercial and quasi-commercial entities to identify appropriate governance arrangements;
  - introduce legislative reform to standardise and strengthen governance arrangements; and
  - establish a Government Trading Enterprise Oversight and Advisory Unit within Treasury to implement the reform program and increase the effectiveness of ongoing performance monitoring of Government Trading Enterprises.
- Government Trading Enterprises need to recognise they are part of the public sector and if necessary that should be effected by legislative amendment.
- The requirements on Government Trading Enterprises to produce annual Statements of Corporate Intent and Strategic Development Plans and the content of those Statements need review. Government Trading Enterprises and other major public corporations should be required to publish Statements containing their

41 Under Treasurer hearing 20 October 2017, page 24
projected profit and loss and balance sheets as well as their plans for major activities and infrastructure developments.

• The process for appointing board directors must be reviewed so that the composition and structure of boards of Government Trading Enterprises are the best fit for the enterprise. The Chair must be consulted in the appointment process and Cabinet should review its practices to ensure transparency on selection and appointment processes. It should be mandatory for board members to have knowledge of the processes and workings of State Government.

• Cabinet should give consideration to appointing a Shareholder Minister for Government Trading Enterprises to drive accountability through the establishment of robust performance agreements and indicators.

• Noting that Treasury’s recommendations include commercial and “quasi-commercial” entities, the Special Inquirer specifically recommends that the Public Transport Authority and Main Roads Western Australia be included in the review of the structure of Government’s commercial authorities.

**FINAL WORD**

“Government Trading Enterprises sit in a no-man’s land between the government and private sectors. Their boards like to think of themselves as equivalent to private sector boards. That is not the case.”

(Hon. Colin J. Barnett MLA, Member for Cottesloe, 26 October 2017)
INTRODUCTION

The Special Inquiry was asked to examine six specific matters which fell under the Royalties for Regions program over the period 2008 to 2017. This number increased to 10 after the Inquiry assessed that the issue of Pilbara Accommodation would be best analysed by reviewing four specific projects.

It is very clear that this program had a profound impact on the operations of the government and the public service. The program was advocated by the National Party in the 2008 election and it formed the centrepiece in the partnership that was negotiated between Colin Barnett and Brendan Grylls immediately following the election. The deal done between the parties would drive most dimensions of the political, economic and regional development policies of the Government as well as many governance and administrative practices. The considerable growth in royalty revenues – before being offset by the Commonwealth Grants Commission – that occurred during this time magnified these impacts.

The program itself led to one of the most profound changes ever to occur in regional development across Western Australia. Many good programs and projects have occurred under the umbrella of this policy. Conversely, it has also given rise to waste in expenditure, seen programs being implemented without sound planning – and in some cases, none at all – which has led to developments which don’t deliver their intended objectives and left liabilities for government at the State and Local government levels.

The Special Inquirer decided to undertake a broader analysis of this program than was possible through concentrating on the specific matters referred to the Special Inquiry’s terms of reference. The Special Inquiry engaged ACIL Allen Consulting to assist it with this analysis. Fifty projects and programs were assessed in this review including the ten specified in the Special Inquiry’s terms of reference. ACIL Allen interviewed a number of people who had a significant involvement in the program since inception. This built on other evidence gathered by the Special Inquiry. While ACIL Allen provided the Special Inquiry with a valuable report and material which is included in this chapter, the following analysis represents the views of, and examination by, the Special Inquirer.

The focus of the following analysis is to identify the main features and characteristics of the Royalties for Regions program. This is achieved through analysing:

- the governance arrangements;
- how were the funds spent;
- how were the projects selected to be funded;
- has the program influenced economic and social outcomes in regional WA; and
- what are the lessons learned.
PROGRAM GOVERNANCE

The Royalties for Regions program has been the centrepiece of the regional development agenda in Western Australia since the election of the Liberal-National alliance Government in 2008. It is enshrined in the Royalties for Regions Act 2009, which provides the legislative framework for the Royalties for Regions Fund and the establishment of the Western Australian Regional Development Trust.

The Act provides for the equivalent of 25 per cent of the State’s forecast annual mining and onshore petroleum royalties to be hypothecated into a fund that is separate from the Consolidated Account. The Royalties for Regions Fund balance cannot exceed $1 billion at the end of a financial year with any surplus funds returned to the Consolidated Account. The object of the Act is to promote and facilitate economic, business and social development in regional Western Australia through the operation of the fund. The monies allocated from the fund are intended to be over and above existing or planned normal expenditure by Government agencies. The Act states that Royalties for Regions funds can be used for three purposes:

• to provide infrastructure and services in regional Western Australia;

• to develop and broaden the economic base of regional Western Australia; and

• to maximise job creation and improve career opportunities in regional Western Australia.

The Act formalised the architecture of the allocation of royalty funds to the overarching Royalties for Regions Fund. The remainder of the program was established in administrative provisions within the Department of Regional Development. These administrative provisions have changed over time, in line with government priorities and the findings of a series of external reviews into the structure, processes and governance of the program.

Cabinet Oversight

The Act was established by the Barnett Government. In so doing it also established that a requirement was for all Royalties for Regions projects and programs to be approved by Cabinet. This requirement came with consequences. The most significant was that it burdened the Cabinet agenda with detail. Mr Barnett said as much in his written comment:

“All Royalties for Regions programs come through the Cabinet process. The difficulty can be the large number of comparatively small projects and the large number of third parties involved in contracts. That level of detail is not something that is dealt with at the Cabinet level but it should be dealt with at the agency level. If a Cabinet Submission was considered to be deficient or not appropriate then it would be deferred. The same would apply if there was disagreement over a submission. The onus is on the ministers and their agencies to sort out the detail at all levels. I would add that these principles applied to all Cabinet Submissions, not only Royalties for Regions submissions.”

As is discussed later in this chapter and in the Governance chapter, the former Premier’s belief as to how the detail of Cabinet information was being managed didn’t align with what actually occurred.

1 Royalties for Regions Act 2009
2 Ibid.
3 Hon. Colin J. Barnett, MLA, Member for Cottesloe letter to the Special Inquiry (26 October 2017)
The Cabinet appeared to be less prepared than it might have been in establishing arrangements for this program. This would appear to be due to the Government having little perception of how the program would operate as there was no comprehensive and coordinated strategic plan established for the program until 2016. The need to spend the annual allocations made to the Fund, rather than govern the achievement of well-targeted and managed projects and programs over considered time frames, was a major mistake.

This gave rise to very busy Cabinet agendas. As noted below, over the nine years of the previous Government, hundreds if not thousands of proposals were approved under the program. It would have been a challenge for anyone to be across the detail of all proposals let alone a busy Cabinet Minister.

A further dimension of the governance arrangements was that the Department of Regional Development (now the Department of Primary Industries and Regional Development) operated as a “shadow Treasury”, with its own project pipeline, business case template and process of acquittal which was almost wholly separate from the Department of Treasury.

Government agencies, local governments or entities within the Regional Development Portfolio were responsible for generating the idea and formalising the concept of a project, in line with standard practice. But rather than going to the Department of Treasury to define a project and develop a business case, funding applicants applied to the Department of Regional Development.

The Department of Treasury’s only opportunity to analyse, critique and suggest improvements to project definition came at the Cabinet approval stage, where the ten-day rule allowed Treasury an opportunity to review business cases prior to final approval.

This differs significantly from projects funded from the Consolidated Account, where the Department of Treasury has oversight from project definition all the way through to implementation and evaluation as is illustrated in Figure 6.

In several projects examined by the Special Inquirer, a business case was not submitted to Cabinet as the project sat under an overarching program that had previously been approved by Cabinet. In those cases, the Department of Treasury was not provided with an opportunity to comment on the merits or otherwise of the project.

**REGIONAL DEVELOPMENT PORTFOLIO**

The Regional Development portfolio is the name given to a series of government entities primarily responsible for the delivery of the State Government’s regional development agenda. The Department of Regional Development, the nine Regional Development Commissions, and the Regional Development Trust were all independent statutory authorities with their own administration and executive functions.

A fourth group, the Regional Development Council, was an advisory body comprising of the chairs of the nine Regional Development Commissions and the Director General of the Department of Regional Development. The Regional Development Council reported to, and could be directed by, the Minister for Regional Development.
The Department was the most significant entity within the portfolio. It had the most resources with 172 full time equivalents and an operating budget of $90.3 million in 2016/17. The Department undertook the administrative workload in processing all proposals to Cabinet for approval and in working across the public service agencies in coordinating program and project proposals. It monitored business cases proposed with those projects.

The former Chair of the Trust noted that, by comparison, the Trust had:

“...no role in the program beyond advice. This differs from other hypothecated funds, which have a formal board of governance. This could have been useful for Royalties for Regions.”

While in the early years of the program the Trust provided useful guidance by introducing initiatives to improve the operations of the Fund and better target funding, in later years its influence appears to have waned.

The Regional Development Council was little more than a coordinating body for the nine Development Commissions. As a former chair of the Council said:

“...each Development Commission had a line to the Minister. It was difficult to have independent oversight as a result.”

The Minister for Regional Development was the central figure in the portfolio. All agencies reported to him. The Minister also had powers – concurrent to State Cabinet or the Treasurer – to approve projects under the Royalties for Regions Act 2009. The Minister can also be given delegated authority by State Cabinet to distribute funds to individual projects up to a nominated dollar value without the approval of Cabinet.

The relationship is summarised below.

**Figure 1: Regional Development Portfolio structure**

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5 Ian Fletcher, Former Chair, Regional Development Council (2011-2013) interview with ACIL Allen Consulting, 7 October 2017
Priorities

The Royalty for Regions program had a very broad, but clear enough objective to enhance the regional areas of Western Australia. Its greatest weakness, however, has been it has struggled in establishing how to go about the task. Since its inception, it has had no comprehensive or coherent strategy.

Various attempts have been made at defining a strategy over the past nine years. These have consisted of a series of plans and direction-setting policies released by the State Government, political parties, the Department of Regional Development and other members of the Regional Development Portfolio. The major strategy has been little more than ad hoc programs such as Pilbara Cities, Regional “Supertowns”, the Regional Development Blueprint program, the Regional Centres Development Plans or ‘Growth Centres’, and most recently the Regional Development Strategy 2016-2025.

Initially, strategy development was built around the 2009 Progress Report of the Royalties for Regions Fund. This document articulated six policy objectives that were to be used to govern the strategy formation, project selection and assessment of the effectiveness of the Royalties for Regions Program.

These objectives were as follows:

1. Building capacity in regional communities
2. Retaining benefits in regional communities
3. Improving services to regional communities
4. Attaining sustainability
5. Expanding opportunity
6. Growing prosperity

These objectives have long been criticised as lacking in definition, the priorities being unclear and there being a lack of indicators to measure achievements. The Special Inquirer has seen no consistent evidence that the allocation of funding to Royalties for Regions projects aligns with these objectives. The current Director General of Regional Development summed up the position clearly as follows:

“It would be fair to say that the objectives at that level are not sufficiently specific to lend themselves to give quantification and measurement.”

The Under Treasurer also observed:

“The six objectives are too broad. They can be used to justify anything.”

In relation to project selection, stakeholders provided a consistent view that the Royalties for Regions program simply became an alternative source of funding for projects and programs for State government agencies, running parallel to the regular process of accessing funds through the Consolidated Account.

HOW WERE THE FUNDS SPENT?

According to the Regional Development Trust’s 2016/17 Annual Report, some $6.7 billion of funding for projects and programs in regional Western Australia has been disbursed from the Royalties for Regions Fund.

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8 Ralph Addis, Director General Department of Regional Development, Interview with ACIL Allen Consulting
9 Michael Barnes, Under Treasurer, Department of Treasury, Interview with ACIL Allen Consulting
since the inception of the program. An additional $930 million was used as seed capital to establish the Western Australian Future Fund, $620 million returned to the Consolidated Account for various reasons, and an additional $120 million sent to accounts for specific regional purposes.

The balance of the Fund at the end of the 2016/17 financial year was $1 billion in line with the legislated cap on the balance of the Fund.

Figure 2: Royalties For Regions Cash Flow Summary, 2008/09 To 2016/17

The majority of actual expenditure has been recurrent expenditure ($4.1 billion or 63 per cent), with the remaining being capital expenditure ($2.3 billion or 37 per cent). In all years except 2009/10 and 2012/13, recurrent expenditure has exceeded capital expenditure. It is noteworthy that the Royalties for Regions Trust provided advice in 2016/17 that cautioned against an increase in the focus of the Royalties for Regions program funding recurrent expenditure, noting it would reduce the Fund’s flexibility.

Figure 3: Total Royalties for Regions Funding, Recurrent Vs Capital Expenditure, 2008/09 To 2016/17, Confirmed Spending, $ Million, Financial Year

10 ACIL Allen Consulting, Regional Development Trust 2016-17 Annual Report
11 ACIL Allen Consulting, Western Australian Department of Treasury
**Distribution of Royalties for Regions funds**

The WA Country Health Service has been the largest recipient of Royalties for Regions funding, with $1.3 billion in projects and programs funded (Figure 4). On average, this appears to have been directed at relatively large projects, with the WA Country Health Service having 34 projects approved. The Housing Authority (now part of the Department of Communities) also received a large allocation of funding, with 11 per cent of Royalties for Regions funding directed to a series of housing projects predominately in the north of the State. Local government authorities have also been allocated funding for 130 projects totaling $668 million. This excludes funding allocated under the Country Local Government Fund which delivered thousands of projects worth a total $1.06 billion. The private sector and not-for-profit groups received funding for 89 projects totaling $202 million, the third largest amount of projects. All up, 196 individual entities received funding for at least one project between 2008/09 and 2017/18, 49 of which were State government agencies (25 per cent of total).

Figure 4: Total Royalties for Regions Funding, 2008/09 To 2017/18, Funds Allocated, By Agency, $ Million, Financial Year\(^{12}\)

Regional distribution of funding to date

The distribution of funding by development region in Western Australia has been relatively consistent since the Fund’s inception in 2008/09. The funding amounts presented in Figure 5 below are of the budgeted amount each year. This figure provides insight into spending intentions, not the actual level of expenditure that occurred in each region.

The largest share of the funding has been distributed to the Pilbara (30 per cent of total funding), Kimberley (18 per cent) and Wheatbelt (11 per cent) regions, with smaller shares allocated to the South West (10 per cent), Goldfields-Esperance and Mid West (both eight per cent), Gascoyne and Great Southern (both six per cent), and Peel (three per cent).

\(^{12}\) ACIL Allen Consulting, Department of Regional Development
On a per capita basis, the Gascoyne region was the largest recipient of funds, with $35,670 of Royalties for Regions funding per capita allocated to projects specifically in the region between 2008/09 and 2015/16. Other substantial per capita beneficiaries were the Pilbara ($26,864 per capita) and Kimberley ($25,992 per capita). By contrast, the southern half of the State received comparatively less funding per capita, with the Peel ($1,256 per capita) and South West ($3,182 per capita) recording the lowest per capita allocations in the State. The “middle” regions (Goldfields-Esperance, Great Southern and Mid West) received between $6,000 and $8,500 per capita.

Figure 5: Total Royalties for Regions Funding, 2008/09 To 2015/16 Spending By Regions ($M), Financial Year
**Funds management**

As its name suggests, the Royalties for Regions program is funded directly from the State's royalty revenues. A set allocation (25%) of these royalties is assigned to programs and projects across the regions every year. Unlike other components of the State budget, the total amount of funds allocated for these programs is set regardless of developments in State economic and financial conditions. This funding arrangement effectively therefore hypothecates a fixed share of State royalties for a specific purpose.

In 2008 when this policy was being advocated by the National Party and following the election when the Liberal National partnership was agreed, $2.02 billion of the State’s royalty income was targeted for Royalties for Regions. The Royalties for Regions program at that time was designed to assign 25% of this amount or $505 million to regional development. The rapid increase in iron ore prices which followed saw the royalty revenue base grow to $3.9 billion in 2012/13 and beyond $5 billion in 2013/14.

This increase in royalty revenues provided the Government with the opportunity to reset the percentage of royalties allocated under this program. Rather than taking this approach the Government stayed with the 25% policy which effectively forced it to develop programs and projects to enable the funds to be spent each year. As a consequence, the governance practices which are normally associated with good project management broke down. This started with the quality of business cases developed for the programs and projects. These business cases flowed into an overwhelmed Cabinet agenda which had to consider a vast array of ideas. Many had poor project definition and implementation which in turn has led to considerable waste in the use of public funds.

The Special Inquirer has observed numerous examples of this breakdown in due process. The waste in public spending was captured well by the following observation from the CEO of the City of Kalgoorlie-Boulder:

> “Another project was the Ray Finlayson Centre. A $16 million project. Did we need it? Probably not. We had quality sporting fields already. But because there is a lot of money there, it had to be spent.”

An often encountered shortcoming of hypothecated revenue programs such as the Royalties for Regions is because the funding decision is a given and the project identification process is compromised. As the Under Treasurer observed:

> “WA Treasury does not favour hypothecation. They create a false sense of funding availability, lead to less scrutiny on project selection than would otherwise be the case.”

This continues to be the case today.

Figure 6 below illustrates the weaknesses that exist in any hypothecated revenue funded program and the qualitative difference in process that exists for the Royalties for Regions program.

It is unclear to the Special Inquirer as to why the new Cabinet in 2008 did not place conditions, in the form of expenditure caps, on the allocation of funds to this program. It is understood that this was due to the nature of the bargain between the Liberal and National political parties and the insistence of the National Party leader at the

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14 Michael Barnes, Under Treasurer – Interview with ACIL Allen Consulting, 10 October 2017.
time that the election commitment was sacrosanct. The lack of setting such conditions was a mistake. It created many difficulties in ensuring high standards across the program for which both parties must take responsibility.

An attempt was made in recent years to cap the amount of money available for this program. The size of the pool was then materially larger than in 2008 and was set to receive $1 billion of new funding each year. This is a major allocation of funds. Many comparisons could be drawn to illustrate the special treatment of this funding. For instance the Department of Child Protection’s 2016/17 total expenses are listed as $640 million.\(^{15}\)

The hypothecated nature of the Royalties for Regions Fund therefore significantly reduced the budgetary flexibility of the government of the day, and brought with it opportunity costs in the form of a reduction in the total pool of funding available for whole of government priorities. Credit ratings agencies have often cited the lack of fiscal flexibility as a reason for downgrading the State’s credit rating.

The Department of Treasury has consistently held the view that hypothecation restricts the ability of the State to manage its finances adequately at a whole of government level. In the context of the State’s current financial position, with a structural operating deficit and record levels of net debt, this issue is more pronounced.

**Impact on Overall Budget Situation**

Another important concern about the Royalties for Regions program is the way in which the fund interacts with the Goods and Services Tax (GST) distribution system. This interaction and distribution system is known as horizontal fiscal equalisation.

The GST distribution mechanism assesses the relative strength or weakness of each of Australia’s States’ financial positions, and attempts to “equalise” the capacity of each State to provide the same level of services to its citizens. The process is managed by the Commonwealth Grants Commission which provides recommendations to the Commonwealth Treasurer regarding the distribution of GST revenue to achieve equalisation.

The Commonwealth Grants Commission has historically assessed Western Australia as having a significantly stronger than average capacity to raise revenue, centred largely on the State’s high level of royalty income versus that of the other States. It has consistently recommended the State’s share of the GST is reduced. In recent years this has occurred to the point where the State is penalised the equivalent of up to 90 per cent of total royalty revenue raised in a given year. By contrast, the Commonwealth Grants Commission does not consider regional development expenditure in its assessment.

By hypothecating 25 per cent of forecast royalty revenue (up to $1 billion) per annum the State is effectively required to dip into other general government revenue sources – or borrow – to ensure that the legislated requirement of the Royalties for Regions Program is met. The Under Treasurer has highlighted this issue as follows:

> “The Grants Commission process causes some tension with Royalties for Regions. Some years, where the GST takes 100 per cent or more of royalties due to the lag, the State borrows money to fund Royalties for Regions – without a AAA credit rating.”\(^{16}\)

In addition, the Department of Regional Development has stated that there have been issues realising forecast expenditure from the Fund, with projects progressing more slowly than expected. This lead to an “underspend” at the project level, meaning the Royalties for Regions program as a whole was unable to meet expenditure targets.

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\(^{15}\) 2016-17 Expenses – WA State Budget Papers, General Government Sector, 3

\(^{16}\) Michael Barnes, Under Treasurer - Interview with ACIL Allen Consulting (November 2017), 6
This has resulted in the Department of Regional Development undertaking an active management of the fund and cash flow profiles. The Department of Regional Development allows for an “over-programming provision”, which allows individual Royalties for Regions projects to total more than the approved expenditure limit, recognising that not all projects will spend their respective budgets. This may result in weaker projects being approved in order to meet the target level of expenditure.17

Many of these risks were identified by the Department of Treasury prior to the inception of the Royalties for Regions program. During the negotiation period to form Government in 2008, the Department of Treasury issued advice concerning the potential implications of the Royalties for Regions program for the State’s finances. The then Under Treasurer Tim Marney advised this would be likely to place the State’s AAA credit rating at risk, on the basis that it would increase the State’s net debt to revenue ratio above the 47 per cent target Department of Treasury had in place at that time.18

Figure 6: Stylised Project Flowchart, Consolidated Account Project Vs Royalties For Regions Project19

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[17] Department of Primary Industries and Regional Development. 2017. RFR Project Management Framework V2.0. Provided to Special Inquiry by Department of Regional Development.


[19] ACIL Allen Consulting, Based on Strategic Asset Management Framework and WA Department of Finance Project Management Tool
Full Time Equivalent Staff

There has been an increase in the personnel employed across the Regional Development Portfolio since the Royalties for Regions program commenced, particularly within the Department of Regional Development.

Figures provided by the Department of Treasury indicated the total FTE employment within the Regional Development portfolio increased from 158 in 2007/08 to 309 in 2016/17 with almost all of this growth occurring within the Department of Regional Development (33 FTE to 172 FTE a 421 per cent increase). Staff costs also increased, with total portfolio employee benefits expenses rising from $13.9 million to $40.6 million over the same period. By comparison, the Department of Treasury which manages the State’s $47 billion budget employed 265 FTE in 2016/17. The Department of Regional Development and the Regional Development Commission’s budgets are funded from the Royalties for Regions program revenues.

HOW WERE THE PROJECTS SELECTED?

Overview

Overall, there was a significant deficit in the rigour applied to project selection and poor targeting of funding towards projects that would deliver lasting economic and social outcomes to regional Western Australia. A range of trends emerged, including inconsistent use of economic and financial analysis to support a funding case, poor definition of project needs, inadequate consideration of project sustainability, and a lack of measurable project outcomes.

Among the ten programs and projects referred to the Special Inquiry, the lack of supporting business cases, which even where they did exist were inadequate, was concerning. The practice that existed too frequently of government establishing “buckets of money” from which future expenditure projects would dip into without adequate business cases was concerning. The ad hoc nature of many housing projects in the Pilbara funded by Royalties for Regions underlined the failure of rigorous planning being required by the government in anticipation of what should have been a well forecast requirement.

Failure to achieve objectives

As mentioned ACIL Allen Consulting was engaged to review 50 Royalties for Regions projects with respect to social and economic outcomes and adequacy of supporting business cases. The following matrix illustrates that very few projects achieved satisfactory economic and social scores and that a large number were unsatisfactory on both measures. Only five of the 50 business cases were considered fully adequate. Appendix K provides details of the method underpinning this analysis and the specific programs and projects reviewed.
The project selection process can be traced back to inadequate governance and a lack of clearly defined regional development policy outcomes. More broadly, the lack of an overarching strategic framework and appropriate measurement of regional development outcomes have contributed to an inability for the State to determine whether the Royalties for Regions program has contributed to improved economic and social outcomes in the State.

**Link between failure to achieve objectives and business case inadequacy**

Nine of the projects examined had no business case. Of these, only one was assessed as meeting Royalties for Regions program objectives. Many of the nine projects that received funding had no clear rationale for the failure to develop a business case. The Department of Regional Development advised that projects had no business case because they were either a decision of Government or represented the implementation of an election commitment. Either explanation was unsatisfactory.

A number of documents identified by the Department of Regional Development as business cases were simply project definition documents which either followed a previously announced decision or a global budget allocation that had been approved in prior years.

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20 ACIL Allen Consulting
As previously stated, the Country Local Government Fund delivered thousands of projects. Projects funded under this program do not require a business case. The Department of Primary Industries and Regional Development advised the Special Inquirer that local governments choose where funding is allocated provided that this is in accordance with the Country Local Government Fund guidelines, included in the Shire’s forward capital works program and approved by the Department. A review of this Fund in 2016 stated:

> It has supported most local governments in regional WA to address at least some of their existing infrastructure backlogs. However, local governments commented that without future investment of a similar nature, these gains could be lost. Furthermore, maintenance of approximately a third of the infrastructure assets developed through the CLGF depended on rates increases, levies, ongoing grant funding, community fund raising, and or volunteer activities to sustain it. Given that the CLGF funding guidelines specified that LGs [local governments] should only invest CLGF funds in infrastructure that they had the capacity to maintain and operate into the future, these findings are of some concern.

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**Program performance**

Multiple reviews of the Royalties for Regions program have cited the lack of project outcomes measurement as a consistent weakness. Compounding this issue is that economic and social data for each region is relatively limited, with many data sources either being intermittent in their release, or unavailable across all regions.

Having available, reliable and relevant data on the economic, social and environmental aspects of regional development is an important element of a review of a program of this nature, given funding has been hypothecated specifically for the advancement of economic and social outcomes in regional Western Australia. To compensate for a lack of data, ACIL Allen Consulting developed a high level framework for assessing economic and social progress in regional Western Australia, using publicly available data.

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21 Department of Primary Industries and Regional Development response to Special Inquiry questions on notice, received 26 September 2017.
22 Clear Horizons Evaluation of the Royalties for Regions’ Country Local Government Fund (October 2016), 24
23 ACIL Allen Consulting
From the indicators available, it is not clear whether there has been any significant or consistent economic or social progress in WA’s regional development areas since the introduction of the Royalties for Regions program.

In addition, it is noted that funding has been provided to several programs in State government agencies as opposed to new projects. For example, in 2013/14 the Community Sporting and Recreation Facilities Fund for the Department of Sport and Recreation received $14.4 million. This was an existing scheme usually funded from the Consolidated Account. This was the only year it was funded from Royalties for Regions. The Department of Health noted that Royalties for Regions had “moved into some services funding over time”.

Examples given included contributions to the Patient Assisted Travel Scheme, Royal Flying Doctor Service and St John’s Ambulance. The Department of Health further advised that funding had been provided for programs that are delivered in the regions. There have been cases where the funding from Royalties for Regions will no longer be available and the programs will be discontinued.

To date, there have been few independent evaluations of projects and programs funded under the Royalties for Regions program. In this regard, it is difficult to quantify the outcomes that have been delivered from the program for regional Western Australia. There has been a visible and lasting improvement to social and amenity-enhancing infrastructure, but analysis shows the delivery of improved economic and social outcomes has been inconsistent across the regions.

There is significant scope to improve the strategic framework of the Royalties for Regions program through changes which include the following:

- The Regional Development portfolio should work with relevant State or Commonwealth Government agencies – such as the Department of Treasury or the Australian Bureau of Statistics – or private sector organisations to develop a full suite of economic and social data at a regional level in Western Australia. This will provide the evidence base to more effectively guide future decision making.

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24 ACIL Allen Consulting, Corelogic; Census, 2016, 2011 & 2006; Department of Employment Small Area Labour Markets March 2017; ABS Catalogue 6202.0
25 Department of Health, Special Inquiry Hearing, 18 October 2017
26 Department of Health, Special Inquiry Hearing, 18 October 2017
• There is a pressing need to develop a clear set of regional development objectives that underpin the Royalties for Regions Program, and the broader priorities of the State Government. The current objectives are not appropriate in their current form, as they do not include adequate definition and can be used to justify any project. A new set of outcomes-based regional development objectives must be fully defined, and be able to be measured using tangible evidence.

• A newly-developed strategic framework must guide all project selection, with respect to future applications for Royalties for Regions funding. To do this, the overarching strategy must embed specific, measurable, outcomes-based key performance indicators for regional Western Australia. All projects must demonstrate how they will assist in delivery of these using evidence-based facts.

• The Department of Primary Industries and Regional Development should develop a formalised program evaluation framework and embed this in both the overarching strategy and individual project approvals process.

WHAT CHANGES HAVE BEEN MADE TO THE PROGRAM RECENTLY?

The Special Inquirer has been advised of changes the current Government has made and will continue to make in the year ahead regarding the structure, administration and governance of the Royalties for Regions program.

Some of the changes relate to the Machinery of Government changes implemented in early 2017, while the remainder were driven by a Cabinet Submission prepared by the Department of Treasury.

These changes include the following:

1. Selection and prioritisation of new regional project proposals will be undertaken as part of the annual budget process, with Expenditure Review Committee deliberations informed by the Department of Treasury and Department of Primary Industries and Regional Development advice.

2. State government agencies receiving Royalties for Regions funding no longer require a Memorandum of Understanding with the Department of Primary Industries and Regional Development, in line with funding received for projects funded from the Consolidated Account.

3. A decision that once State Cabinet approves the allocation of Royalties for Regions funding for a project, no other funding approvals are required as the project progresses.

4. Staff in the Regional Development Commissions, with the exception of the Directors (as Chief Executive Officers), are now employed by the Department of Primary Industries and Regional Development (which is an amalgam of the former Departments of Agriculture and Food Western Australia, Regional Development and Fisheries and the Regional Development Commissions). The Regional Development Commissions remain separate entities under their relevant legislation.

5. As a short term measure, the Department of Primary Industries and Regional Development has implemented a standardised Summary Investment Proposal template to replace the development of business cases as a form of project definition for projects approved as part of the 2017-18 Budget. Summary Investment Proposals request brief information regarding the project, risks, key deliverables and project outcomes. The Department of Primary Industries and Regional Development advised the Special Inquirer that it anticipates this will change ahead of the 2018/19 State Budget.27

27 Department of Primary Industries and Regional Development, Special Inquiry hearing, 6 October 2017
FINDINGS

It is evident that the Royalties for Regions program has many shortcomings in governance, strategy and administration.

Hypothecation

1. Hypothecation creates a strong incentive to spend money faster than may otherwise be optimal for the State.

2. The need to spend the annual allocations made to the Fund, rather than govern the achievement of well-targeted and managed projects and programs over considered time frames, was a major mistake.

3. If the appropriate governance, strategy and administration is not in place, this incentive to spend can lead to sub-optimal project selection and a failure to deliver the purpose of the Royalties for Regions program. In other words, it leads to spending money for spending’s sake.

4. The ongoing rationale for a hypothecated program of the size and scale of the Royalties for Regions program should be reviewed.

Governance

1. There are shortfalls in the overall design of the Royalties for Regions program. These are centred on the structure of the Regional Development portfolio, the roles and responsibilities of portfolio members, and the notion that the program ran parallel to regular State Government budget processes rather than in conjunction with it.

2. The Regional Development portfolio had a series of interconnected relationships, with overlapping roles and responsibilities. All of the entities within the Regional Development portfolio were able to report through to the Minister. The head of the Department of Regional Development is able to, and has previously been appointed to, bodies ostensibly tasked with assessing the performance of the Department’s activities.

3. The Regional Development Commissions, Regional Development Trust and Regional Development Council all rely upon administrative support and funding provided by the Department of Regional Development (now the Department of Primary Industries and Regional Development). This has led to perceptions that it influenced the independence of these boards.

4. The Regional Development Commissions operate in isolation from each other, and it is unclear how the Department, Regional Development Commissions and Local governments work together to advance the interests of regional Western Australia.

5. As part of Machinery of Government changes announced by the State Government in May 2017, the Regional Development Commissions have been brought under the new Department of Primary Industries and Regional Development. They do, however, remain separate entities in practice and in legislation. These arrangements need further review.

6. According to the Department of Treasury, the Western Australian Auditor General and members of the Regional Development portfolio, the Royalties for Regions program operated as a “shadow Treasury”. The State Government has committed to working to improve the governance process underpinning the Royalties for Regions program, although this appears to be mostly with respect to project selection.
RECOMMENDATIONS

It is acknowledged that the hypothecated nature of the Royalties for Regions program is established by legislation. Nevertheless a series of improvements that could be made to the administration of the program and structure of the Regional Development portfolio to assist in achieving the primary objectives of the Royalties for Regions Act 2009.

These have been grouped into three categories, which cascade down from the Royalties for Regions program’s overarching governance to strategy, and finally to the administration of the program and Fund.

Governance

1. Cabinet must rationalise the approval process for Royalty for Regions projects if these projects continue to be numerous and a mixture of large and small projects. The Expenditure Review Committee must be required to be responsible for reviewing the smaller projects. These can then be noted by Cabinet.

2. A comprehensive plan must be developed to guide the Royalties for Regions program. The plan should set a clear purpose for the program, strategic actions over a five and ten year horizon, and measurable indicators of benefits achieved. The plan should be developed through detailed consultation with the regions and in consultation with Infrastructure WA, as proposed by the Special Inquirer.

3. The Government must consider administrative reform to elevate the role of the Regional Development Trust to strengthen its role beyond the provision of advice to the Minister for Regional Development. This should result in the Regional Development Trust playing a more active, independent role in project prioritisation and selection, strategy development and assessment of the performance of the Regional Development portfolio at large.

4. The Government must reconsider the $1 billion expenditure cap on the Fund as it gives rise to undue haste and poor decision making as the year comes to an end with unallocated money remaining in the Fund.

5. There should be an earlier and more formal role for the Department of Treasury in the project selection and prioritisation process. This would necessitate a change in the role of the Department of Primary Industries and Regional Development to be more focused on coordinating regional development initiatives across Government. From the changes already made to the process of project selection, it appears that the Department of Treasury’s role has already been enhanced, but this should go further to ensure the Royalties for Regions Fund is managed in line with the remainder of the Consolidated Account.

6. The ongoing role of the Regional Development Commission structure should be reviewed as part of the Machinery of Government changes. While the Regional Development Commissions have been brought into the single Department of Primary Industries and Regional Development, they remain separate entities with reporting lines through the Minister for Regional Development. The Regional Development Commissions should operate in a manner that holds the best interests of all regional Western Australia as the highest priority, rather than unproductively guarding their own region’s interest.
Reliable success indicators

1. The Regional Development portfolio should work with relevant State or Commonwealth Government agencies (such as the Department of Treasury or the Australian Bureau of Statistics) or private sector organisations to develop a full suite of economic and social data at a regional level in Western Australia. This will provide the evidence base to guide decision making more effectively and to establish success indicators.

2. A newly-developed strategic framework must guide all project selection, with respect to future applications for Royalties for Regions funding. To do this, the overarching strategy must embed specific, measurable, outcomes-based key performance indicators for regional Western Australia, and all projects must demonstrate how they will assist in delivery of these using evidence-based fact.

3. The Department of Primary Industries and Regional Development should develop a formalised program evaluation framework, and embed this in both the overarching strategy and individual project approvals process.

Administration

1. Administration of the Royalties for Regions program must be improved by the Department of Primary Industries and Regional Development.

2. The Department must work to reduce the number of proposals requiring Cabinet approval. The Special Inquirer believes this can be achieved by introducing one or more of:
   - eradicating the creation of “bucket of money” funds from which subsequent proposals follow;
   - undertaking regular and detailed planning of regional infrastructure requirements in conjunction with Infrastructure WA so that proposals embrace a range of projects rather than those projects being pursued separately on an ad hoc basis; and
   - developing Gateways for the approval of projects at levels below Cabinet.

3. The Department must manage the quality of business cases developed in support of projects and programs with greater rigour. These business cases must be consistent with the Strategic Asset Management Framework.

4. The Department must advance the capability of staff within the Regional Development portfolio, and improve the linkage between the regional investment business unit within Department of Primary Industries and Regional Development and the Department of Treasury. This is especially so when it comes to developing business cases and program evaluation. The changes suggested in this assessment require a set of skills centred on economic and financial analysis, strategic thinking, risk assessment and portfolio investment decision making.
WHERE DID THE MONEY GO?

GLOSSARY OF KEY TERMS

A number of key terms are used in this chapter and are defined below.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Balance sheet</td>
<td>A snapshot of the financial strength of the government, comprising its assets and liabilities</td>
</tr>
<tr>
<td>Capital expenditure / asset investment</td>
<td>Payments for acquisition of fixed capital assets, stock, land or intangible assets</td>
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<tr>
<td>Financing requirement</td>
<td>Calculated as the net operating balance of the General Government sector less the net acquisition of non-financial assets</td>
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<tr>
<td>General Government sector</td>
<td>Comprises all government units and non-profit institutions controlled and mainly financed by government</td>
</tr>
<tr>
<td>Net / underlying cash balance</td>
<td>Calculated as net cash receipts from operations, plus financing adjustments (to remove financing cash flows), plus net cash capital investment (net cash investment in non-financial assets)</td>
</tr>
<tr>
<td>Net debt</td>
<td>A key government balance sheet indicator calculated as the difference between liquid financial assets and financial liabilities. It is an indicator of the strength of the public sector’s financial position and the sustainability of the future call on public sector cash</td>
</tr>
<tr>
<td>Net operating balance</td>
<td>Net operating balance equals government revenue minus government expenses in accrual terms</td>
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<tr>
<td>Net operating deficit</td>
<td>If a government’s anticipated accrual-based expenses exceeds its proposed revenue for the year, the government operating budget is in net deficit for that year</td>
</tr>
<tr>
<td>Net operating surplus</td>
<td>If a government’s anticipated accrual-based revenue exceeds its proposed spending for the year, the government operating budget is in net surplus for that year</td>
</tr>
<tr>
<td>Operating budget</td>
<td>The operating budget portrays the government’s expenses, expected costs, and estimated income, typically over a financial year basis in accrual terms</td>
</tr>
<tr>
<td>Own-source revenue</td>
<td>Revenues raised directly by State governments (Commonwealth government funds are excluded)</td>
</tr>
<tr>
<td>Public Financial Corporations</td>
<td>Comprises government-controlled corporations and quasi-corporations mainly engaged in financial intermediation or provision of auxiliary financial services (e.g. Western Australian Treasury Corporation and the Insurance Commission of Western Australia)</td>
</tr>
<tr>
<td>Public Non-financial Corporations</td>
<td>Comprises government-controlled corporations and quasi-corporations mainly engaged in the production of market goods and / or non-financial services (e.g. the State’s ports, and the electricity and water utilities)</td>
</tr>
<tr>
<td>Recurrent expenditure</td>
<td>All payments other than for capital assets, including on goods and services, (wages and salaries), interest payments, subsidies and transfers</td>
</tr>
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INTRODUCTION

The terms of reference for the Inquiry included a requirement to provide a clear and concise explanation of the key drivers that have led to the State’s General Government operating deficits and increased level of total public sector net debt.

The Special Inquiry engaged Deloitte Access Economics to prepare an assessment of State finances to respond to this component of the terms of reference. The Special Inquirer has drawn on the key analysis and findings of this assessment in preparing this Chapter. The analysis, findings and recommendations contained herein reflect the views of the Special Inquirer, and not necessarily those of Deloitte Access Economics.

The assessment involved an examination of the impact of a range of factors on the State’s finances, including:

- The State Government’s operating budget:
  - General Government expenditure, including trends in overall expenditure growth and key sources of spending that led to the deterioration in the operating balance
  - General Government revenue, including trends in overall revenue growth as well as changes in the main revenue sources such as royalties, taxation, GST grants, and other Commonwealth grant revenue
- The State Government’s balance sheet:
  - The State’s Asset Investment Program and its nexus with the net debt position of the State.
- The State’s economic environment.

The assessment focussed on the eight-year period 2009-10 to 2016-17 (with 2008-09 as the base year for the period of analysis) and drew upon publicly available material such as State key financial publications (Budget Papers, Mid-Year Reviews, and Annual Reports on State Finances), agency annual reports, and Parliamentary reports. The Treasury also provided valuable data as requested by the Special Inquiry.

This Chapter provides an overview of the operating budget and balance sheet movements over the eight years and concludes with a succinct analysis of where the money went. A set of Findings and Recommendations close the chapter.

Appendix M provides a detailed analysis of the three areas - the State’s operating budget, balance sheet and the economic environment over this period.

SYNOPSIS

The simplest summary of the financial management record of the Barnett government is that a temporary boom in State revenues was used to pay for permanent promises, leaving behind structural shortfalls in the State’s public sector finances. In terms of government outlays, the experience of the eight years to 2016-17 should be a lesson to future Western Australia Treasurers regarding the need for conservatism in spending and to budget to take account of volatility in the State’s revenue sources.

Both the State’s operating budget and its balance sheet have recorded a sharp deterioration since 2008-09, with the former showing a substantial move from surplus to deficit and the latter rising levels of public debt.
Operating budget

The operating budget of the General Government sector is the largest of the three components of the total public sector in Western Australia, accounting for 60% of public sector revenue and 63% of public sector outlays in 2016-17. The General Government sector is also responsible for the deterioration in the State’s operating position since 2008-09. Excluding the General Government sector, the remainder of the public sector (that is, Public Non-Financial Corporations and Public Financial Corporations) maintained operating surpluses throughout the period under review (see Figure 1).

Figure 1: Operating balance of the Western Australia State Government, by sector

The General Government sector traded from a surplus of $318m in 2008-09, to a record high deficit of $3 billion by 2016-17. The deterioration in the operating budget over the first term of Government to 2012-13 reflects the strong growth in recurrent outlays that commenced in 2009-10. This period of the State’s Budget history was notable, however, not only for the scale of the deterioration in the operating position, but also for the fact that the State was financially totally exposed when the downturn arrived in 2014-15.

This lack of preparedness was exceptional. The world price of iron ore had been very high by historical standards, and had been so for some time. The growing iron ore supply in response to China’s demand across the world, including in Western Australia, had been large. The Government budgeted for no price falls in 2014-15 or across the forward years, and as a result the deterioration in the operating position was dramatic.

Revenue

General Government revenue peaked in 2013-14 at almost $28 billion, representing a 44% increase over the five years from 2008-09 (Figure 2). This was by far the fastest revenue growth experienced by any of Australia’s state governments over this period, reflecting rapid growth of the Western Australia economy as rising commodity prices, especially for iron ore and LNG, sparked significant investment in the State’s resources sector. Although General Government revenue fell from its peak in 2013-14, it remained 37% higher in 2016-17 compared to 2008-09. Despite the fall, this remains amongst the strongest rate of growth in revenues of any State over this period.

1 Successive State Budget Papers
While General Government revenues peaked in 2013-14, just one year later in 2014-15, the Western Australia General Government sector recorded an operating deficit for the first time in 14 years (Figure 3). The operating deficits persisted through the 2016-17 State Budget, which anticipated a record shortfall of $3 billion. The rapid deterioration in the operating budget reflected consecutive falls in General Government revenue in 2014-15 and 2015-16 and continued growth in General Government outlays.

On average over the period under review, General Government revenue rose by 3.8% per annum while outlays grew by 6.6% per annum. In six of the nine years, the annual change in General Government outlays exceeded the annual change in revenue. Figure 3 illustrates these trends as well as the resulting impact on the State’s net operating balance. Although the growth in outlays did slow after 2013-14, the pace of the decline in revenue was even greater.

Figure 2: Revenue Earned by the State Government of Western Australia, 2000-01 to 2016-17

Figure 3: Western Australia General Government net operating balance

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**Figure 2: Revenue Earned by the State Government of Western Australia, 2000-01 to 2016-17**

![Graph showing revenue trends from 2000-01 to 2016-17](image)

**Figure 3: Western Australia General Government net operating balance**

![Graph showing net operating balance trends from 2000-01 to 2016-17](image)
General Government revenue fell by a collective $1.3 billion between 2014-15 and 2016-17. Sharp falls in revenue from iron ore royalties (-$744m) were mainly responsible for this decline. The magnitude of this decline was unprecedented in the State’s modern history.

While the reduction in revenues over two consecutive years was sharp, it occurred from a high base. Further, despite this weakness in revenue General Government outlays still increased by $2.5 billion over the two years.

An underlying factor that was highlighted by these events is the relative narrowness of the State’s revenue base, which increases the State’s vulnerability to sharp changes in revenue sources. On average, 38% of Western Australia’s General Government revenue was drawn from just four sources over the period under review: payroll tax, land tax, transfer duty and royalties. By comparison, the revenue share from these same four sources was much lower in New South Wales (25.7%), Victoria (21.2%), Queensland (20.7%) and South Australia (15.7%) over the same period.

Iron ore royalties accounted for 86% of total royalties and 14.3% of total General Government revenue, on average, during the period of analysis. This concentration of State income within a single source of revenue created significant risk for the State Government. Recognising these risks, a conservative approach would have involved budgeting for larger surpluses to protect against the unpredictability of commodity markets.

Accurately forecasting short to medium term global iron ore price movements and domestic production volumes became an even more critical task in order to keep State finances on a sustainable footing.

As it evolved, iron ore prices fell more sharply than virtually anyone predicted in 2014-15 and 2015-16. General weakness in other revenues, including in payroll tax receipts (-$529m) and in the long projected fall in the State’s share of GST (-$299m) were material drivers of the reduction in the General Government operating balance over these years.

The increasing complexity in forecasting the world iron ore price was well known. It stemmed from a structural change in the iron ore market which occurred in the late 2000s. The annual benchmark system began to break down at this time as the market shifted towards contracts negotiated on a quarterly basis or linked to the spot price. This greatly increased the potential for volatility in prices and royalty revenues.

Not only was it rare for the iron ore price and payroll tax revenues to decline over consecutive years, it was also rare that they declined simultaneously. That said the backdrop had been exceptionally strong for Western Australia’s resource and construction sectors. Many thought the China growth phase which had been the source of these conditions would go on for many years. But a lesson learnt from this experience is that the economic cycle continues and those who seek to defy it will be impacted.

Hypothecated revenue also presented a challenge to the State in managing its budget. Hypothecated revenue refers to government revenue sources that are specifically designated to be spent on a particular program or use. Examples in Western Australia include vehicle licence fees, the Perth parking levy and State royalty revenues. While hypothecation of revenues can foster transparency in the use of funds it can lead to the determination of the uses of these funds less rigorous than it might be otherwise. The Royalties for Regions program is an example as is discussed elsewhere in this report. Hypothecation also reduces flexibility in committing revenue to the most economically efficient endeavour. This is particularly critical during lean budgetary times, especially if public debt is rising rapidly. In total, some $17.7 billion of General Government own-source revenue was hypothecated during the period of analysis (i.e. excluding specific-purpose Commonwealth grants).
Expenses

In terms of outlays, it is worth repeating that the experience of the eight years to 2016-17 should be a lesson to future Western Australia Treasurers in the need for conservatism in spending and to budget to take account of volatility in the State’s revenue sources. This was not the case during the period of analysis.

Although revenue growth was subdued between 2008-09 and 2013-14 compared to the prior five-year period, income was nevertheless spent as quickly as it entered State coffers. The largest surpluses achieved during the term of the Barnett Government – $831 million and $1.6 billion in 2009-10 and 2010-11 respectively - were quickly dissipated by respective increases of $1.1 billion and $2.3 billion in total outlays in the following years.

Each year through this period the individual agencies of WA Health, Department of Education (including training), WA Police and the Department of the Attorney-General accounted for, on average, over 50% of total General Government outlays. The concentration of outlays in these essential services made it difficult to cut spending sharply.

However, the State Government also chose to channel savings from other measures towards these front-line services. Outlays by these agencies rose on average by 6.8% per annum during the period of analysis. On average, WA Health alone accounted for 27% of General Government outlays each year and its outlays rose by an average of 8.1% per annum – well above average annual growth in total General Government outlays (6.6% per annum).

By classification, Figure 4 shows that General Government outlays on employee benefits (salaries and other employee costs) comprised the bulk of total spending during the period of analysis (46% per annum on average). Salaries grew by an annual average of 6.0% during the period of analysis, and total employee costs by 5.6%. These increases reflected a generous approach to public servant wages across these years and far more so than in all other States, except Victoria.

Figure 4: Western Australia General Government expenditure by classification

![Figure 4: Western Australia General Government expenditure by classification](source)

*Source: Successive State Budget Papers*
Salaries growth averaged 7.8% from 2008-09 to 2012-13, but fell to 3% per year between 2013-14 and 2016-17. This reduction in growth was largely attributable to policies enacted to freeze recruitment and reduce annual salary increases under enterprise bargaining agreements (especially toward the end of the period of analysis). However, these policies were slow to take effect on individual rates of pay; public sector wages growth was well in excess of private sector wages growth (Figure 5) throughout the period.

Figure 5 confirms that wage growth in the public sector did not decelerate as quickly as private sector wages from 2013-14 in response to weaker economic and labour market conditions. Public sector wages increased by an average of 3.8% per annum over the period of analysis, compared to average annual growth of 3.1% across the private sector. However, this disparity is most notable during the latter stages of the period of analysis.

Wage growth in the public sector outpaced growth in the private sector for five consecutive years to 2016-17 by an average of 1% per annum. Despite the State’s economic downturn being in full swing in 2015-16, public sector wages growth accelerated in this year, increasing by 3.3% compared to 2.9% growth in the previous year. The larger increases in public sector wages between 2012-13 and 2016-17 are not reflective of public sector wages “catching-up” to the private sector. In the 10 years to 2011-12, public sector wages increased at a comparable rate (4.2% per annum) to the private sector (4.3% per annum).

Rather, the sustained growth in public sector wages relative to the private sector in Western Australia is indicative of State Government structures and policies which appear to permit public sector wages to benefit from strong private sector labour market conditions, while insulating wages during periods of private sector labour market weakness.

For example, the 2013-14 Budget introduced a ‘Fiscal Action Plan’ to target budget imbalances. This included a number of measures to reduce the growth in General Government wages and salaries. However, just one year later in the 2014-15 State Budget, it was noted that although considerable progress had been made to implement the broader Fiscal Action Plan, the key constraints to fully realising the plan were structural barriers relating to curbing wages growth.

Figure 5: Wage Price Index, WA annual % change, by sector

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5 It should be noted that the public sector WPI reflects wage growth at all levels of government in Western Australia, not just State Government. However, the large number of State Government employees compared to Commonwealth and Local Government employees in WA means that State Government wage growth is likely to drive changes to the public sector wage index in any case.

6 Australian Bureau of Statistics Catalogue 6345.0
This included an inability to limit wage and conditions increases to projected growth in the CPI in accordance with the Government’s public sector wages policy. This was due to the outcomes of the (then) upcoming enterprise bargaining agreements for police, fire fighters, health salaried officers and general public servants being considered a risk, while the ability of agencies more broadly to manage to a CPI cap on salaries expenditure was also considered a risk.

The strong growth in wages in the first term of the Government was, from time to time, explained by Ministers as attempts by the Government to ensure essential public sector workers didn’t move north to take advantage of the high wages in the resource sector.

Whatever may have been the case the fact that the State didn’t take measures to protect its budget on the downside having locked in these commitments for the long term was consistent with the overall lack of attention to managing risk in public sector finances at that time. Or put simply it was making long term promises on temporary revenues.

In addition to employee costs, other gross operating outlays rose by 1.77% per annum from a share of 9% of WA General Government outlays in 2008-09 to 20% by 2016-17. WA Health alone accounted for 50% of the total outlays on other gross operating expenses by the entire General Government sector during the period of analysis. These expenses include a myriad of cost items such as services purchased from non-government agencies and not-for-profits, operating leases for accommodation and motor vehicles, repairs and maintenance and consumable items.

**The balance sheet**

In nominal terms, Western Australia’s total public sector net debt increased almost five-fold over eight years from $6.7 billion in 2008-09 to over $32.5 billion by 2016-17 – an increase of $25.8 billion.

**Figure 6: WA total public sector net debt**

The increase in the State’s net debt position primarily reflected the large growth in debt of the General Government sector, accounting for $21.9 billion of the $25.8 billion increase. The value of net debt held by State Government Public Financial Corporations accounted for the remainder (Figure 7).

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7 Ibid
**Net debt**

The ratio of General Government net debt to revenue provides a broad indication of a State’s ability to meet the net debt obligations of its General Government sector from existing revenue.

As a percentage of General Government revenue, Western Australia currently holds the highest net debt position of the major States (72.6% in 2016-17). Although the total size of General Government debt in other States is larger than in Western Australia, the debt position in WA is significant in comparison to the current size of its revenue base. Western Australia’s current net debt to revenue position is at record high levels, and leaves the State vulnerable to external shocks (keeping in mind the State’s typically volatile economic base).

General Government sector borrowings increased by $21.7 billion over the period of analysis. General Government sector borrowings are determined by its financing requirement.

The financing requirement is calculated as the net operating balance of the General Government sector less the net acquisition of non-financial assets (or, asset investment). Therefore, falling operating balances and/or rising asset investment can increase the financing requirement.

During the later period of analysis, when the budget had moved into a deficit position the State needed to borrow to fund both its operating deficits and its purchases of capital investments. This followed a steady decline in the operating surplus from 2008-09 as more of the capital program required debt to fund the activity and was in marked contrast to the period 2000-01 to 2007-08 when net debt remained flat as the then operating surplus offset the cost of the capital program (see Figure 9 below).

**Capital investment**

The State’s capital program includes investments in a variety of assets related to health, education, utility infrastructure, and transportation.

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8 ibid
These investments by the General Government sector added $25.9 billion to its financing requirement over the period of analysis, and after accounting for the operating surpluses recorded over the period which helped to meet this financing requirement the General Government sectors borrowings increased by $21.7 billion.

The borrowings undertaken by the State also facilitated capital investment across the rest of the public sector – including among Government Trading Enterprises. Figure 8 confirms that the Water Corporation; Western Power; Main Roads; WA Health; the Housing Authority; Education; and the Public Transport Authority accounted for 83% of total public sector asset investment during the period of analysis. This share is broadly in line with the total share of asset investment accounted for by these agencies and corporations over the years prior to the period of analysis.

Figure 8: Asset Investment by the Western Australia Total Public Sector, by Major Agency / Public Corporation, 2008-09 to 2016-17

As mentioned earlier, while asset investment by the General Government sector was a key contributor to the deterioration in the net debt position of the State over the period of analysis, the weakening in the operating budget also had a significant impact on borrowings over the period of analysis (Figure 9).

As can be seen from this analysis the General Government operating balance is an important contributor to the size of the financing requirement, as operating surpluses reduce the financing requirement. The State’s inability to meet its operating surplus forecasts in successive Budgets explains the increase in both the financing requirement and net debt. Figure 9 shows these relationships over the period since 2000-01 very effectively.

9 Ibid
Figure 9: Western Australia General Government Sector Operating Balance and Asset Investment Program Relative to Change in General Government Net Debt.\textsuperscript{10}

Figure 9 also confirms that asset investment was not curbed to any significant extent, even as economic conditions worsened and revenue sources dried up. Moreover, the budget papers for this period show that the potential for a major structural imbalance in State finances to emerge from growing asset investment was gauged by the Government before General Government revenue fell sharply from 2014-15, exposing this structural imbalance.

Budget commentary concerning the risks regarding the State’s debt load and asset investment program grew more pointed each year as forecast operating balances across budgets began to thin out. However, asset investment was not curbed to any significant extent in proportion to these risks. Indeed, asset investment by the General Government sector totalled $11.2 billion between 2013-14 and 2016-17, just $1.1 billion below the prior four-year period.

The strength of the asset investment program is well illustrated by comparing the per capita public works expenditures across the States. Western Australia had consistently high levels of expenditures on this measure for much of the review period as Figure 10 shows.

Figure 10: Total Public Sector Investment in Non-Financial Assets, Per Capita Basis, Australian States\textsuperscript{11}

\textsuperscript{10} Ibid
\textsuperscript{11} WA Treasury; Respective State Budget Papers; Australian Bureau of Statistics Catalogue 3101.0
Inaction in this regard facilitated the growth in net debt to record high levels. As a share of revenue, the net debt position presented as being manageable. It appeared even more manageable when assessed against the then fiscal target ratio of interest costs to revenue, as revenue growth was strong and the interest rate at which the State could borrow was falling.

As the operating budget weakened and required borrowings to fund recurrent spending increased this risk became more of a concern, with several State budgets canvassing the potential for unsustainable growth in debt before the risk materialised in 2013-14.

A greater focus on the “Total Public Sector Cash Balance” may have highlighted this problem more poignantly. The cash balance is a ‘truer’ measure of the operating position of the State Government as a collective, particularly for decisions on recurrent spending and asset investment by the Expenditure Review Committee (ERC). This is because the cash balance illustrates the total inflows and outflows of the State (including asset investment) across the whole of Government (including the GTE sector) – where the traditional metric of the General Government Sector Net Operating Balance only considers the revenue and expenditure side of the budget for the General Government sector.

It is understood that the Treasury was drawing this measure to the Government’s attention, however, it would seem that until it was too late the Government was of the view that the revenue base wasn’t at risk.

WHERE THE MONEY WENT, AND WHY.

This analysis provides an explanation of where the money from the boom years went during this exceptional period in Western Australia. The reasons why this occurred appeared to include:

• It is irrefutable that the period was one of rich revenue growth. Even with the declines in the last two years’ revenues grew strongly over the period.
• The revenue was spent on recurrent outlays - in higher public sector wages and in key service areas of health, education and law and order. Community services also were beneficiaries.
• The revenue was also spent on major capital programs. Fiona Stanley Hospital was completed, the Perth Children’s Hospital commenced; later the Stadium, Elizabeth Quay and Northbridge projects together with a myriad of projects in the regions.
• In the early years of the first term, debt grew steadily from a low base left by the previous Government. Initially this debt growth was needed to fund only part of the capital works program. That requirement grew as the operating budget surplus shrank under the weight of increasing recurrent commitments.
• The growth in debt, although large, wasn’t seen as a critical issue as revenues were strong and the measures of the affordability of the growing debt presented to the Parliament and the community in the official fiscal targets didn’t suggest an emerging problem.
• Due to a pre-occupation with the diminishing GST share, the Government did not adequately consider the risk to the underlying structure of its revenue base. Its rhetoric that Western Australia’s strong economic growth phase wasn’t a “boom” also appeared to lull it into the belief China’s growth phase would just go on. That meant the increase in the price of iron ore that occurred up to 2013 and the associated large demand for labour as the mines expanded would be sustained.
• The Government had stopped listening to Treasury’s calls for restraint in the capital program and the need for larger operating surpluses to protect against unexpected shocks. The Government’s focus was
on the budget year, rather than the forward estimates, potential falls in commodity prices were not on its radar and for a time even for the GST relativity the view was a rescue plan was around the corner.

- By 2012-13 debt had grown by $14.6 billion since 2007-08 or growth or 400%. The operating surplus was just $249 million at 2012-2013. The State was operating on full throttle. When the iron ore price fell against all predictions in 2014 and again in 2015-16 the State was exposed. Net debt increased another $9.2 billion in two years.
- What was left was an enormous structural deficit on the operating account, new infrastructure, record debt levels and a credit rating that was at AA+.

Post script

In looking at the issue of the burden that has been left from this period, the record level of debt and the associated debt servicing charges are the two most significant components. Current low interest rates are cushioning the impact of this burden. Nevertheless the State General Government sector is having to meet annual interest costs of $895 million in 2017-18 which will grow to $1325 million by 2020-21.

KEY FINDINGS

The assessment undertaken uncovered six key findings which together led to the deterioration in Western Australia’s State finances between 2008-09 and 2016-17. These findings form the basis of a series of recommendations to assist the current and future Western Australia State Governments in managing Western Australia’s State finances. The findings are as follows:

1. Recurrent expenditure was allowed to build to unsustainable levels early.
   Recurrent spending growth was high in the first term of Government. This was partially masked by surging royalty revenue, which was not clawed back until after the damage had been done. This built the base of the State’s public sector to an unsustainable level. It made the task of financial restraint more difficult.

2. A failure to budget for Western Australia’s unique economic and financial circumstances.
   Western Australia is a small, open economy, exposed to global markets and the machinations of a federal system of government. The trends that emerged in the Western Australia General Government operating budget during the period of analysis reveal a mismatch between the sources of Western Australia State Government revenue and the drivers of State Government outlays. While Western Australia’s income base can ‘turn on a dime’, its outlays cannot. This is a root cause of many of the State’s financial troubles.

3. Western Australia Treasury was cognisant of most major risks to the State’s financial outlook, but its advice was ignored.
   Treasury warned of potential negative impact on the State’s finances of the Royalties for Regions program prior to the formation of Government in 2008. Treasury also consistently predicted the fall in Western Australia’s share of GST revenue throughout the term of government. Its concerns with these matters, and the pace of the capital works program, were not given sufficient weight.

4. The 2014-15 commodity price shock was not foreseen, and had significant implications.
   In these times of high economic uncertainty, the State Government would have benefitted from greater sensitivity analysis of possible budget outcomes. Evaluating and understanding adverse low-probability-but-high-impact risks at the margin of its central forecasts would have been beneficial.
5. **There was a lack of independent thought and challenge.**

Although the process of setting economic forecasts for the Budget year involves a range of techniques, few involve any significant external independent challenge and review. Additionally, although Western Australia Treasury deployed various measures to assess its performance in economic forecasting, these involved only in-house analysis and review.

6. **The State invested too much, too quickly, during the boom.**

Although population growth during the period of analysis may have warranted investment in the State’s asset base, decision-makers needed to be more conservative and questioning in their assessment of the need for long-term asset investment. The Government did address this as the State’s operating position began to weaken, but the long tail of the initial phase of investment decisions meant it was too little, too late.

**RECOMMENDATIONS**

The analysis contained in this report represents the visualisation and discussion of many of the matters of detail the Special Inquirer has discovered during this Inquiry. As such, the recommendations weaved throughout Volume 1 of this report deal with many of these findings. However, there is a range of particular matters that should be addressed resulting from the analysis conducted. These are presented below.

1. **Adopting a budget strategy in keeping with the State’s fundamentals.**

   Western Australia’s state finances are somewhat unique, with high exposure to international commodity markets. The State does not adequately address this in its overarching approach to financial management. It requires a more conservative approach to the treatment of key lines of revenue – particularly royalties – and acknowledgement that the State has a high per capita investment requirement to facilitate economic growth and development. As a result, the State must deliver regular, sizeable operating surpluses from the General Government sector.

2. **Augmenting the capability of Treasury to better deal with the State’s forecasting needs.**

   This report has demonstrated Western Australia Treasury’s forecasting performance could be improved. Consideration should be given to expanding the capacity of the Economics and Revenue Forecasting capability of Treasury, to improve the quality of forecasts and advice the State Government receives regarding the economic and financial outlook. Treasury should also regularly subject its forecasting models and performance to external review.

3. **Quantification of downside economic and financial risks.**

   Given the volatility in the State’s economic base and its impact on State revenue, the State Government should develop and publish sensitivity analyses, which canvas downside budget scenarios for the Expenditure Review Committee as part of the annual Budget process. This analysis, which should be published in the annual Budget, should illustrate the impact on State Budget metrics if given spending and investment decisions are overlaid on a lower-than-baseline outlook for economic growth and / or State revenue. This could be modelled on the Reserve Bank of Australia’s bi-annual Financial Stability Review in terms of its intent and approach (although it need not be either as frequent or as exhaustive as that Review).

4. **Broader engagement and consultation in forecasting.**

   The State Government should facilitate a broadening in the range of stakeholders Western Australia Treasury engages with as part of its economic forecasting process, particularly with regard to local industry, and China-based bureaus of the State and Commonwealth Governments. This includes the Western Australia Government trade office in China (operated within the Department of Jobs, Tourism, Science and Innovation) and the China offices of the Australian Trade and Investment Commission (Austrade).
WHOLE OF GOVERNMENT RECOMMENDATIONS

Each of the chapters in Volumes 1 and 2 have their own sets of findings and recommendations. The recommendations in Volume 2 are generally aimed at individual agencies for each project. The recommendations in Volume 1 are intended for implementation at the whole-of-government level.

Following are extracts of recommendations from individual reports. The recommendations are largely from Volume 1 but recommendations from Volume 2 have been included where these should be implemented across the sector. For more information about recommendations on individual projects, see the relevant chapters.

It is essential that the Department of the Premier and Cabinet be charged with overall responsibility for the implementation of these recommendations to ensure integrity in their implementation.

TOP 12 RECOMMENDATION THEMES

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The Royalties for Regions program must be run with a defined strategy, plan and set of priorities. It must form part of the annual budget process with any vestiges of the shadow budget process eradicated.

The roles and responsibilities of the Department of Primary Industries and Regional Development, the Regional Development Trust, the Regional Development Council and the Regional Development Commissions require definition.

The Government must consider administrative reform to elevate the role of the Regional Development Trust to strengthen its role beyond the provision of advice to the Minister for Regional Development. This should result in the Regional Development Trust playing a more active, independent role in project prioritisation and selection, strategy development and assessment of the performance of the Regional Development portfolio at large.

Cabinet must rationalise the approval process for Royalties for Regions projects and reconsider the $1 billion expenditure cap on the Fund as it gives rise to undue haste and poor decision making.

The program should be directed to follow the requirements of project management according to the Strategic Asset Management Framework and present detailed business cases to Cabinet with Treasury sign off.

The Department of Treasury must have formal involvement in Royalties for Regions project selection and prioritisation. This would necessitate a change in the role of the Department of Primary Industries and Regional Development to be more focussed on coordinating regional development initiatives across government. The Department of Treasury’s role enhancement must include ensuring the Royalties for Regions fund is managed in line with the remainder of the Consolidated Account.

Project outcomes and benefits realisation should be reported to the community (See recommendation VI).

Consideration should be given to the removal of the hypothecated nature of the Royalties for Regions funding. The allocation of funds should be determined according to the whole-of-State priorities whereby submissions for project funding compete with other projects.
<table>
<thead>
<tr>
<th>Recommendation theme</th>
<th>Responsibility</th>
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<tbody>
<tr>
<td><strong>II</strong> PLANNING</td>
<td>Government / DPC</td>
</tr>
<tr>
<td>The Government must determine and publish key strategic priorities and the Premier should discuss these priorities frequently with Directors General. The Special Inquirer supports the establishment of Infrastructure WA.</td>
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</tr>
<tr>
<td><strong>III</strong> CABINET PROTOCOLS</td>
<td>DPC</td>
</tr>
<tr>
<td>The Government must not compromise on the quality of information contained in Cabinet Submissions.</td>
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<tr>
<td>The Cabinet Office must be instructed to ensure that all agencies adhere to all protocols at all times. These protocols must include that all agencies which have a connection with the Submission are consulted before the Submission is accepted by the Cabinet Office.</td>
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</tr>
<tr>
<td><strong>IV</strong> CENTRAL AGENCY RESOURCING</td>
<td>Cabinet / Central agencies</td>
</tr>
<tr>
<td>Central agencies must be more strongly resourced and a more coordinated effort must be made for these agencies to work together. Directors General and Chief Executive Officers should be encouraged to give their Ministers ‘frank and fearless advice’ and if they work together to form that advice, and present it with unity, it is more likely to be accepted.</td>
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<tr>
<td><strong>V</strong> GOVERNMENT TRADING ENTERPRISES AND QUASI-COMMERCIAL ENTITIES</td>
<td>Cabinet / Treasury / DPC</td>
</tr>
<tr>
<td>Government must commit to a review of the structure of government’s commercial and quasi-commercial entities to identify appropriate governance arrangements. Consideration should be given to the introduction of legislative reform to standardise and strengthen governance arrangements and to establish formal oversight by the Department of Treasury to monitor performance.</td>
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<tr>
<td><strong>VI</strong> TRANSPARENCY</td>
<td>Cabinet / DPC</td>
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<tr>
<td>Information about Government programs and projects should be open for scrutiny. Based on shared principles, the Government should develop a transparency framework for reporting details of major projects. The framework must require continuous disclosure.</td>
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<tr>
<td><strong>VII</strong> A Parliamentary Budget Office should be established to enhance transparency of major projects and public understanding of the financial implications of election commitments, and the budget and fiscal policy settings.</td>
<td>DPC</td>
</tr>
<tr>
<td><strong>VIII</strong> FINANCIAL MANAGEMENT</td>
<td>Cabinet / Treasury / DPC</td>
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<tr>
<td>The Department of Treasury must be reinstated as the economic and financial leader, advisor, controller and policy maker across the public sector. This will entail addressing resourcing issues. It is essential that Cabinet supports Treasury in the role.</td>
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<tr>
<td><strong>IX</strong></td>
<td>Treasury</td>
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<tr>
<td>The Department of Treasury should be given the authority to examine the need for reform in financial management. This would include review of the system of hypothecated funding, budget processes, the parameters for the Mid-Year Review, and the application of the Strategic Asset Management Framework.</td>
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<td>Recommendation theme</td>
<td>Responsibility</td>
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<tr>
<td><strong>PROJECT MANAGEMENT</strong></td>
<td>Finance / DPC</td>
</tr>
<tr>
<td>X The Department of Finance should become the lead agency for project management. This would involve leading public works projects or providing consistent principles, standards and methods to agencies undertaking their own works. The Department of Finance’s role as functional leader should include provision of guidance, support, education and expertise to improve public sector capability in project management.</td>
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<tr>
<td><strong>PROCUREMENT</strong></td>
<td>Cabinet / Finance / DPC</td>
</tr>
<tr>
<td>XI The procurement legislative framework should be streamlined into a single, cohesive Procurement Act under the delegation of authority for procurement to a single designated Minister. Consolidation of procurement leadership under the Department of Finance should provide a one-stop-shop for advice, support, education, resource allocation, provision of standards, policy and practice, the identification of collaboration opportunities, and the centralisation of data and information.</td>
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<tr>
<td><strong>CONTRACT MANAGEMENT</strong></td>
<td>State Solicitor’s Office / DPC</td>
</tr>
<tr>
<td>XII Government agencies should be required to inform the State Solicitor’s Office of intentions to enter into material contract negotiations. Agencies should be required to maintain a contract risk register and a litigation risk register and provide quarterly reporting to the Cabinet. Materiality thresholds to support this reporting must be established.</td>
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</table>
**RECOMMENDATIONS FOR GOVERNMENT DECISION AND IMPLEMENTATION**

It is recognised that all of the following recommendations need to be agreed by Government. The following tables show the responsible agencies should the recommendations be accepted.

Cabinet and the Department of the Premier and Cabinet

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<thead>
<tr>
<th>Area for improvement</th>
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<tr>
<td><strong>GOVERNANCE</strong></td>
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**Royalties for Regions**

- Cabinet’s oversight of the Royalties for Regions program must be incorporated into the budget process so that any semblance of the dual budget process is eradicated.
- Cabinet must rationalise the approval process for Royalty for Regions projects if these projects continue to be numerous and a mixture of large and small projects. The Expenditure Review Committee must be responsible for reviewing the smaller projects. These can then be noted by Cabinet.
- A comprehensive plan must be developed to guide the Royalties for Regions program. The plan should set a clear purpose for the program, strategic actions over a five and ten year horizon, and measurable indicators of benefits achieved. The plan should be developed through detailed consultation with the regions and in consultation with Infrastructure WA.
- The Government must consider administrative reform to elevate the role of the Regional Development Trust to strengthen its role beyond the provision of advice to the Minister for Regional Development. This should result in the Regional Development Trust playing a more active, independent role in project prioritisation and selection, strategy development and assessment of the performance of the Regional Development portfolio at large.
- The Government must reconsider the $1 billion expenditure cap on the Fund as it gives rise to undue haste and poor decision making as the year comes to an end with unallocated money remaining in the Fund.
- The Department of Treasury must have formal involvement in Royalties for Regions project selection and prioritisation. This would necessitate a change in the role of the Department of Primary Industries and Regional Development to be more focused on coordinating regional development initiatives across government. The Department of Treasury’s role enhancement must include ensuring the Royalties for Regions fund is managed in line with the remainder of the Consolidated Account.
- The ongoing role of the Regional Development Commissions should be reviewed as part of the Machinery of Government changes. The Regional Development Commissions should operate in a manner that holds the best interests of all regional Western Australians as the highest priority, rather than unproductively guarding their own region’s interests.

**Planning and priorities**

- The Government must determine, publish and regularly update key strategic priorities. The Premier should discuss these priorities with Directors General frequently.
- Government must develop a cohesive, integrated, and prioritised infrastructure plan for the State. The Special Inquirer supports the establishment of Infrastructure WA.
- The Department of Finance should become the lead agency for project management. This would involve leading projects or providing consistent principles, standards and methods to agencies undertaking their own works.
- For major projects with dual Minister accountability, a formal committee of Cabinet should be established to ensure objective consultation and consensus.
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<tr>
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<tr>
<td>Strengthening and supporting Cabinet</td>
<td>The Cabinet Office must be instructed to ensure that all agencies with a relevant interest or a genuine need to know are fully consulted before Cabinet Submissions are accepted by the Cabinet Office. This should be confirmed by Directors General personally signing off on the process.</td>
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<td>Cabinet must rebuild the integrity of the annual budget process. To do this, it must consider measures which require and enable Ministers to meet new funding pressures from within approved budget limits.</td>
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<td>Cabinet must expand its agendas to include matters that enable Ministers to monitor key risks that may be present or emerging in areas such as contract management and litigation management.</td>
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<tr>
<td>Government Trading Enterprises</td>
<td>Cabinet must establish a Ministerial role in the nature of an “Ownership Minister” to ensure that Government Trading Enterprises achieve appropriate financial performance and have adequate risk management practices.</td>
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<tr>
<td>PUBLIC SECTOR CAPABILITY</td>
<td>A program of rebuilding the resourcing and authority of the central agencies must be established immediately. Given the budget pressures it is recognised that securing increased funding may take some time.</td>
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<td>The State Solicitor’s Office’s status could be enhanced by creating it as a separate office. All legal advice relating to material matters or matters of high risk obtained by State agencies, including Government Trading Enterprises, must be discussed with the State Solicitor’s Office. The State Solicitor must have access to all legal advice provided to State agencies.</td>
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<td>The powers of the Auditor General must be extended - subject to appropriate safeguards being established - to enable access to Cabinet papers and documents which are the subject of legal professional privilege.</td>
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<tr>
<td>TRANSPARENCY</td>
<td>Information about Government programs and projects should be open for scrutiny. This includes governance arrangements, project business cases, risk management information, procurement planning and contracts, options analysis, financial analysis, project progress reporting, and project closure reports with lessons learned.</td>
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<td>The principles of transparency as contained in the Transparency chapter should be championed by Cabinet as adding value to government outcomes. Ministers wishing to redact information from tabled documents will need to provide good reasons at the time of refusing to release that information to make sure that transparency prevails – and is seen to do so.</td>
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<td>A transparency framework tying together the principles, measures for oversight such as an Investor Confidence Rating and/or Parliamentary Budget Office and continuous disclosure requirements must be determined and published by Government.</td>
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<td>Contracts entered into by government should be publicly available for viewing and contract details for major construction projects greater than $5 million and material supply contracts should be tabled in Parliament.</td>
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<tr>
<td>PROCUREMENT AND CONTRACT MANAGEMENT</td>
<td>Streamlining the procurement legislative framework into a single, cohesive Procurement Act would address significantly the Special Inquirer’s findings on procurement.</td>
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<td>Authority for procurement should be delegated to a single designated Minister.</td>
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Cabinet and the Department of Treasury

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<tbody>
<tr>
<td>FINANCIAL MANAGEMENT AND BUDGET STRATEGY</td>
<td>Cabinet must adopt a budget strategy in keeping with the State’s fundamentals. Western Australia’s state finances are somewhat unique with high exposure to international commodity markets. As a result, the State must deliver regular, sizeable operating surpluses from the General Government sector.</td>
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<td>The capability of Treasury must be augmented to better deal with the State’s forecasting needs. Consideration should be given to expanding the capacity of the Economics and Revenue Forecasting capability of Treasury, to improve the quality of forecasts and advice the State Government receives regarding the economic and financial outlook. Treasury should also regularly subject its forecasting models and performance to external review.</td>
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<td>Given the volatility in the State’s economic base and its impact on revenue, the State Government should develop and publish sensitivity analyses, which canvas downside budget scenarios for the Expenditure Review Committee as part of the annual Budget process. This analysis should be published in the annual Budget and should illustrate the impact on the State Budget metrics if given spending and investment decisions are overlaid on a lower-than-baseline outlook for economic growth and/or revenue. This could be modelled on the Reserve Bank of Australia’s bi-annual Financial Stability Review in terms of its intent and approach.</td>
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<td>Government must facilitate a broadening in the range of stakeholders Western Australian Treasury engages with as part of its economic forecasting process, particularly with regard to local industry, and China-based bureaus of the State and Commonwealth Governments. This includes the Western Australian Government trade office in China and the China offices of the Australian Trade and Investment Commission (Austrade).</td>
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RECOMMENDATIONS BY RESPONSIBLE AGENCY

The Department of the Premier and Cabinet should oversee all implementations.

All agencies

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<thead>
<tr>
<th>Area for improvement</th>
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</thead>
<tbody>
<tr>
<td>Governance</td>
<td>Directors General must develop their strategic priorities in alignment with those of the Government and discuss and seek approval of those priorities with their Ministers.</td>
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<td>The 10-day rule for seeking Cabinet coordination comments must be observed. Coordination comments must be checked by Directors General to ensure Cabinet has all information relevant to the submission.</td>
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<td>Departments must consult with Treasury early in the process of preparing Cabinet Submissions with financial implications for the State.</td>
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<td>All Cabinet Submissions with a financial impact for the State must be submitted through the Expenditure Review Committee. No Submission with a financial impact should be allowed to go to Cabinet without an Expenditure Review Committee decision.</td>
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<td>Area for improvement</td>
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<tr>
<td><strong>Transparency</strong></td>
<td>All central government and service agencies must act in an exemplary manner with respect to transparency. They must enforce this approach among all other government entities, including Government Trading Enterprises.</td>
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<td>The way in which government projects are managed needs to promote accountability. The oversight mechanism and the leadership within the public sector should work collaboratively to this end.</td>
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<td></td>
<td>Directors General and Chief Executive Officers of the public service should collaboratively form the project accountability framework. It will be important to determine the information to be shared and how the public will be informed.</td>
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<td>All entities including Government Trading Enterprises should use the Tenders WA system to record tender and contract award details for government projects.</td>
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<td>Contracts entered into by government should be publicly available for viewing and contract details for major construction projects greater than $5 million and material supply contracts should be tabled in Parliament.</td>
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<tr>
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<td>All major project information should be placed on relevant agencies’ websites once the information has been tabled in Parliament.</td>
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<tr>
<td><strong>Land Asset Sales Program</strong></td>
<td>Greater transparency around the sale of land assets will enhance accountability. Accordingly:</td>
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<td>• all government agencies (including Government Trading Enterprises) be required to provide all information on their proposed and actual land sales to the Department of Planning, Lands and Heritage for publication;</td>
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<td>• proceeds from land sales should be published alongside pre-sale market valuations; and</td>
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<td>• Government Trading Enterprises should include proposed land sale information in their annual Strategic Development Plans. Other statutory bodies should advise the Department of Treasury and the Department of Planning, Lands and Heritage of their plans as part of the annual State budget process.</td>
</tr>
<tr>
<td><strong>Use of Temporary Personnel Common Use Arrangement</strong></td>
<td>All public sector agencies must review the adequacy of the systems and processes they use to record and analyse temporary personnel use. Where contracts have been in place for longer than six months, agencies must ensure they comply with Approved Procedure 5 which includes requirements around the conditions where it would be appropriate for an agency to enter into a temporary personnel contract.</td>
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<td>Agencies should discuss with the Public Sector Commission their needs in relation to permanent staff to fill reception and other administrative functions that are required on a permanent basis but where they do not have substantive positions available.</td>
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<td>Where agencies have the need for long-term contracts for personnel services, they should explore alternative service options in the market to ensure they are receiving the best value for money.</td>
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<tr>
<td><strong>GovNext-ICT Project</strong></td>
<td>Gateway Reviews must be undertaken for all projects with an estimated cost of more than $10 million.</td>
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<td><strong>Governance</strong></td>
<td>The Steering Committees for major projects must be supported by strong governance arrangements, including clear chair roles and responsibilities, single point Ministerial accountabilities, agency representation by Directors General and a Secretariat. Steering Committees must have oversight of all aspects of projects. The transfer of key aspects — for example, transport — to a separate process, as occurred with Perth Stadium, should not be repeated.</td>
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<td>The Transport portfolio should be subject to review to introduce greater transparency in procurement and contract management, increased communication with external parties and more coherent and integrated policy development and administrative practices need to be introduced.</td>
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<td>The Main Roads Act should be reviewed and revised to include contemporary provisions.</td>
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<td>Intervention from the Department of the Premier and Cabinet is required to resolve promptly relationship issues that arise between government departments at the project’s executive governance level.</td>
</tr>
<tr>
<td><strong>Public Sector Capability</strong></td>
<td>Infrastructure WA should be formed to undertake periodic and detailed assessments of the State’s infrastructure base and of future infrastructure requirements across the short (four years), medium (ten years) and longer term.</td>
</tr>
<tr>
<td><strong>Transparency</strong></td>
<td>Government needs a precise working definition of commercial-in-confidence approved by Cabinet. The definition will need to be well understood and agreed to by the Government and the public sector and be understandable to the community. Active engagement with government agencies and shared understanding with all stakeholders will be paramount to achieving this objective.</td>
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<td>A transparency framework tying together the principles, measures for oversight such as those described in the Transparency chapter (Investor Confidence Rating) and continuous disclosure must be determined and published by government.</td>
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<td>Guidelines that define the types of information that can be released and when it can be publicly released should be included in the scope of reporting. This will provide the public with clarity about why information is withheld.</td>
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<td>The way in which government projects are managed needs to promote accountability. The oversight mechanism and the leadership within the public sector should work collaboratively to this end.</td>
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<td>Principles for exemptions to such release of contract information should be developed and agreed upon.</td>
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<td>Measures to change the default response to requests for information about projects from ‘no’ to ‘yes’ should be taken. There is a need for cultural change and leadership to promote transparency. A government that wishes to build trust through accountability must be fully transparent, and be seen to be transparent.</td>
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<tr>
<td><strong>GOVERNANCE</strong></td>
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<tr>
<td>Government Trading Enterprises</td>
<td>The governance and accountability arrangements for Government Trading Enterprises and other statutory authorities must be standardised, to ensure the objectives of these entities – between commercial and non-commercial requirements – are clear, how Ministerial directions are treated and reported and how the entities interface with the budget process. Legislative changes should follow as necessary. The requirements on Government Trading Enterprises to produce annual Statements of Corporate Intent and Strategic Development Plans, and the content of those statements need review. Government Trading Enterprises and other major public corporations should be required to publish statements containing their projected profit and loss statements and balance sheets as well as their plans for major activities and infrastructure developments. The process for appointing board directors must be reviewed so that the composition and structure of the boards of Government Trading Enterprises are the best fit for the enterprise. The chair must be consulted in the appointment process and Cabinet should review its practices to ensure transparency on selection and appointment processes. It should be mandatory for board members to have knowledge of the processes and workings of State Government. Government should commit to undertaking a review of the structure of government’s commercial and quasi-commercial entities to identify appropriate governance arrangement, introduce legislative reform to standardise and strengthen governance arrangements, and establish an oversight and advisory unit within the Department of Treasury to implement the reform program and increase the effectiveness of ongoing performance of monitoring of Government Trading Enterprises. Treasury must be required to undertake an enhanced monitoring role over the Government Trading Enterprises and must be resourced adequately by the Government Trading Enterprises to undertake this role. Government should give consideration to appointing a Shareholder Minister for Government Trading Enterprises to drive accountability through the establishment of robust performance agreements and indicators.</td>
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<tr>
<td>Public sector capability</td>
<td>A training program needs to be developed by Treasury to enhance understanding of the provisions of the Financial Management Act 2006 and its associated regulations. The Government must review its management of hypothecated revenues. As a default position these revenues need to be considered in the same manner as consolidated revenues subject to budget review. If necessary legislative changes to address these issues need to be pursued.</td>
</tr>
<tr>
<td>Project management</td>
<td>Government should consider implementing a major projects reporting regime similar to that of New Zealand Treasury. The Department of Treasury should retain copies of key submissions and approvals project documents to enable effective tracking of project development and oversight of agency compliance with the Strategic Asset Management Framework.</td>
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### State Solicitor’s Office

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<tr>
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<tbody>
<tr>
<td><strong>Procurement and Contract management</strong></td>
<td>Government agencies should be required to inform the State Solicitor’s Office of their intentions to enter into material or high risk contract negotiations.</td>
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<td>Policy should be developed to require all agencies to maintain a contract risk register and to provide the information to the State Solicitor’s Office quarterly for reporting to Cabinet.</td>
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<td>Policy should be developed to require all agencies to maintain a litigation risk register for all contracts and to provide the information to the State Solicitor’s Office quarterly for reporting to Cabinet.</td>
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<td>Policy on materiality thresholds for contract and litigation risk registers must be developed.</td>
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<tr>
<td><strong>Muja A and B Project</strong></td>
<td>Joint ventures where a State corporation and a private company are sharing 50 per cent interest each should not be undertaken. If a 50 per cent split is not avoidable the joint venture arrangement must have a deadlock breaking arrangement which resolves all deadlocks in favour of the State’s position.</td>
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<td>Joint Ventures should only be undertaken where the State has control and must follow detailed due diligence, assessment of the financial standing of the third party and a risk allocation assessment have been conducted. Consultation with the Department of Treasury must be initiated at the initial planning stage to investigate the possible implications for the State. Ministerial approval must be sought prior to any Memorandum of Understanding or Heads of Agreement discussions with the proposed joint venture partner.</td>
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<td>A governance structure, reporting requirement and communication strategy must be established between the joint venture, the corporation board and the responsible Minister from the beginning. There should be continuous monitoring of joint venture partners once the partnership has been established.</td>
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<tr>
<td><strong>Perth Children’s Hospital</strong></td>
<td>When developing contracts for future infrastructure requirements, the State Solicitor’s Office is to consider additional levers to encourage the Managing Contractor (or similar entity) to provide a contractually compliant construction program.</td>
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### Department of Finance

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<tr>
<td><strong>Governance</strong></td>
<td>Strategic Projects must continue to be responsible for managing the principal contractor on major projects.</td>
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<td></td>
<td>Steering Committees for major projects must be supported by strong governance arrangements including clear chair roles and responsibilities, single point Ministerial accountabilities, agency representation by Directors General and a Secretariat function. Steering Committees must have oversight of all aspects of projects. The transfer of key aspects (for example transport) to a separate process, as occurred with the Stadium, should not be repeated.</td>
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<td>Major projects must have a detailed planning phase overseen by the Steering Committee. Public announcements of sensitive design, project costs and project timeframes should only occur at the completion of this detailed planning phase.</td>
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<td>The Public Works Act 1902 should be replaced by more efficient and effective legislation while retaining the role of the Minister for Works.</td>
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| Transparency         | All entities including Government Trading Enterprises should use the Tenders WA system to record tender and contract award details for government projects.  
Contracts entered into by government should be publicly available for viewing and contract details for major construction projects greater than $5 million and supply contracts greater than $2 million should be tabled in Parliament.  
All such information should be placed on the relevant agencies’ website after tabling in Parliament.  
The government will need to work with suppliers to ensure that suppliers understand that transparency is a key objective of government. If suppliers support government, there will be less reliance on commercial-in-confidence and other confidentiality clauses in contracts. |
| Project management   | Government must develop a cohesive, integrated, and prioritised infrastructure plan for the State. The Department of Finance should become the lead agency for project management. This would involve it leading projects or providing consistent principles, standards and methods to agencies undertaking their own works.  
The Department of Finance must provide functional leadership, guidance, support, tools, education and expertise across government based on the Strategic Asset Management Framework. Implementation of this recommendation would increase mobility of project resources across government and allow for rapid identification of skills gaps that can quickly be addressed.  
A focussed effort must be made to build skills in risk management as part of the enhanced training program across the Public Sector as part of enhanced training programs for the Public Service.  
To enhance transparency and accountability, the Special Inquirer repeats the recommendations of the Auditor General from 2012 - Government should consider options to provide regular and enhanced reporting to Parliament on the status of major capital projects. These options might include a consolidated report or coordinated reporting. Performance should be reported against the original approved timeline and budget rather than the practice of inconsistent and disparate information provided on individual agency websites or annual reports.  
The land assembly and approvals functions for major projects should be centralised under the leadership of the Department of Finance. |
| Procurement & Contract Management | The procurement legislative framework must be streamlined into a single, cohesive Procurement Act.  
Consolidation of procurement and the appointment of the Department of Finance as the functional leader and a one-stop-shop for support should incorporate the following elements:  
• a contemporary Procurement Act with important social and policy objectives enshrined;  
• removal of duplication and inconsistency in procurement policy;  
• retain agencies’ autonomy and accountability and reduce red tape;  
• promote transparency, equity and opportunity for local businesses;  
• education programs for all agencies to build capability in procurement, contract development, negotiations, contract management and supplier performance management;  
• efficient allocation of resources between goods, services and works procurement under a joint framework;  
• provision of standards, policy and practice across government;  
• collaboration with major buying agencies and agencies responsible for Aboriginal policy, training and infrastructure; and  
• centralisation of procurement and contract management data and information to allow for ongoing analysis and the identification of opportunities for aggregated buying, improvements in practice and capability gaps that require education. |
<table>
<thead>
<tr>
<th>Area for improvement</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perth Children’s Hospital</td>
<td>The State’s internal design review process must include the receiving agency’s clear and formal approval of the final design documentation at each of the specified design stages. A representative from Strategic Projects, or the equivalent entity, should sit on the project’s peak project governing committee.</td>
</tr>
<tr>
<td>Swan River Pedestrian Bridge Project</td>
<td>Where Steering Committees establish project control groups to provide oversight of a particular aspect of an overall project, clear delineation of roles, obligations, expectations and reporting arrangements should be documented in a project control group charter approved by the steering committee.</td>
</tr>
<tr>
<td>GovNext-ICT Project</td>
<td>The Department of Finance should undertake an evaluation review of all agency GovNext-ICT Gateway Reviews undertaken, and report to Government accordingly. The Department of Finance evaluation review should focus on the lessons learned and systemic issues which are apparent. It should provide recommendations for further refinement of the GovNext-ICT program beyond 2018. To achieve the efficiencies targeted under GovNext-ICT, Government will need to reaffirm its commitment to the program and provide additional resources for the establishment of a Program Management Office. This will assist with whole-of-government coordination. Government should consider establishing a centrally controlled transition fund to support agencies, which can be used for planning and implementation over a three-year period. This could be coordinated by the Program Management Office. New governance arrangements are required, including the establishment of a Program Board to oversee whole-of-government implementation through the Program Management Office, with an initial focus on the larger agencies. The Program Board is to be accountable to the Directors General ICT Council and should provide quarterly status reports with clear articulation of risks and milestones. The Directors General ICT Council needs to establish itself more effectively as a steering group to oversee the implementation of the Digital WA strategy across the Western Australian public sector. The Directors General ICT Council must provide a biannual report to Government on implementation progress, including benefits realisation.</td>
</tr>
</tbody>
</table>

**Public Sector Commission**

<table>
<thead>
<tr>
<th>Area for improvement</th>
<th>Recommendation</th>
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</thead>
<tbody>
<tr>
<td>Governance</td>
<td>The Public Sector Commission must ensure all departments have core governance practices applying through their organisations and the Auditor General should audit the consistency of these arrangements within 12 months. The Public Sector Commission should be required to develop a capability statement to sit beneath the Public Sector Management Act 1994 to elaborate on the requirements of Part 3B s.29 (1)(a) of the Act, in which chief executive officers and chief employees are charged with provision of leadership, strategic direction and a focus on results for that department or organisation, so that the expectations on chief executive officers and chief employees across government are clearly understood.</td>
</tr>
<tr>
<td>Public sector capability</td>
<td>The training opportunities available to public servants and politicians need to be enhanced to include skill development in financial management, risk management, business case development and project and contract management. The public sector must renew its commitment to the recruitment of graduates.</td>
</tr>
</tbody>
</table>
### Department of Finance and Public Sector Commission

<table>
<thead>
<tr>
<th>Area for improvement</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of Temporary Personnel Common Use Arrangement</td>
<td>The Department of Finance and the Public Sector Commission should jointly develop a simple framework that allows all agencies to provide reporting on their use and management of contracts for temporary personnel and information and communications technology services. The framework will allow agencies to provide verifiable reports bi-annually.</td>
</tr>
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### Office of the Auditor General

<table>
<thead>
<tr>
<th>Area for improvement</th>
<th>Recommendation</th>
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</thead>
<tbody>
<tr>
<td>Governance</td>
<td>The Auditor General should be required to undertake triennial governance audits of departments as part of their annual financial audit, with the recommendations from these audits being included in chief executive officers' and chief employees' performance indicators.</td>
</tr>
<tr>
<td>Public sector capability</td>
<td>The records management and data management practices of the public sector need to be scrutinised more regularly by the Auditor General. The quality of meeting minutes at all levels, but especially at board level across the State’s corporate bodies and from meetings with Ministers, must be reviewed to ensure that they provide an understandable and complete record of meetings and decisions taken.</td>
</tr>
</tbody>
</table>

### Department of Planning, Lands and Heritage

<table>
<thead>
<tr>
<th>Area for improvement</th>
<th>Recommendation</th>
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</thead>
</table>
| Land Asset Sales Program | An integrated whole-of-government land management model should be developed by the Department of Planning, Lands and Heritage which covers all public sector agencies (including Government Trading Enterprises). The model should:  
• use the Strategic Asset Management Framework land management module to identify all surplus land;  
• ensure agencies do not landbank;  
• require all agencies’ business cases for proposed land sales to be reviewed by the Department of Planning, Lands and Heritage;  
• set requirements for agencies to obtain land valuations (for freehold and Crown land) prior to sale processes commencing;  
• record costs for de-constraining land and land sales;  
• ensure land sales are conducted to maximise sales proceeds; and  
• manage the publication of valuations, cost of selling (including de-constraining and divestment costs), and sales revenue with protections for sensitive information as appropriate.  
Consistent with the Department of Planning, Lands and Heritage’s integrated land management model, the authority of the Land Asset Sales Program should be broadened and the program renamed to include responsibility for the development of a public sector state-wide land sales program. |
### Department of Primary Industries and Regional Development

<table>
<thead>
<tr>
<th>Area for improvement</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>Administration of the Royalties for Regions program must be improved by the Department of Primary Industries and Regional Development.</td>
</tr>
<tr>
<td></td>
<td>The Department must work to reduce the number of proposals requiring Cabinet approval.</td>
</tr>
<tr>
<td></td>
<td>The Department must manage the quality of business cases developed in support of projects and programs with greater rigour. These business cases must be consistent with the Strategic Asset Management Framework.</td>
</tr>
<tr>
<td>Public sector capability</td>
<td>The Department must advance the capability of staff within the Regional Development portfolio, and improve the linkage between the regional investment business unit within Department of Primary Industries and Regional Development and the Department of Treasury.</td>
</tr>
</tbody>
</table>
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APPENDIX A

TERMS OF REFERENCE

The Inquiry is to examine and report individually on the programs and projects listed in the appendix, including analysis of contracts as necessary, entered into by the State Government between 2008 and 11 March 2017 and focusing on the governance arrangements and decision-making processes associated with these including:

1. Their financial consequences – including any ongoing liabilities and obligations (intended or otherwise), and whether those undertakings represented value for money;
2. The adequacy of the decision making processes leading to the awarding of the projects, including the adequacy of their supporting business cases and assessments of risks to taxpayer funds;
3. The adequacy of their procurement processes;
4. Whether reasonable value for money outcomes were achieved;
5. The validity of the use of ‘commercial-in-confidence’ reasons to justify non-disclosure to the public of contract information and whether that justification was valid (in the public interest) in the particular circumstances.

Following examination and reporting on each of the projects listed in the appendix, the Inquirer is to provide a final report including:

6. A clear and concise explanation for the community of the key drivers or failures in decision making processes, including identifying where significant costs have been incurred, that led to the State’s operating deficits and unsustainable debt position;
7. Lessons learned from the undertakings listed in the appendix;
8. Any measures that should be introduced by the State Government to ensure greater rigour and transparency in decision making and procurement processes to ensure the highest value for money outcomes from government programs, projects and contracts.
Land and Major Projects
1. Elizabeth Quay
2. Perth Stadium including Swan River Pedestrian Bridge
3. Land Assets Sales Program
4. Ord River Irrigation Expansion Project – Contracts

Royalties for Regions
5. Pilbara Accommodation
6. Pilbara Underground Power Project
7. The Ningaloo Centre
8. Bulgarra regional sports complex
9. Wanangkura Stadium (Port Hedland multipurpose recreation centre)

Health
10. Fiona Stanley Hospital
11. Perth Children’s Hospital
12. QEII Hospital parking
13. Karratha Hospital relocation
14. St John of God Midland Public Hospital
15. Department of Health – major IT procurement
16. Outsourcing of non-clinical services
17. NurseWest arrangement

Energy Utilities
18. Muja Power Station
19. Synergy – Billing System
20. Synergy and Western Power – contracts
21. Western Power – Woodlands transmission line
22. Western Power – Project Vista
23. Road Safety Commission and RugbyWA partnership
24. Renewable Energy Buyback Scheme*
25. Common Use Arrangement for Temporary Personnel Services
26. GovNext ICT Project

*Note: Item 24 should read ‘Net Feed-in Tariff’ following the issuing of an addendum on 6 November 2017 by the Acting Public Sector Commissioner.
20 October 2017

Hon Colin Barnett MLA
Member for Cottesloe
Parliament House
Harvest Terrace
WEST PERTH WA 6005

Dear Mr Barnett

I had invited the Leader of the Opposition to attend a hearing of the Special Inquiry and for him to bring any of his colleagues to attend as well. Unfortunately, Dr Nahan has declined this offer. Accordingly, I now invite you to attend a meeting with the Special Inquiry.

The following is an outline of the matters the Special Inquiry is interested in discussing with you.

First, the Special Inquiry notes the Leader of the Opposition has in the past expressed support for the introduction of a Parliamentary Budget type office. Do you agree and if so should such a body have the power to assess the financial aspects of business cases for major government projects?

Second, the importance of the Expenditure Review Committee process?

Third, the appropriateness of government clearly stating a strategic vision for its term in office, and reviewing this annually or at other times?

Fourth, the implications of government not meeting financial management targets and how financial discipline can best be imposed on government spending?

Fifth, whether mid-year reviews should be seen by Ministers as financial policy decision making events akin to mini budgets?

Sixth, the quality of financial information included in Cabinet submissions?

Seventh, the quality of business cases supporting many Royalties for Regions proposals and whether the Royalties for Regions program operated to different standards of financial scrutiny when compared with other government programs?
Eighth, the importance of consultation with Treasury with regard to the preparation of Cabinet submissions with financial implications?

Ninth, the importance that should be accorded to the forward estimates in framing spending programs?

Tenth, the appropriateness of the current legislation structures for Government Trading Enterprises and how the enterprises comply with those requirements?

I would like to discuss these issues with you in a constructive and iterative way. If you are prepared to meet, we will arrange a mutually convenient time in November. However, if you would rather provide a written response to this letter I would ask you to do so by 30 October 2017.

I am sending a similar letter to the Leader of the Opposition, the Hon Mike Nahan MLA, and the Leader of the National Party, the Hon Mia Davies MLA.

Yours sincerely

[Signature]

John Langoulant AO
Special Inquirer
Special Inquiry into Government Programs and Projects
25 October 2017

John Langoulant
Special Inquiry into Government Programs and Projects
Level 1, 20 Southport Street
WEST LEEDERVILLE WA 6007

Dear Mr Langoulant

In response to your correspondence dated 20 October 2017, I decline your invitation to meet with the Special Inquiry. I regard the whole exercise as being politically motivated.

Nevertheless, I will provide some responses to the questions you have raised. I regard my answers as being public. I also note that of the 10 questions put to me, none relate specifically to the 26 items listed in the terms of reference.

My responses are attached.

Yours sincerely

[Signature]

COLIN J BARNETT MLA
Member for Cottesloe

att
HON COLIN BARNETT MLA, MEMBER FOR COTTESLOE

RESPONSE TO OUTLINE OF MATTERS RAISED BY THE SPECIAL INQUIRY INTO GOVERNMENT PROGRAMS AND PROJECTS.

Item 1  The Special Inquiry notes the Leader of the Opposition has in the past expressed support for the introduction of a Parliamentary Budget type office. Do you agree and if so should such a body have the power to assess the financial aspects of business cases for major government projects?

Response  A Parliamentary Budget Office has been proposed by Dr Mike Nahan since the election. I have no comment. Any further enquiries should be made to Dr Nahan.

Item 2  The importance of the Expenditure Review Committee process?

Response  The Expenditure Review Committee is part of the ongoing role of Treasury in conjunction with government agencies. It is a Standing Committee of Cabinet and an important and normal function of government.

As the Cabinet Handbook (2013 and 2017) states, “The (EERC) ERC is a Standing Committee of Cabinet. Its main functions are overseeing the annual budget process, ongoing monitoring of the approved budget estimates and examining other matters including major policy proposals with implications for State finances and the economy”. (p. 4)

There is scope for Treasury to develop a more continuous financial engagement with agencies. There is also merit in improving the financial capacity of some agency heads.

Item 3  The appropriateness of government clearly stating a strategic vision for its term in office, and reviewing this annually or at other times?

Response  Any strategic vision is properly part of the pre-election campaign and election commitments. It is not a role for government agencies.

The reality is they are reviewed regularly in any event.

The policy of the Liberal Party has been to submit election commitments to Treasury for independent costing. The Labor Party failed to do this.

Item 4  The implications of government not meeting financial management targets and how financial discipline can best be imposed on government spending?

Response  It is Treasury’s job to manage government expenditure according to the Budget. This needs to happen throughout the year, not just at Budget time.
HON COLIN BARNETT MLA, MEMBER FOR COTTESLOE

RESPONSE TO OUTLINE OF MATTERS RAISED BY THE SPECIAL INQUIRY INTO GOVERNMENT PROGRAMS AND PROJECTS.

Item 5  Whether mid-year reviews should be seen by Ministers as financial policy decision making events akin to mini budgets?
Response  The mid-year review is an accounting exercise. As Premier, I always made it clear that this was not a mini-budget.

Item 6  The quality of financial information included in Cabinet submissions?
Response  Cabinet submissions come before the event or project. They are often based around assumptions and forecasts. Treasury should examine these before a submission gets to Cabinet and agreement on the financial detail should be reached between the relevant Minister and agency, and Treasury prior to Cabinet. Problems can occur during the subsequent implementation phase. Implementation is the responsibility of individual ministers and their agencies. It is not a direct task of Cabinet. Cabinet sets policy direction and makes the overall policy and financial decision.

Item 7  The quality of business cases supporting many Royalties for Regions proposals and whether the Royalties for Regions program operated to different standards of financial scrutiny when compared with other government programs?
Response  All Royalties for Regions programs come through the Cabinet process. The difficulty can be the large number of comparatively small projects and the large number of third parties involved in contracts. That level of detail is not something that is dealt with at the Cabinet level but it should be dealt with at the agency level.

If a Cabinet submission was considered to be deficient or not appropriate then it would be deferred. The same would apply if there was disagreement over a submission. The onus is on the ministers and their agencies to sort out the detail at all levels. I would add that these principles applied to all Cabinet submissions, not only Royalties for Regions submissions.
HON COLIN BARNETT MLA, MEMBER FOR COTTESLOE

RESPONSE TO OUTLINE OF MATTERS RAISED BY THE SPECIAL INQUIRY INTO GOVERNMENT PROGRAMS AND PROJECTS.

Item 8
The importance of consultation with Treasury with regard to the preparation of Cabinet submissions with financial implications?

Response
Consultation between Treasury and an agency over a cabinet submission is a given.

Indeed, the Cabinet Handbook (2013 and 2017) states, “The costing of all proposals considered by Cabinet or (EERC) ERC must be evaluated by the Department of Treasury (Treasury) before they are submitted to Cabinet or (EERC) ERC” and “The Cabinet Secretariat will not normally accept submissions unless the financial implications of the proposal have been evaluated by Treasury”. (p. 4)

Item 9
The importance that should be accorded to the forward estimates in framing spending programs?

Response
The Budget is an annual appropriation of funds. The forward estimates are a financial guide to the future. Forward estimates are always subject to changes in the external economic and financial environment. They should be taken for what they are. It is the role of Treasury to do the best it can in preparing forward estimates. Their importance is often exaggerated.

Item 10
The appropriateness of current legislation structures for Government Trading Enterprises and how the enterprises comply with those requirements?

Response
Government Trading Enterprises (GTEs) sit in a no-man’s land between the government and private sectors. Their boards like to think of themselves as equivalent to private sector boards. That is not the case. They have only one shareholder (the government) and do have a mix of corporate and public responsibilities. And if something goes wrong, it is invariably the minister that ends up dealing with the public and media debate.

The current legislative structures are appropriate. The Boards and CEOs do, in some cases, need to better understand the role of a minister. The minister should meet with a GTE at least every two months. On some issues, it is also appropriate for ministers to seek some Treasury input before meetings.

NB I would like to make the point that a public servant occupied the role of Cabinet Secretary and was in attendance for discussion of all Cabinet submissions, with the exception of those relating to election matters or personal matters.
## APPENDIX C

### COMPLIANCE WITH FINANCIAL TARGETS

The below tables track the Government’s compliance with its financial targets over its two consecutive terms of Government. The information presented in the tables has been sourced from each financial years’ Annual Report on State Finances and was verified by the Department of Treasury on 14 December 2017.

#### Table 1. Achievement of Financial Targets – WA Liberal Government 2009 - 2013

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Compliance with Financial Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009/2010(^1)</td>
</tr>
<tr>
<td>Net Worth: maintain or increase real net worth of the total Public Sector</td>
<td>No</td>
</tr>
<tr>
<td>Operating Balance: Achieve An Operating Surplus For The General Government Sector</td>
<td>Yes</td>
</tr>
<tr>
<td>Net Debt Affordability: Maintain Net Interest Costs As A Share Of Revenue Below 4.5%*</td>
<td>Yes</td>
</tr>
<tr>
<td>Ensure That Real Per Capita Own-Purpose Expenses For The General Government Sector Do Not Increase</td>
<td>No</td>
</tr>
<tr>
<td>Tax Competitiveness: Provide a Fair And Efficient Tax System That Is Competitive With Other States**</td>
<td>Yes</td>
</tr>
</tbody>
</table>

\(^1\) Note: This target was set at 5\% for 2009/2010 then reduced to 4.5\% for subsequent years.

\(^2\) Note: In each of the financial years tax revenue as a share of Gross State Product was expected to be the lowest of all states. Tax revenue on a per capita basis was higher than other states.
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<tbody>
<tr>
<td>Ensure that annual general government sector expense growth does not exceed revenue growth.</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Maintain a cash surplus from operating activities for the general government sector of at least 50% of general government sector infrastructure spend per year.</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Maintain the total non-financial public sector net debt to revenue ratio at or below 55%.</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Maintain a cash operating surplus for the total non-financial public sector of at least 5% of operating cash receipts</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Provide a fair and efficient taxation system that is competitive with other states.</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
</tbody>
</table>

*Note: Term of government ended March 2017

2 Government of Western Australia, 2010-11 Annual Report on State Finances, (September 2011) 32.
5 Government of Western Australia, 2013-14 Annual Report on State Finances, (September 2014) 34.
7 Government of Western Australia, 2015-16 Annual Report on State Finances, (September 2014) 37.
8 Government of Western Australia, 2016-17 Annual Report on State Finances, (September 2014) 24.
APPENDIX D

MINUTE TAKING PROTOCOLS

Throughout this inquiry the Special Inquirer has used several sources of record keeping to confirm decision making. This has involved reference to board and working group minutes. The Special Inquirer found that the standards of minute taking were variable and would not necessarily be adequate to ‘serve as a reference for the board if it wishes to revisit a decision’. ¹ This is especially so for the minutes of board meetings of Government Trading Enterprises, where the corporate obligations of the directors are not dissimilar to the obligations of listed companies.

Formally constituted boards within the Western Australian public sector would do well to ensure that their minute taking passes muster to protect both directors and Ministers with whom the responsibility for accountability of business decisions sit.

As a general rule of thumb, good minutes will include the following:

• Name of the entity and nature and type of meeting
• Place, date and starting time
• Name of chair and attendees, whether present in person or by remote access, and any declared interests
• Invited guests
• Apologies
• Presence of a quorum
• Reference to and a copy of minutes of the previous meeting
• Materials distributed before and during the meeting
• Proceedings of the meeting and resolutions made. Resolutions should be numbered.
• When attendees leave and re-enter the room and reasons where this relates to an interest
• Abstentions from voting and reasons
• Closing time
• Signature of chair
• A summary detailing further formal actions to be taken, and especially matters which need to be brought before the board again at a subsequent meeting.

Australian Institute of Company Directors advises that it may be advisable to include broad reasons for decisions, which could include a brief outline of factors material to the decision, any dissenting views and the amount of time spent on decision making where there is a matter of significance. ‘Recording the length of time spent on a discussion can denote the relative importance of a matter to a board meeting, reinforcing that directors have given it due consideration.’² Minutes can be use either for a director’s defence in court, or used against a director.

¹ Australian Institute of Company Directors, Board minutes – Meeting effectiveness. (December 2017).
² Australian Institute of Company Directors, Board minutes – Meeting effectiveness. (December 2017).
APPENDIX E

THE WESTERN AUSTRALIAN GOVERNMENT ACCOUNTABILITY FRAMEWORK

In Western Australia, an accountability framework comprising:

- Office of the Information Commissioner;
- Office of the Auditor General;
- Ombudsman;
- Corruption and Crime Commission;
- central Government agencies such as the Departments of Treasury and Finance and the Public Sector Commission;

is charged with oversight of integrity measures. These measures assist with providing openness in many aspects of major projects. Their principles carry over to other authorities, which in turn have their own requirements for transparency in functions within their scope. For example, procurement of goods and services is subject to publication of tender information. The Gateway review process has become more open as a result of work by the Department of Finance, and information about projects in WA are publicly available via agency websites and other media.

Office of the Information Commissioner

The Office of the Information Commissioner administers the Freedom of Information Act 1992. The Act states its objects are to:

- enable the public to participate more effectively in governing the State; and
- make the persons and bodies that are responsible for State and local government more accountable to the public.

Government agencies are obliged to give effect to the Freedom of Information Act in a way that:

- assists the public to obtain access to documents; and
- allows access to documents to be obtained promptly and at the lowest reasonable cost.

A person has a right to be given access to the documents of an agency (other than an exempt agency) subject to and in accordance with the Freedom of Information Act 1982.

A person’s right to be given access is not affected by:

- any reasons the person gives for wishing to obtain access; or
- the agency’s belief as to what are the person’s reasons for wishing to obtain access.

If an agency decides to refuse access to a document or part of a document and claims that matter is exempt, the onus is on the agency to provide sufficient reasons to justify the decision to refuse access. An applicant does not have to provide any reasons in support of obtaining access.
The Act makes reference to access to information containing trade secrets, matters of a commercial value, or relating to the business, professional, commercial or financial affairs of the third party.

Matters exempt from freedom of information requests include:

- deliberations of Cabinet and Executive Council;
- matters that could damage inter-governmental relations, noting that the matter is not exempt if its disclosure would, on balance, be in the public interest;
- trade secrets, commercial and business information that:
  - would reveal information that has commercial value to a person; and
  - could reasonably be expected to destroy or diminish that commercial value.

Matters are not exempt merely because their disclosure would reveal information about the business, professional, commercial affairs of the applicant.

Other exemptions relate to:

- matters prejudicial to law enforcement, public safety and property security;
- matters revealing deliberative processes of government;
- matters subject to legal professional privilege;
  - confidential communications where a legal remedy could be obtained or which would reveal information of a confidential nature which could reasonably be expected to prejudice the future supply of that kind to the government; and
- matters adversely affecting management of the State’s economy, the state’s financial or property affairs, the effective operation of agencies, those issues which would be contempt of Parliament or Court and information protected by other statutes.

The Office of the Information Commissioner reports to Parliament every year, noting that in 2016 there were nearly 7,000 requests to WA government agencies of which 435 were refused.

**Office of the Auditor General**

The Auditor General can give direction to provide any information or explanations. This includes giving directions to produce evidence or documents.

The Auditor General is entitled to full and free access to accounts, information documents, systems and records, money, and property in the possession of any person. While a person is not excused from giving information that might incriminate that person:

“If a Minister decides that it would not be in the public interest for information mentioned ... to be disclosed and advises the Auditor General of that decision, the Auditor General is not to include the information in a report to Parliament.”

1 Auditor General Act 2006
In the absence of an interpretation, the Office of the Auditor General uses the following criteria:

- if the information is commercial-in-confidence to a commercial counterparty, it must be specifically identified;
- the information must be ‘commercially sensitive’. This means that the information should not generally be known or ascertainable;
- disclosure would cause unreasonable detriment to the owner of the information or another party; or
- the information was provided under an understanding that it would remain confidential.

The Auditor General has publicly reported that a lack of authority under the Auditor General Act 2006 to access Cabinet documents and documents subject to legal professional privilege is impacting the State’s audit program and in some cases, has prevented the issuing of opinions.

Parliament’s Joint Standing Committee on Audit commented on this matter in its 2016 report on the Review of the Operation and Effectiveness of the Auditor General Act 2006, and recommended that the Treasurer amend the Act to provide the Auditor General with the power to compel a person to provide any information required, including documents subject to legal professional privilege, Cabinet confidentiality or any other public interest immunity.

The Auditor General has previously recommended greater transparency through regular reporting to Parliament on the status of major capital projects. The recommendations included reference to project performance, timelines and budget and that Treasury use the information to play a more active role in overseeing agency compliance with the Strategic Asset Management Framework.

The Financial Management Act 2006 interfaces with the role of the Auditor General. The Financial Management Act limits the capacity of a Minister to cite commercial-in-confidence as a ground to not provide information to Parliament.

The Minister and the accountable authority of an agency are to ensure that a Minister must not commit to a contract which precludes the provision of related material to Parliament unless it is deemed to be in the public interest.

In the event that a Minister decides not to provide information to Parliament, he/she is required to inform the Auditor General accordingly. This then triggers the Auditor General’s obligation to provide an opinion to Parliament. Up until the end of 2016/17 there were 148 such notices received from Ministers. The Auditor General upheld 86 of these, but issued a negative opinion for the remaining 62. In other words, the Auditor General believed that over 40% of the Ministerial decisions not to release information to Parliament were inappropriately made.

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2 Joint Standing Committee on Audit: Review of the Operation and Effectiveness of the Auditor General Act 2006 (August 2016)
3 Financial Management Act 2006
Ombudsman Western Australia

The Ombudsman investigates and resolves complaints about public authorities and undertakes investigations. Guidelines published by the Ombudsman relating to giving reasons for decisions are relevant in the debate about transparency in government. The guidelines confirm that giving reasons for decisions builds public confidence and results in more consistency in decision making.

Corruption and Crime Commission

The Corruption and Crime Commission (CCC) argues that transparency is a key to reducing misconduct in the public sector. In 2015, the CCC entered into an agreement with the Parliamentary Inspector of the CCC to increase visibility of matters and to provide clarity around matters important to both bodies.4

The CCC “supports the principle of public transparency because it is regarded as one of the most effective ‘tools’ for combatting corruption and maintaining public confidence in government.”5

Other relevant policy and legislation

Several statutory and administrative structures facilitate public access to information.

PPP Project Disclosure Policy

The Department of Treasury’s May 2016 Public Private Partnerships (PPPs) Project Disclosure Policy6 requires that a project summary and contract documents for PPPs are to be released on the Treasury website within six months of financial close.

The project summary is to include project outcomes, rationale and description of procurement model, key responsibilities in the PPP, tender process value for money and a public interest assessment. In addition, there is to be a contract summary and information about contract payments, commercial principles, parties to the contract and a timeline.

The policy states that all information from contractual documents will be released except for information that would:

• compromise the State’s or private party’s ability to efficiently effectively and/or safely deliver the relevant infrastructure and services;
• compromise the State’s or private party’s commercial interests; or
• adversely impact the State in future commercial transactions.

4 Correspondence from Commissioner, Corruption and Crime Commission to Special Inquirer (6 October 2017)
5 ibid
6 Department of Treasury: Public Private Partnerships Project Disclosure Policy (August 2011)
Court Security and Custodial Services Act 1999

The Court Security and Custodial Services Act 1999\(^7\) requires preparation and delivery each year of a report on contractors who provide services during that period. The report contains information about the operations of the contract and compliance with the contract. The Minister provides the report to Parliament.

Department of Finance / State Supply Commission

All public authorities subject to the State Supply Commission Act 1991\(^8\) must advertise tenders on the Tenders WA website in accordance with State Supply Commission policies. Western Australian government departments use Tenders WA to advertise public requests and publish contractual awards, including sole source purchases.

All contracts over $250,000 are required to be advertised on Tenders WA. Details of awarded contracts over $50,000 in value are to be published on Tenders WA. It is noted that Government Trading Enterprises appear to use the system sporadically.

To raise the level of openness and accountability across government, the Government has made it mandatory for government agencies to register all contract variations over $250,000.

In addition to the State Supply Commission, the Department of Finance is responsible for the Gateway Review function across government. Gateway is a project assurance methodology designed to support the effective development, planning, management and delivery of major programs and projects. Recent changes to Gateway are building an appropriate balance between transparency of information and ensuring the robustness of the Gateway process, and investigating ways in which lessons learned can be shared.

The Public Sector Commission

The Public Sector Commission is responsible for overseeing the accountability provisions of the Public Sector Management Act 1994\(^9\). This includes the general principles of human resource management and the principles of conduct to be observed by public sector bodies and employees.

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\(^7\) Court Security and Custodial Services Act 1999  
\(^8\) State Supply Commission Act 1991  
\(^9\) Public Sector Management Act 1994
APPENDIX F

BENEFITS OF A CENTRALISED LAND ASSEMBLY AND APPROVALS UNIT FOR MAJOR PUBLIC PROJECTS

- The ability to anticipate and influence agency policy development at an early stage could improve the statutory framework within which major projects operate. This may lead to improvements in the approval/delivery timeframes and reduce costs to Government.
  - For example, the existing Western Australian Planning Commission’s (WAPC’s) State Planning Policy 3.6 Developer Contributions (SPP 3.6) provides the framework within which developers are required to make a financial contribution towards local government infrastructure such as regional drainage or roads at the time of land subdivision or development.
  - The policy does not explicitly exempt public works from the developer contribution liability, and as a result the Department of Education has recently received an invoice of approximately $600,000 as its contribution liability for a secondary school site. Modification to SPP 3.6 to exempt certain public works from this liability could realise significant cost savings.

- The ability to identify and modify statutory provisions and legislation could assist with the cost and timeframes of approvals for major projects.
  - The need to obtain Development Approval for many major public works projects generally adds time, cost and risk to major projects. As Development Approval for certain major projects is now determined by a Development Assessment Panel, which is a non-State body, this adds further risk to major projects.
  - The existing Metropolitan Region Scheme (MRS) includes exemptions from the need for Development Approval for certain public works within land reserved for “Parks and Recreation” subject to the endorsement of a Management Plan by the WAPC. Modification to the MRS to expand the permitted development provisions to include other public works which could be managed through a Management Plan approved by the WAPC could reduce risk to project timeframes and cost associated with process and negotiated outcomes.
  - The approval strategy adopted for the Perth Stadium included a Management Plan endorsed by the WAPC under the MRS. The process was efficient, the timeframes relatively short and the risks to the project were minimised. As a result, construction commenced as scheduled and as the Management Plan provided sufficient flexibility, changes during design development were readily facilitated, with no further Development Approvals required and therefore no delays during construction.
- By contrast, the redevelopment of the QEIIMC was unable to adopt a similar approach as it did not satisfy the MRS provisions relating to a Management Plan. As a result, the numerous projects included in the redevelopment, including the PCH and QEIIMC Car Parking projects, required individual Development Approvals and as the site straddled local government boundaries, consideration was required by two separate local governments which did not share a consistent approach to the redevelopment.

- The redevelopment would have benefitted considerably from a Management Plan which would have provided a consistent approach for all projects and would have provided the necessary flexibility to accommodate the redevelopment.

- Strategic Projects is managing the development of eight schools on behalf of the Department of Education. The condition of the sites allocated for the schools is varied, with some ready for construction and others unsuitable for their intended purpose, incurring time and cost for site works and environmental approvals. A strategic and coordinated approach to the planning and purchase of school sites through involvement at the District Structure Planning level and in developing conditions for inclusion in contract of sale documents could help minimise such costs, potentially leading to significant savings.

- The process for obtaining approvals for projects affected by Aboriginal Heritage is generally complex and lengthy. The approach developed by Strategic Projects for the Perth Stadium, Rail Station and Pedestrian Bridge was based on an Engagement Strategy prepared by Strategic Projects and endorsed by the South West Land and Sea Council, the Whadjuk Working Party (WWP) and the Perth Stadium Steering Committee. This provided a framework for engagement during the project which gave certainty to approval timeframes and outcomes.

- The WWP recommended a similar process be adopted for all major Government Projects and as such, the Public Transport Authority sought advice from Strategic Projects to use this model for the Forrestfield Airport Link project. Similar advice has been provided to the MetroNet Project Team. The consistent approach reduces costs and minimises risk for major projects, where traditionally, delays in obtaining approvals are commonplace.

- Strategic Projects has gained extensive experience in land assembly and multi-agency approvals for complex major projects and has identified numerous administrative and policy inefficiencies and duplications in the land assembly and approval frameworks which affect the progress of major projects.

- Applying lessons learned to remediate some of these inefficiencies has the potential to materially reduce land assembly and approvals costs and risks for major projects.
APPENDIX G

NEW ZEALAND TREASURY: MAJOR PROJECTS PERFORMANCE INFORMATION RELEASE APRIL 2017

The Treasury

Major Projects Performance

Information Release

Release Document

April 2017

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - would be likely otherwise to damage the public interest
- 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantages or prejudice
- 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Interim Major Projects Performance Report

April 2017

THE TREASURY

Kiritimotu Kiririki Kava
Investment Drivers

Major Projects deliver significant benefits. There are three broad categories of projects:

- **Keep the Business Running** - To continue to run its core services.
- **Grow the Business** - To enhance existing services.
- **Transformation Change** - To deliver significant change to how government delivers its services.

Across the significant projects portfolio, there are 38 agencies (65%) reporting at least one project with transformational change.

Transformation change projects provide an opportunity for innovation. 36% of all significant projects are transformational change.

The above graph shows that projects with transformational change have slightly lower delivery confidence assessments than projects with other investment drivers. The benefits of transformational change projects often rely on significant organisational change. Change of this magnitude is difficult and introduces a level of uncertainty to these projects that others are less likely to experience.

The Corporate Centre works to support these projects over their lifetime, connecting them to other agencies that have successfully completed transformational and organisational change – such as Immigration’s Vision 2015.
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<td>Coordinating, directing, and overseeing activities related to the 2018 Census.</td>
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<td>Identity Management in the Justice Sector and Border Protection To achieve a single Justice Sector identity, for use in the sector and beyond.</td>
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<td>Advanced Survey and Title Services (AaTS) Project Replacing LandOnline’s outdated and constraining technology platform.</td>
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92(i)(a)(ii)

| Services Transformation     | Ministry of Social Development | Simplification Programme Simplifying the provision of MSD’s transactional services. | □                   | —      |      |
| Services Transformation     | Police                       | Human Resources Management Information System Delivering a long-term solution to Police’s HR needs. | □                   | ▼      |      |
| Transport                   | New Zealand Transport Agency  | Auckland Accelerated Transport Programme To improve the inter-regional trip reliability and support growth and productivity in Auckland. | □                   | —      |      |
| Transport                   | New Zealand Transport Agency  | Roads of National Significance Advancing significant roads to reduce congestion, improve safety and support economic growth. | □                   | —      |      |

**Pre-investment major projects**

**KEY**

- The size of each bubble represents the estimated whole-of-life cost:
  - Unknown
  - Withdrawn for commercial reasons
  - $0m - $10m
  - $10m - $30m
  - $30m - $300m
  - $300m - $600m
  - $600m - $1b
  - $1b - $10b

- Project dashboard page number
- Project is subject to Gateway
- Project has had a business case clinic

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<th>Indicative Business Case development</th>
<th>Detailed Business Case development</th>
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<td>Tertiary Education Commission:</td>
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<td>Lincoln University:</td>
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<tr>
<td>AgResearch Joint Facility</td>
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<td>Auckland City Rail Link</td>
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<td>Transforming the System of Service Delivery (TSSD) Programme</td>
<td>AG</td>
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</tbody>
</table>

*As per grounds 9(2)(i) specified in the Official Information Act
Lincoln University/AgResearch Joint Facility
This project is designed to enable academic and primary industries education and research by the two partners, Lincoln University and AgResearch University

Key Milestones
Business Case Submitted
Design Complete 11/17
Leodger Financial 12/17
Construction Start 01/18
Whole of life cost $248.5m*

Corporate Centre Comment
The project team has made improvements to the business case during the reporting period. The project is currently rated Amber/Red as there are key areas which still require development, primarily the direct investment objectives, financial options, and approach to change management. The delivery confidence rating will remain Amber/Red until the project team has completed it's work to address these elements of the business case.

The Joint Facility business case has adopted the same investment objectives as the Lincoln Hub programme. While the driver for this is to demonstrate linkages to the wider Hub programme the joint facility would only contribute to, not fulfill, these broader stated objectives. Exactly how this contribution will be realised needs greater clarity to ensure measurable progress.

An effective change strategy is critical to the success of this investment. The benefits of this investment will largely be realised through changing current ways of working. Plans on how the organisations will work differently in the future are required, including resourcing, expertise and implementation plans. This includes ensuring the management and governance structures are appropriate for overseeing the whole project, beyond just delivering the building.

The corporate centre will support the project to strengthen the business case ready for cabinet decision, including exploring options for phasing development.

Benefits
In its current form the business case demonstrates linkages to the Lincoln Hub programme, but measures for the critical success factors need further development. The corporate centre has provided feedback to the project to help address this key focus area, and this is under development.

Māori Land Service - Te Puni Kōkiri
Supporting Māori land owners to strengthen the management and utilisation of their land

Key Milestones
IQAs Business Case submitted 02/17
Te Ture Whenua Māori Bill 05/17
Design Complete 08/17
Programme Capture 10/17

Corporate Centre Comment
The monitoring delivery confidence rating has declined to Red due to concerns about the Māori Land Service (MLS) programme options, phasing and timeframes.

The enabling legislation for the Māori Land Service, the Te Ture Whenua Māori Bill, is expected to have its third reading in May 2017. A clear investment proposal supported by a suitable business case to assist with decision-making was not ready to support Budget 2017 decisions. Key areas still to be developed include how investment options (including phasing) are presented for Ministers, the design of enabling technology, and transition planning for affected agencies.

Due to this, the Corporate Centre recommends a staged approach to the next phase of the programme. Key decision points for Ministers in this process are still to be worked through.

The focus for the next reporting period will be to support the programme team to define the key decision points, and then to determine the information needed to make those decisions in an informed way to achieve the objectives of the programme. There has been increased engagement between the programme team and the Corporate Centre, and continued engagement will assist in addressing the concerns raised.

Benefits
The MLS will support Māori land owners to strengthen the management and utilisation of their land as proposed by the Te Ture Whenua Māori (1993) Act reform.

High level benefits and costs were developed as part of the Programme Business Case and a benefits plan is still under development, requiring baseline measures, estimated benefits and a realisation timeline.

Issues identified in the previous monitoring report have been resolved, and the project is progressing well. A main risk being actively managed is tight project timeframes and milestones. The project has a recent (past 10 months) history of meeting deadlines.

Māori Land Service - Te Puni Kōkiri
Supporting Māori land owners to strengthen the management and utilisation of their land

Key Milestones
IQAs Business Case submitted 02/17
Te Ture Whenua Māori Bill 05/17
Design Complete 08/17
Programme Capture 10/17

Corporate Centre Comment
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ANZAC Frigate Systems Upgrade

Restoring and upgrading the surveillance and combat capabilities of the ANZAC frigates

Key Milestones

Corporate Centre Comment

The monitoring delivery confidence assessment remains Red. The project has three components. The first is the acquisition of the integrated combat system and the second is the design of the system. These two components are well advanced and within budget. The third component is the installation of the system into the ANZAC Frigates. This has proven more complex than expected.

The contract proposal for the installation phase is due to be presented to Defence on 20 June 2017.

Alongside the 2016 Defence White Paper, Cabinet considered a portfolio of indicative capability investments in the Defence Force out to 2030, in conjunction with estimated operating and capital costs. The intention of this portfolio was for Cabinet to choose the level of policy it wanted to support through investment, and to incentivise Defence to actively manage its portfolio in between policy reviews by Cabinet (Defence White Papers).

Benefits

The business case for the ANZAC Frigate Systems Upgrade project claims the following investment benefits: improved support to amphibious forces; increased ability to combat emerging threats; improved credibility; improved Defence diplomacy; reduced whole of life support costs; improved efficiency of the Royal NZ Navy; de-risked future Naval Combat Force capability. These benefits still appear achievable.

2018 Census Programme

Coordinating, directing, and overseeing activities related to the 2018 Census

Key Milestones

Corporate Centre Comment

The monitoring delivery confidence assessment has declined from Amber to Red as the programme experienced significant delays following the Kaikoura earthquake that have increased schedule risk and put pressure on the Census go-live date of 6 March 2018. StatsNZ is confident it can achieve the go-live date if it has the flexibility to invoke contingency plans as and when needed. To manage the schedule impacts the programme has deferred some work for the near-term time-based activities to ensure they are achievable. The deferred work is now scheduled for the final stage of the programme, which is complex than expected.

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The Corporate Centre will continue to support StatsNZ with replanning of the Census programme to understand the risks and cost implications and provide any assistance needed. We are confident that the programme has the required actions underway.

Benefits

Benefits include delivering the next Census by a sustainable lower cost operating model while still providing the information needed by all levels of government to inform decision making.

The programme’s go-live date of 6 March 2018 is under pressure following the delays experienced as a result of the 14 November earthquake. The re-planning of the 2018 Census programme will firm up the go-live date and timing for realising the expected benefits.
Recent Achievements

- Housing New Zealand has completed its programme of new house builds and repairs
- Christchurch City Council has opened community facilities at St Martins, Heathcote and Governors Bay, the Redcliffs Library, Sign of the Kiw and Mona Vale Lodge
- Construction worker numbers are at a peak on key project sites, with 580 workers on the Justice and Emergency Services Precinct
- The 115 Christchurch Schools Rebuild programme is gaining momentum with the completion of 10 schools and a further 28 under construction or out to tender. This has included the successful opening of Rolleston College and Haeata Community Campus
- Lincoln Hub has appointed Southbase Construction to provide input into the design and buildability of its facilities
- The Canterbury Earthquake National Memorial was unveiled on the sixth anniversary of the 22nd February 2011 earthquake

Overview

The Canterbury Public Sector Rebuild (the Rebuild) comprises 50 publicly funded construction projects and programmes with a value of $6.3 billion across health, education, social housing, roading, central city and community facilities.

The coordination and performance monitoring of these projects is to ensure that the Rebuild provides value for money, delivers on time, risks are managed, supply capacity and competitive tension are increased, overall progress is transparent, and investors have confidence in the government rebuild programme.

Assessment

The level of construction activity progresses at a steady, but high rate, this is expected to continue into 2019. Operating at this capacity places high demands on a number of construction trades and project completion dates. The University of Canterbury’s science and engineering facilities plus the Justice and Emergency Services Precinct are all targeting completion in mid-2017 which will be demanding.

Conversely, rebuild programmes such as schools, and Christchurch City Council’s community projects, that rely on smaller construction companies, are finding high levels of competition and attractive pricing.

Continued coordination and communication between public agencies remains essential for the timely and cost-effective delivery of the remaining public sector rebuild projects.

Expenditure progress

Percentage of project expenditure completed by agency

<table>
<thead>
<tr>
<th>Agency</th>
<th>Expenditure Progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing New Zealand</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>University of Canterbury</td>
<td>62%</td>
<td></td>
</tr>
<tr>
<td>Ministry of Health</td>
<td>49%</td>
<td></td>
</tr>
<tr>
<td>Christchurch City Council</td>
<td>46%</td>
<td></td>
</tr>
<tr>
<td>Ara Institute of Canterbury</td>
<td>43%</td>
<td></td>
</tr>
<tr>
<td>NZ Transport Agency</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>Canterbury DHB</td>
<td>39%</td>
<td></td>
</tr>
<tr>
<td>Ministry of Education</td>
<td>37%</td>
<td></td>
</tr>
<tr>
<td>Oaks Limited</td>
<td>31%</td>
<td></td>
</tr>
<tr>
<td>Lincoln Hub</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

To date projects in the Rebuild have spent $2.5 billion or 41% of total project budgets.

Construction Schedule

Timelines for major projects with a value over $30 million

Significant momentum has been achieved in the public sector rebuild with three major projects completed in the past year. The next twelve months will deliver stronger progress with the expected completion of a further six major projects. Timings for the Stadium have yet to be confirmed and are not included in this report.

Construction Expenditure

Total project expenditure per quarter

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Actual</th>
<th>Forecast</th>
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</thead>
<tbody>
<tr>
<td>Jan-16</td>
<td>$1.6 b</td>
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</tr>
<tr>
<td>Feb-16</td>
<td>$2.5 b</td>
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</table>

Construction Schedule

Timelines for major projects with a value over $30 million

Significant momentum has been achieved in the public sector rebuild with three major projects completed in the past year. The next twelve months will deliver stronger progress with the expected completion of a further six major projects. Timings for the Stadium have yet to be confirmed and are not included in this report.
### PROCUREMENT IN THE WESTERN AUSTRALIAN PUBLIC SECTOR

#### DEPARTMENT OF FINANCE

**PROCUREMENT IN THE WESTERN AUSTRALIAN PUBLIC SECTOR**

(excluding Government Trading Enterprises)

<table>
<thead>
<tr>
<th>GOODS AND SERVICES</th>
<th>CAPITAL WORKS</th>
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<tbody>
<tr>
<td>MINISTER FOR FINANCE</td>
<td>MINISTER FOR WORKS</td>
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<tr>
<td>State Supply Commission Act 1991</td>
<td>Public Works Act 1902</td>
</tr>
<tr>
<td>AGENCY SPECIFIC</td>
<td>AGENCY SPECIFIC</td>
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<tr>
<td>Own Enabling Legislation</td>
<td>Line Agencies</td>
</tr>
<tr>
<td>Including</td>
<td></td>
</tr>
<tr>
<td>• Public Transport Authority</td>
<td></td>
</tr>
<tr>
<td>• MainRoads</td>
<td></td>
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<tr>
<td>• Department of Transport</td>
<td></td>
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<tr>
<td>• Department of Planning, Lands and Heritage</td>
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<tr>
<td>• Department of Community Services</td>
<td></td>
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<tr>
<td>• Department of Biodiversity Conservation and Attractions</td>
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</tr>
</tbody>
</table>

#### GENERAL GOVERNMENT SECTOR AGENCIES

- Building Management and Works
- Strategic Projects

#### PARTIALLY EXEMPT AGENCIES

#### DEPARTMENT OF FINANCE

- Building Management and Works
- Strategic Projects

#### WHOLE OF GOVERNMENT PROCUREMENT POLICIES

- Buy Local, Aboriginal Procurement Policy and WA Jobs Bill

#### GOODS AND SERVICES POLICIES

- Open and Effective Competition
- Value for Money
- Probity and Accountability
- Sustainable Procurement
- Procurement Planning, Evaluation Reports and Contract Management
- Common Use Agreement
- Disposal of Goods
- Delivering Community Services in Partnership

#### DEPARTMENT OF FINANCE

- Open and Effective Competition
- Value for Money
- Probity and Accountability

#### WHOLE-OF-GOVERNMENT

- Strategic Asset Management Framework
- Government Building Training
- Building Local Industry

#### AGENCY SPECIFIC

#### COMMON USE AGREEMENTS

- DEPARTMENT OF FINANCE CONTRACTS AND PANELS
  (service client agencies and includes office accommodation)

#### OTHER REQUIREMENTS AFFECTING PROCUREMENT

- Financial Management Act 2006 (Treasurer’s Instructions - authorised use of credit cards, timely payment of accounts, register of contracts, risk management, foreign exchange risk, etc.)
- Government Policy (Premier’s Circulars - improving outcomes through Gateway Reviews, contracts for services - consultants, signage for capital works, delivering community services, office accommodation, etc.)
- State Records Act 2000

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1 Department of Finance, “Procurement in the Western Australian Public Sector” provided to the Special Inquiry November 2017
APPENDIX I

EXTRACTS FROM ECONOMIC AUDIT COMMITTEE FINAL REPORT OCTOBER 2009 PUTTING THE PUBLIC FIRST

19. Require all investment decisions by State Government agencies, including GTEs, to be reviewed by the Department of Treasury and Finance to assess compliance with Strategic Asset Management Framework principles prior to submission to Cabinet. DTF is to ensure that appropriate support and training is provided to agencies to enable them to implement sound asset planning and management.

28. Introduce umbrella legislation to:
   (a) standardise, strengthen and clarify governance arrangements for all GTEs; and
   (b) establish a remuneration policy for GTE board members and their executives administered by the Salaries and Allowances Tribunal.

29. Establish a GTE advisory and monitoring unit.

30. Review GTEs to ensure that the governance and ownership of each business is appropriate for delivering Government’s policy objectives. The review should address the following issues:
   a) Does government need to be an active participant in the markets (due to market failure) or is it simply replicating something the private sector can do (with appropriate regulation)?
   b) Can the GTE operate independently of Government? What policy outcomes is Government seeking from the GTE (for example, fully commercial provider of specific outputs, a source of revenue, industry and/or social policy)?
   c) What is Government’s broader policy for the market in which the GTE operates and does the policy have implications for the appropriate ownership and governance of a GTE participating in the market?
   d) The relative merits of our sourcing, rationalising or decorporatising the GTE and the impact of these options on its governance.

35. Mitigate the negative impacts of competition for utility policy capacity between the general government sector and GTEs by benchmarking and linking the remuneration of Utilities Policy Office employees to those in the GTEs.
APPENDIX J

Submission from the Department of Treasury September 2017

POTENTIAL GOVERNANCE REFORMS FOR GOVERNMENT TRADING ENTERPRISES

Recommendations

In its advice to the incoming Government, Treasury recommended that the Government commit to:

1. undertake a review of the structure of government’s commercial or quasi-commercial entities to identify appropriate governance arrangements;
2. introduce legislative reform to standardise and strengthen governance arrangements; and
3. establish a Government Trading Enterprise Oversight and Advisory Unit within Treasury to implement the reform program and increase the effectiveness of ongoing performance monitoring of GTEs.

Background

The recent performance of a number of Government Trading Enterprises (GTEs) has raised concerns with current governance arrangements, and their adequacy in ensuring strong performance and achievement of Government objectives.

In the 1990’s the Western Australian Government corporatised its entities that have commercial functions, to introduce private sector measures into the public sector to improve efficiency and accountability. A key feature of corporatisation is for GTEs to operate at ‘arm’s length’ from Government. This means that they are not subject to the same scrutiny as other general government agencies. This arm’s length relationship is important in ensuring transparent direction of policy to GTEs, however, it has failed to properly align the objectives and performance of GTEs with the objectives and expectations of Government.

Examples:

The Statement of Corporate Intent (SCI) and Strategic Development Plan (SDP) are the primary governance documents that set the Government’s strategic directions for GTEs. However, these documents are not operating as intended, and do not set the strategic direction of the entity in agreement between the Board, the Minister and the Treasurer. For example, an electricity corporation advanced a significant change in its strategic direction without it appearing within its SDP or any other consideration or approval by Government.

In 2008 two Government-owned entities entered into a contract which was subsequently found to be ultra vires to one of the entity’s enabling Act. A solution was proposed to limit the financial impacts to the State and entities of this ultra vires contract, which Treasury was provided three days to review and provide advice.
The corporatisation model was intended to introduce private sector discipline to the activities of government owned trading bodies. However private sector discipline is not achieved by simply introducing a profit objective and limited number of statutory director responsibilities. GTEs are protected against the two major threats that are essential for encouraging sound management in private sector corporations, takeover and bankruptcy. Furthermore, private sector discipline is instilled by a complex interaction between the performance of listed share prices, the availability and cost of capital, performance-based contracts, reputation, annual general meetings and many other factors.

**Examples:**

One of the ways Government can incentivise GTEs is through Board appointments, remuneration and performance reviews. However, the appointment of Board members is ad hoc and does not involve central agencies or strong performance agreements on Chairs or members. For example, a GTE recently drafted its own Cabinet Submission for Board appointments, with no independent advice on Board composition, performance or remuneration from Treasury, the policy agency or Public Sector Commission.

Private sector firms access finance to undertake projects through raising equity from shareholders or borrowing from banks. Both require detailed proposals outlining profits, assumptions and risks. Government GTEs are not subject to the same level of scrutiny to access government funds. Without any business case and limited scrutiny by government, a GTE assumed a strict (and hence more costly) interpretation of a Government regulation. A more narrow definition was subsequently negotiated between the corporation and regulator. It was found that if the narrow definition had originally been adopted, this cost saving backdated over the period could have enabled savings of hundreds of millions of dollars.

Over time, the structure of government operations has also changed, while the GTE framework has not been adapted. As a consequence, the responsibilities that were envisioned within the framework have become blurred over a selection of commercialised entities and more typical government service providing agencies. This confusion is added to when the governance design of other types of agencies, such as statutory authorities, borrow from the framework leading to commercialised general government agencies with a hybrid of governance requirements, such as the Chemistry Centre of Western Australia.
Examples:

One statutory authority is provided the flexibility and autonomy privileges of a GTE (via borrowing funds and retaining revenue for expenditure as the Board deems appropriate), without the competitive controls normally applied to a GTE to ensure it acts commercially (via hurdle rates of return, tax equivalent payments and dividend payments). This blurred agency classification has contributed to poor financial outcomes, including increasing debt.

A number of statutory authorities have conflicting objectives and hybrid governance arrangements. They are required to submit key GTE governance documents such as SDPs and SCIs, and also subject to the Financial Management Act 2006, Auditor General Act 2006 and Public Sector Management Act 1994.

There is not just failure of the governance framework, but also through strong application of the GTE management principles. Analysis has indicated an ambiguity of roles, lack of capability and capacity to oversee GTEs, an avoidance of imposing sanctions on under-performing GTEs and a fall in the quality of GTE governance and reporting.

Examples:

Despite legislative provisions requiring Ministerial approval for certain transactions, a GTE implemented a $100+ million ICT program with no specific approval or oversight by Government.

While Ministers overseeing the electricity corporations and port authorities receive commercial and policy advice from their Departments, other GTE Ministers rely instead on policy advice from the GTEs themselves, which may create the potential for conflicts of interest.

The need for comprehensive reform of GTE governance was also raised in a series of previous reviews and inquiries, including the 1992 WA Inc Royal Commission; the 1996 Commission on Government; the 2001 Machinery of Government Review and the 2009 Economic Audit Committee1.

The proposed reforms aim to standardise and strengthen the governance and accountability arrangements for GTEs within legislation. This will provide Government with the authority and capacity to scrutinise GTEs and their Boards, and provide appropriate incentives to operate efficiently, effectively and within government policy.

1 There has been a limited appetite for broad reform with previous Governments, committing only to agency or sector specific reforms (e.g. Electricity Corporations Act dividend provisions (2015) and Port Authority Act amalgamation and dividend provisions (2014) and executive officer remuneration (omnibus bill 2016).
Proposed Reforms

Structural Reform

Governance models cover a spectrum between departmental and fully corporatised GTE models, shown in Attachment 1.

Notwithstanding the structural reform that has been implemented and potentially proposed via the Public Sector Renewal changes and Services Priority Review, there still needs to be consideration of the governance model for agencies with commercial functions.

Legislative Reform

Western Australia is the only jurisdiction without overarching governance legislation. The governance framework for Western Australia’s commercial entities is set out in the enabling Acts for the individual entity. There are currently 20 different enabling Acts across Western Australia’s entities with commercial functions. These Acts were drafted across 10 years and reflect the thinking at the time they were drafted. There are significant inconsistencies in the arrangements.

Umbrella legislation would outline accountability, governance and financial provisions for all GTEs, with accompanying enabling Acts for each GTE setting out provisions specific to each GTE’s particular circumstances.

This would bring greater consistency to GTE governance and accountability provisions, fill gaps in the scrutiny by Government of GTEs’ major transactions and deals, and better align GTEs’ strategic planning processes with State Budget timelines.

The objectives of legislative reform are:

• Consistency – develop consistent provisions across all appropriate GTEs;
• Transparency – use consistent provisions to develop a transparent monitoring and policy framework. Manage conflicting objectives transparently;
• Scrutiny – use the policy framework to monitor and provide advice to shareholding Ministers on commercial performance and reporting;
• Accountability – use commercial performance and reporting to advise on Board appointments, remuneration and performance reviews; and
• Training – induct and train policy departments and Ministerial offices on their responsibilities for GTE governance.
Attachment 2 outlines the options for legislative reform currently being considered by the Department of Treasury, including:

- **minimal** – use an omnibus bill to amend the existing legislation of GTEs for governance clauses with highest priority (dividends, borrowing, significant transactions, reporting, and subsidiaries and joint ventures);
- **moderate** – new governance legislation for targeted, commercially-focused GTEs; and
- **comprehensive** – new governance legislation for all appropriate agencies. Structural review to occur prior to legislation reform for agencies that are not fully corporatised (i.e. the structural reform outlined above).

The Department of Treasury has yet to take a policy position on these options.

**GTE Oversight and Advisory Unit**

The lack of independent and rigorous performance monitoring and policy advice on GTE issues hinders the ability of GTE Ministers to make informed decisions. Other States and Territories, the Commonwealth and New Zealand have centralised monitoring and policy units carrying out these functions. NSW and NZ seem to be best-practice.

Tasks of a GTE Oversight and Advisory Unit within Treasury would include:

- implement the reform program;
- provide advice to shareholder Ministers on GTE commercial performance and reporting;
- develop a monitoring and policy framework, including dividend and taxation policy, debt structures, capital works, loan guarantee fees;
- induct and train policy departments and Ministerial officers in their roles and responsibilities in the GTE governance framework; and
- advise on Board appointments, remuneration and performance reviews.

This would be undertaken in consultation with relevant policy agencies.
ATTACHMENT 1

GTEs operate on a spectrum of governance models that warrant structural and legislative reform

**GENERAL GOVERNMENT SECTOR**

- Department
- Department (w/ Business Unit)
- Statutory Authority
- Metropolitan Redevelopment Authority
- Landgate
- Rottnest Island Authority
- Public Transport Authority
- Animal Resources Authority
- Metropolitan Cemeteries Board

**PUBLIC FINANCIAL/NON-FINANCIAL CORPORATIONS**

- Statutory Corporation (not readily privatised)
- Housing Authority
- Lotterywest
- Forest Products Commission
- Racing and Wagering Western Australia (TAB)
- Government Superannuation Board
- Western Australian Treasury Corporation
- Port Authorities
- LandCorp
- Energy Corporations
- Water Corporations
- GoldCorp
- Keystart (Corporate Trust reporting to Director General Housing)

**Defining spectrum variables**

- ‘Business intensity’ - from Department (none) to Corporatised Government Trading Enterprises (all)
- ‘Flexibility of Ministerial Control’ - from Department (complete) to Corporatised Government Trading Enterprises (highly constrained)
- ‘Source of Funds’ - from Department (full appropriation) to corp Government Trading Enterprises (all from business activities)

**Objectives of reform:**

- to ensure entities have funding and governance models aligned with their activities;
- that Government receives rigorous and independent commercial, budget and policy advice; and
- Budget and policy oversight are maintained and improved

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**Subject to Financial Management Act 2006 (WA)**

**Potential scope of GTE Umbrella Legislation**

**Potential scope of GTE Monitoring Unit**

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Special Inquiry into Government Programs and Projects - Final Report Volume I
**ATTACHMENT 2**

**Options for Legislative Reform for GTEs**

### Consistency
- consistent provisions across all GTEs (i.e. umbrella legislation)

### Transparency
- use consistent provisions to develop a transparent monitoring and policy framework (i.e. dividends, debt structures, KPIs)
- manage conflicting objectives transparently

### Scrutiny
- use the policy framework to monitor and provide advice to shareholding Ministers on commercial performance and reporting (i.e. reporting against KPIs)
- monitor compliance with Govt policy

### Accountability
- use commercial performance and reporting to advise on Board appointment, remuneration and performance reviews

### Training
- induct and train policy departments and Ministerial offices on GTE Governance

<table>
<thead>
<tr>
<th>Clauses</th>
<th>Agencies</th>
<th>Resources</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum: amend select clauses in existing legislation</td>
<td>16 Agencies (8 Acts): Electricity Corps, Water Corps, Port Authorities, LandCorp, Insurance Commission of Western Australia, Gold Corp, Western Australian Treasury Corporation, Forest Products Commission</td>
<td>Additional 2 FTEs</td>
<td>6-12 months</td>
</tr>
<tr>
<td>Future work: develop new governance legislation for remaining clauses. Structural reform and application of governance legislation to all appropriate GTEs</td>
<td>Moderate: new legislation for targeted, commercially focused GTEs</td>
<td>New governance legislation (accountability, financial and board provisions) for a limited number of agencies. Agencies to be included in a Schedule to the Act, with other agencies able to be added following a structural review.</td>
<td>12-24 months</td>
</tr>
<tr>
<td>New umbrella legislation</td>
<td>Comprehensive: new legislation for all appropriate agencies</td>
<td>New governance legislation (accountability, financial and board provisions) for a comprehensive suite of agencies. Structural review to occur prior to legislation reform for agencies that are not fully-corporatised.</td>
<td>24-36 months</td>
</tr>
<tr>
<td>No future work required</td>
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</tbody>
</table>

**Future work:**
- develop new governance legislation for remaining clauses. Structural reform and application of governance legislation to all appropriate GTEs.
- structural reform and application of governance legislation to all appropriate GTEs.

**Minimum:**
- amend select clauses in existing legislation
- use an omnibus bill to develop consistent legislation for governance clauses with highest priority: dividends, borrowing limits, significant transactions, reporting and subsidiaries and joint ventures.

**Moderate:**
- new legislation for targeted, commercially focused GTEs
- new governance legislation (accountability, financial and board provisions) for a limited number of agencies.
- agencies to be included in a Schedule to the Act, with other agencies able to be added following a structural review.

**Comprehensive:**
- new legislation for all appropriate agencies
- new governance legislation (accountability, financial and board provisions) for a comprehensive suite of agencies.
- structural review to occur prior to legislation reform for agencies that are not fully-corporatised.

**No future work required**

**Objectives of reform**
- consistency
- transparency
- scrutiny
- accountability
- training

**Changes to existing legislation**
- minimum: amend select clauses in existing legislation
- future work: develop new governance legislation for remaining clauses. Structural reform and application of governance legislation to all appropriate GTEs.

**New umbrella legislation**
- future work: structural reform and application of governance legislation to all appropriate GTEs.

**Consultation scaled for number of agencies and risks**
- consultation scaled for number of agencies and risks.
APPENDIX K

LIST OF PROGRAMS AND PROJECTS EXAMINED

Royalties for Regions Project Assessment

As part of the “bottom up” assessment of the Royalties for Regions program, ACIL Allen assessed 50 projects that have received funding since the Royalties for Regions program’s inception in 2009/10. ACIL Allen’s representative sample included 11 projects1 that are subject to review by the Special Inquiry and 39 projects selected at random.

Project specific data was sourced for the 50 projects, which were then assessed using a Multi Criteria Assessment (MCA) tool. The MCA tool, developed by ACIL Allen, enabled the projects to be assessed against the quality of the project’s business case and against the purpose of the Royalties for Regions program, as stated in the Royalties for Regions Act 2009. To provide a more thorough assessment, this was combined with the purpose with the Royalties for Regions program’s commonly stated objectives2 to develop an assessment of the extent to which a project was meeting economic and/or social objectives.

The MCA, and how the Assessment Categories flow through to the Royalties for Regions Act purpose and Royalties for Regions program objectives, is outlined in the table below.

The score in the Business Case category was calculated based on an objective evaluation of each project’s business case based on the following criteria:

- Adequate (convinced of the merits of the business case on this dimension);
- Neutral (the business case provided some material on the dimension, but required more detail to feel comfortable making a decision); or
- Inadequate (the business case did not address the dimension, or did so in a way that was not considered reasonable).

The scores in the Economic and Social categories were calculated based on an objective evaluation of a project’s ability to meet the Royalties for Regions program’s stated objectives as:

- directly and tangibly delivered/delivers (the project is considered strongly contributes to an economic or social outcome, and the business case provides compelling evidence why this is the case);
- likely to deliver (the project is targeted at an economic or social outcome, and is considered likely to achieve it);
- unlikely to deliver (the project is either targeted at an economic or social outcome but is considered unlikely to achieve it, or has the potential to indirectly contribute to an economic or social outcome); or
- does not deliver (the project is not targeted at an economic or social outcome).

1 This includes Osprey Key Workers Village that was the subject to a separate Inquiry and report.
2 Western Australian Auditor General
## Multi Criteria Assessment Tool

<table>
<thead>
<tr>
<th>Category</th>
<th>Royalties for Regions Act Purpose</th>
<th>Sub-category</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business case</td>
<td>To provide infrastructure and services in regional Western Australia</td>
<td>Yes/no</td>
<td>Does the business case have a business case</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Identified need</td>
<td>Does the business case do an adequate job of identifying a need for the project</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Project risks</td>
<td>Does the business case do an adequate job identifying risks to the successful delivery of the project and how to mitigate identified risks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Project outcomes</td>
<td>Does the business case do an adequate job identifying what outcomes the project will deliver and defining how the outcomes of the project will be assessed.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Project sustainability</td>
<td>Does the business case do an adequate job of quantifying the ongoing sustainability of the project</td>
</tr>
<tr>
<td>Economic</td>
<td>To develop and broaden the economic base of regional Western Australia</td>
<td>Expanding opportunity</td>
<td>The degree to which the project has the ability to meet the Royalties for Regions Program’s objectives of growing and building capacity in the region’s economy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retaining benefits</td>
<td>The degree to which the project has the ability to meet the Royalties for Regions Program’s objectives of attaining economic growth in the region</td>
</tr>
<tr>
<td>Social</td>
<td>To maximise job creation and improve career opportunities in regional Western Australia</td>
<td>Growing prosperity</td>
<td>The degree to which the project has the ability to meet the Royalties for Regions Program’s objective of increasing job opportunities in the region</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Attaining sustainability</td>
<td>The degree to which the project has the ability to meet the Royalties for Regions Program’s objectives of retaining and growing the region’s population</td>
</tr>
</tbody>
</table>

3 ACIL Allen Consulting
Each evaluation outcome was assigned a weighting, and the sum of the weighting of each category was used to determine an overall score and ranking for each project in representative sample. The scores and implied weighting for each variable are below:

### Multi Criteria Assessment Variable Weighting

<table>
<thead>
<tr>
<th>Evaluation outcome</th>
<th>Minimum possible score</th>
<th>Maximum possible score</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business case</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes/no</td>
<td>0</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>Identified need</td>
<td>0</td>
<td>1.5</td>
<td>15%</td>
</tr>
<tr>
<td>Project risks</td>
<td>0</td>
<td>0.5</td>
<td>5%</td>
</tr>
<tr>
<td>Project outcomes</td>
<td>0</td>
<td>0.5</td>
<td>5%</td>
</tr>
<tr>
<td>Project sustainability</td>
<td>0</td>
<td>0.5</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Economic</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expanding opportunity</td>
<td>0</td>
<td>1.5</td>
<td>15%</td>
</tr>
<tr>
<td>Retaining benefits</td>
<td>0</td>
<td>1.5</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Social</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growing prosperity</td>
<td>0</td>
<td>1.5</td>
<td>15%</td>
</tr>
<tr>
<td>Attaining sustainability</td>
<td>0</td>
<td>1.5</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>0</td>
<td>10</td>
<td>100%</td>
</tr>
</tbody>
</table>

Based on this methodology, the highest possible score a project could receive was 10, in that it had a business case, the business case was adequate and directly and tangibly delivers on each of the Royalties for Regions program’s objectives.

It is important to note that the MCA tool has been designed to rank projects based on the quality of their business case and their ability to meet the Royalties for Regions program’s stated objectives. It is not designed to determine a project’s economic feasibility, which would typically require a more detailed examination through a benefit cost analysis.

A successful business case should adequately address each of the sub-categories presented in the table above. While it is unlikely that a project would be designed to satisfy all of the Royalties for Regions program’s stated objectives, in practice it should be that projects would adequately satisfy one or more of the objectives if they were approved.

The results for each individual project business case assessed can be found in Appendix L.

4 ACIL Allen Consulting
### APPENDIX L

#### ASSESSMENT OF ROYALTIES FOR REGIONS PROJECTS AND PROGRAMS

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Project Funding</th>
<th>Overall Project Score</th>
<th>Overall Project Rank</th>
<th>Performance Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Social</td>
</tr>
<tr>
<td>Ord River Irrigation Expansion Project</td>
<td>$220m</td>
<td>6.3/10</td>
<td>7/50</td>
<td>1.5</td>
</tr>
<tr>
<td>Pilbara Underground Power (Stage 2)¹</td>
<td>$75m</td>
<td>2.8/10</td>
<td>25/50</td>
<td>0.8</td>
</tr>
<tr>
<td>The Ningaloo Centre</td>
<td>$20m</td>
<td>3.2/10</td>
<td>22/50</td>
<td>0.8</td>
</tr>
<tr>
<td>Bulgarr Regional Sports Complex</td>
<td>$4.6m</td>
<td>1.1/10</td>
<td>39/50</td>
<td>1.1</td>
</tr>
<tr>
<td>Wanangkura Stadium</td>
<td>$34m</td>
<td>1.1/10</td>
<td>38/50</td>
<td>1.1</td>
</tr>
<tr>
<td>Karratha Hospital</td>
<td>$217.15m</td>
<td>6.7/10</td>
<td>5/50</td>
<td>1.5</td>
</tr>
<tr>
<td>The Quarter</td>
<td>$66.7m</td>
<td>2/10</td>
<td>29/50</td>
<td>0</td>
</tr>
<tr>
<td>Hedland 125 Service Worker Intervention Package</td>
<td>$93.4m</td>
<td>1.4/10</td>
<td>36/50</td>
<td>0.4</td>
</tr>
<tr>
<td>Pelago East Development</td>
<td>$30m</td>
<td>1.4/10</td>
<td>35/50</td>
<td>0.4</td>
</tr>
<tr>
<td>Port Hedland Hospital Redevelopment</td>
<td>$10.835m</td>
<td>5.9/10</td>
<td>9/50</td>
<td>0.8</td>
</tr>
<tr>
<td>Osprey Village</td>
<td>$20.5m</td>
<td>1.4/10</td>
<td>34/50</td>
<td>0.4</td>
</tr>
<tr>
<td>Aurora Algae Common User Infrastructure</td>
<td>$10m</td>
<td>1.7/10</td>
<td>31/50</td>
<td>0</td>
</tr>
<tr>
<td>Blue Dog</td>
<td>$1.25m</td>
<td>1/10</td>
<td>46/50</td>
<td>0</td>
</tr>
<tr>
<td>Broome Chinatown Revitalisation</td>
<td>$10m</td>
<td>1.4/10</td>
<td>33/50</td>
<td>0</td>
</tr>
<tr>
<td>Collie Kemerton Integrated Water Management Strategy</td>
<td>$0.5m</td>
<td>1/10</td>
<td>45/50</td>
<td>0</td>
</tr>
<tr>
<td>Community Sporting and Recreation Facilities Fund</td>
<td>$14.4m</td>
<td>0/10</td>
<td>50/50</td>
<td>0</td>
</tr>
<tr>
<td>Conservation Parks Infrastructure and Roads Initiation</td>
<td>$20m</td>
<td>1.8/10</td>
<td>30/50</td>
<td>0</td>
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<tr>
<td>Department of Parks and Wildlife Headquarters, Bunbury</td>
<td>$28.5m</td>
<td>4.7/10</td>
<td>12/50</td>
<td>1.9</td>
</tr>
<tr>
<td>Food Industry Innovation</td>
<td>$5.8m</td>
<td>4.1/10</td>
<td>15/50</td>
<td>0.8</td>
</tr>
</tbody>
</table>

¹ Note: Total Royalties for Regions spend was $175 million. Stage one did not have a business case.
<table>
<thead>
<tr>
<th>Project Name</th>
<th>Project Funding</th>
<th>Overall Project Score</th>
<th>Overall Project Rank</th>
<th>Performance Indicators</th>
<th>Social</th>
<th>Economic</th>
<th>Business Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gascoyne Junction Rebuilding and Enhancement of Town Centre and Tourism Facilities – Stage 1 and 2</td>
<td>$2.5m</td>
<td>2.9/10</td>
<td>24/50</td>
<td>1.1</td>
<td>0.8</td>
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<td>0</td>
</tr>
<tr>
<td>Kalbarri Skywalk National Park Infrastructure Project</td>
<td>$20m</td>
<td>6.6/10</td>
<td>6/50</td>
<td>1.1</td>
<td>1.5</td>
<td>3.0</td>
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<tr>
<td>Karratha City Centre Infrastructure Works Project Stage 2A and 2B</td>
<td>$112m</td>
<td>3.4/10</td>
<td>18/50</td>
<td>0.8</td>
<td>1.1</td>
<td>0.5</td>
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<tr>
<td>Kimberley School Project</td>
<td>$12m</td>
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<td>49/50</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Local Government Agriculture Commodity Freight Roads Fund</td>
<td>$77m</td>
<td>7.3/10</td>
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<td>1.5</td>
<td>2.3</td>
<td>2.5</td>
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<tr>
<td>Main St. Jetty Extension</td>
<td>$6m</td>
<td>2.3/10</td>
<td>27/50</td>
<td>0.8</td>
<td>1.5</td>
<td>0</td>
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<tr>
<td>Margaret River Regional Lighthouse Precincts Redevelopment</td>
<td>$1.5m</td>
<td>6.1/10</td>
<td>8/50</td>
<td>1.1</td>
<td>1.5</td>
<td>2.5</td>
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<tr>
<td>Marine Parks Management</td>
<td>$14.3m</td>
<td>1/10</td>
<td>44/50</td>
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<tr>
<td>Midwest Solar Farm</td>
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<td>0.8/10</td>
<td>47/50</td>
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<tr>
<td>Monkey Mia Artesian Bore</td>
<td>$0.3m</td>
<td>4/10</td>
<td>16/50</td>
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<td>3.0</td>
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<td>Non-Government Organisation Housing Strategic Intervention Stage 2</td>
<td>$54.5m</td>
<td>2.2/10</td>
<td>28/50</td>
<td>0.4</td>
<td>0</td>
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<tr>
<td>Northampton Light Industrial Area Development</td>
<td>$1.8m</td>
<td>2.5/10</td>
<td>26/50</td>
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<tr>
<td>Radar as Enabling Technology</td>
<td>$25.7m</td>
<td>6.7/10</td>
<td>4/50</td>
<td>1.5</td>
<td>1.5</td>
<td>2.7</td>
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<tr>
<td>Regional Events Program – Part 1 of 3 – Tourism Staffing, Marketing and Event Leveraging Funding</td>
<td>$40m</td>
<td>8.5/10</td>
<td>1/50</td>
<td>1.5</td>
<td>3.0</td>
<td>3.0</td>
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<tr>
<td>Regional Work Camp Enhancement Program and Roebourne Work Camp</td>
<td>$45.5m</td>
<td>5.4/10</td>
<td>11/50</td>
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<td>1.1</td>
<td>2.2</td>
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<tr>
<td>Regional Youth Justice Service in the Kimberley and Pilbara Regions 2015-2017</td>
<td>$22.5m</td>
<td>3/10</td>
<td>23/50</td>
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<tr>
<td>Remote Area Essential Service Program</td>
<td>$120m</td>
<td>4.2/10</td>
<td>14/50</td>
<td>1.1</td>
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<tr>
<td>Remote Indigenous Health Clinics</td>
<td>$22.2m</td>
<td>3.3/10</td>
<td>19/50</td>
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</tr>
<tr>
<td>Project Name</td>
<td>Project Funding</td>
<td>Overall Project Score</td>
<td>Overall Project Rank</td>
<td>Performance Indicators</td>
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<td></td>
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<tr>
<td>--------------------------------------------------</td>
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<td>----------------------</td>
<td>-------------------------</td>
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</tr>
<tr>
<td>Sun City Christian Centre Facilities</td>
<td>$3.8m</td>
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<td>43/50</td>
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<td></td>
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<td>The Replacement of TransWA Road Coach Fleet</td>
<td>$15.1m</td>
<td>3.2/10</td>
<td>20/50</td>
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<td>Transforming Bunbury’s Waterfront Stage 1</td>
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<td>4/10</td>
<td>17/50</td>
<td>0.4 1.5 1.2</td>
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<tr>
<td>Water for Food Part II</td>
<td>$40m</td>
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<td>10/50</td>
<td>1.5 1.5 1.8</td>
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<tr>
<td>West End Revitalisation Scheme</td>
<td>$3.7m</td>
<td>1/10</td>
<td>42/50</td>
<td>0 0 0</td>
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<tr>
<td>Yellow Tail Kingfish Grow-Out Trial #2</td>
<td>$1.3m</td>
<td>7/10</td>
<td>3/50</td>
<td>1.5 1.5 3.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country Age Pension Fuel Card</td>
<td>$116m</td>
<td>0.4/10</td>
<td>48/50</td>
<td>0.4 0 0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional Airports Development Scheme</td>
<td>$27m</td>
<td>1.5/10</td>
<td>32/50</td>
<td>0.8 0.8 0</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Carbon Farming – Regional Natural Resources Management</td>
<td>$14.4m</td>
<td>3.2/10</td>
<td>21/50</td>
<td>0.8 0.8 0.7</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Recreational Boating Facilities Scheme</td>
<td>$20m</td>
<td>1/10</td>
<td>41/50</td>
<td>0 0 0</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Regional Economic Development Water Opportunities</td>
<td>$6.4m</td>
<td>4.4/10</td>
<td>13/50</td>
<td>1.1 0.8 1.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional Simulcast of the Vienna Philharmonic</td>
<td>$0.3m</td>
<td>1/10</td>
<td>40/50</td>
<td>0 0 0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional Workers Incentives – Project Officer Funding</td>
<td>$0.3m</td>
<td>1.1/10</td>
<td>37/50</td>
<td>0.8 0.4 0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**APPENDIX M**

**WHERE DID THE MONEY GO?**

**Chapter structure**

Building on from the Executive Summary this chapter provides a more detailed analysis of the key economic and financial drivers at play in the review period. It is separated into three sections:

- **Section 1 – Review of the general government operating position** – the period 2008-09 to 2016-17 was characterised by a significant deterioration in the operating budget of the General Government sector. The General Government sector traded from a surplus of $318m in 2008-09, to a record high deficit of $3bn by 2016-17. The deterioration in the operating budget reflects multiple issues, which are examined in this section.

- **Section 2 – Review of the State balance sheet position** – From 2008-09 and 2016-17, the balance sheet of the WA State Government was characterised by a significant increase in liabilities such that the net debt position of the State increased almost five-fold during this period. This rise in debt is primarily due to higher borrowings by the WA General Government sector, which were directed to asset investment as well as the need to plug the rising gap between recurrent expenditure and revenue. The factors contributing to this sharp rise in State debt are examined in this section.

- **Section 3 – Review of the economic environment** – the period 2008-09 to 2016-17 was one of the most unique chapters in Western Australia’s economic history. The rapid change in macroeconomic conditions experienced during this period underpin the current condition of State finances. It is therefore critical to understand these dynamics in examining Budget performance.

- **Section 4 – Key findings and recommendations** – a number of key findings and related recommendations are made on the basis of the analysis contained in Sections 1-3.
SECTION 1 - REVIEW OF THE GENERAL GOVERNMENT OPERATING POSITION

The period 2008-09 to 2016-17 was characterised by a significant deterioration in the operating budget of the General Government sector. The General Government sector traded from a surplus of $318m in 2008-09, to a record high deficit of $3bn by 2016-17. The deterioration in the operating budget reflects multiple issues, including the macroeconomic conditions of the time. However, this period of the State’s Budget history was notable not only for the scale of the deterioration in the operating position, but also for the fact that the State was unprepared when it occurred.

Introduction

The Total Public sector of Western Australia includes the General Government sector, Public Non-Financial Corporations (which includes entities operating on a predominantly cost recovery basis like the State’s ports, and the electricity and water utilities), and Public Financial Corporations sector (which includes agencies such as the Western Australian Treasury Corporation and the Insurance Commission of Western Australia).

This section examines the trends in both revenue and expenditure of the General Government sector. General Government revenue and expenditure collectively comprise the operating budget (or income statement) of the State Government. The period of analysis for this study (2008-09 to 2016-17) was characterised by a significant deterioration in the operating budget of the General Government sector. The General Government sector traded from a surplus of $318m, in 2008-09, to a record high deficit of $3bn by 2016-17 (Figure 1).

The General Government sector of the Western Australian State Government refers to the group of government-controlled entities (or agencies) that provide public services which are mainly non-commercial in nature; for the collective consumption of the community (involving the transfer or re-distribution of income); and budget-funded.

The operating budget of the General Government sector is the largest of the three components that make up the Total Public sector with the General Government sector (in 2016-17) accounting for 60% of the revenue of the Total Public Sector, and 63% of total expenditure.

Figure 1 confirms that the General Government sector fell into an operating deficit in 2014-15 for the first time in 14 years. On average over the period of analysis General Government revenue increased by 3.8% per annum while expenses rose by 6.6% per annum. Figure 1 shows that the annual change in General Government expenses exceeded the annual change in revenue in six out of the nine years that comprise the period of analysis.

The change in revenue briefly exceeded the change in expenses in 2013-14, enabling the State Government to sustain a small operating surplus in that year. And while the State Government managed to reduce its expenditure growth from 2013-14, the unprecedented consecutive decreases in General Government revenue in 2014-15 and 2015-16 saw the operating budget slip into deficit.
The deterioration in the operating budget of the General Government sector reflects multiple issues, including the macroeconomic conditions of the time. The period of analysis was notable not only for the scale of the deterioration in the budget, but also for the fact that when it occurred it exposed the State’s inability to respond to the deterioration. The significant fluctuation in the operating balance late in the period caught the government by surprise and it also exposed a budget that was burdened by material structural imbalances which could not be corrected in a short period of time.

Figure 2 shows successive State Budget forecasts of the General Government operating balance across the forward estimates. It is evident that 2014-15 was the critical turning point. Although budget surpluses were initially predicted for that year and beyond (including in the 2014-15 Budget itself), as shown in Figure 1, a budget deficit prevailed in 2014-15 and progressively grew larger in 2015-16 and 2016-17 (also unforeseen prior to and including the 2014-15 Budget).

Figure 2: Successive WA State Budget forecasts of the General Government operating balance

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1 Successive State Budget Papers
2 Successive State Budget Papers
This section examines the trends in General Government revenue and expenditure that led to the progressive deterioration in State finances through the period of analysis. Trends in General Government revenue are examined first followed by expenditure trends.

General Government revenue

Aggregate trends

The State Government earns income from multiple sources to fund service provision and infrastructure to the WA community. This section examines trends in State revenue streams during the period of analysis (2008-09 to 2016-17) to identify key issues that contributed to the deterioration in WA’s State finances.

Figure 3 shows aggregate revenue earned by the WA Total Public Sector and the General Government sector since 2000-01. Revenue earned by the General Government Sector predominantly funds public services and infrastructure provided by government agencies. Revenue earned by public financial and non-financial corporations (predominantly the electricity and water utility corporations) typically funds the services and infrastructure provided by those corporations, although dividend payments are often made by these corporations to the General Government sector, which also help fund service provision within the General Government sector.

In 2016-17, the Total Public Sector managed a revenue base of around $44.7bn including a revenue base of approximately $26.7bn managed by the General Government sector (Figure 3).

Figure 3 shows that General Government revenue peaked in 2013-14 at almost $28bn, representing a 119% increase over 10 years. This reflects the strong domestic and global economic conditions that prevailed during this period. However, reflecting the shift in economic conditions in WA (see Section 2), General Government revenue decreased in 2014-15 and 2015-16. Consecutive years of decline in State revenue is unprecedented in the modern history of the State but so too was the high level of revenues fuelled by unprecedented growth in the State’s predominant resource sector. The peak revenue position reached in 2013-14 reflected these circumstances. General Government revenue recovered in 2016-17, albeit with a moderate 0.7% increase in income recorded during the year.

Figure 3 also illustrates the volatility in General Government revenue from year to year, with the annual percentage change in revenue rarely flat or broadly constant through time. During the period of analysis, General Government revenue increased by an average of 3.8% per annum, with a peak increase of 13.4% in 2009-10 and a peak decline of 3.3% in 2015-16. This volatility is reflective of both the nature of the WA economy, as well as the nature of the State’s revenue base.
Revenue base

Figure 4 illustrates the core items that make up the revenue base of the WA Government. Grants and subsidies were the largest contributor to State revenue during the period of analysis, comprising on average 33% of total General Government revenue.

Figure 4: WA general government revenue by source

The State Government receives grants and subsidies from the Commonwealth Government to fund services and infrastructure. These are paid in the form of general purpose grants, which are not tied to any specific usage, and specific purpose payments. Goods and Services Tax (GST) grants (a general purpose grant)

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Figure 3: Revenue earned by the State Government of Western Australia, 2000-01 to 2016-17

The State Government receives grants and subsidies from the Commonwealth Government to fund services and infrastructure. These are paid in the form of general purpose grants, which are not tied to any specific usage, and specific purpose payments. Goods and Services Tax (GST) grants (a general purpose grant)
typically make up the bulk of the State’s revenue relating to grants and subsidies. On average, GST grants accounted for 34% of total grants and subsidies received during the period of analysis.

Taxation was the second largest contributor to the State’s revenue take during the period of analysis, comprising 31% of revenue, on average. Taxation includes the State’s payroll tax receipts, property taxes and taxation on other goods and services (such as gambling, insurance, etc.).

Royalty receipts comprised, on average, 16.5% of revenue during the period of analysis, although its share rose as high as 22% in 2013-14 as the volume and value of the State’s mineral output increased in response to rising commodity prices. Royalty income as a share of total revenue has grown substantially, from 7.2% in 2005-06, and although this share has fluctuated it has remained high (at 20% in 2016-17), despite the significant decline in the iron ore price. The remaining sources of General Government revenue include interest, sales of goods and services, and other revenue, which together comprised 20% of General Government revenue on average during the period of analysis.

Revenue concentration

Overall, the revenue base of the State is fairly narrow. On average, 38% of General Government revenue was concentrated within just three sources of income during the period of analysis – iron ore royalties (14.3%), payroll tax receipts (12.2%) and GST grants (11.6%).

While there have been changes in the individual size and importance of iron ore royalties, payroll tax receipts and GST grants to the State over time, their combined contribution to total General Government income has not changed significantly in recent history. Between 2000-01 and 2007-08, these three sources of revenue accounted for 36% of General Government revenue on average – not far off the average 38% share held during the period of analysis. The relatively constant share held by these three sources of revenue reflects the fact that GST grants adjust lower or higher as the State Government’s own-source revenues (i.e. income it earns of its own accord such as payroll tax and royalties) increase or decrease.

Figure 5 provides a comparison of the revenue base of the WA State Government to other States during the period of analysis. It confirms the concentration of General Government revenue in WA relative to other States. Over the period of analysis payroll tax, land tax, transfer duty and royalties accounted for, on average, 38% of General Government revenue in WA. Most of this was accounted for by payroll tax and iron ore royalties alone, which together made up 24% of total General Government revenue in WA.

Over the same period, however, the share of total General Government revenue made up by payroll tax, land tax, transfer duty and royalties was much lower in New South Wales (25.7%), Victoria (21.2%), Queensland (20.7%) and South Australia (15.7%). The narrowness of the WA Government’s revenue base increases its vulnerability to sharp changes in those revenue sources.
Revenue projections

WA Treasury prepare forecasts of the State Government’s revenue streams each year as part of the State Budget. Projections are prepared over a four-year time horizon, including the Budget year itself (known as the forward estimates period). The accuracy of revenue forecasts are critical to State finances as the projections inform future expenditure decisions by the State Government. Overestimating future revenue growth can lead to over commitment on future public spending.

Figure 6 illustrates the accuracy of WA Treasury’s Budget forecasts of annual changes in total General Government revenue over successive forward estimates periods relative to actual revenue change over the same periods.

Budget forecasts of revenue growth in the early part of the period of analysis were conservative compared to actuals before significantly overshooting actual growth from the 2012-13 Budget. Most notably, the decreases in revenue which prevailed from the 2014-15 and 2015-16 Budgets were completely unforeseen. WA Treasury subsequently ramped down forecast revenue change in the 2016-17 Budget, only for actual growth to return to positive territory in that year.

The overestimation of total General Government revenue from the 2012-13 Budget is mainly due to optimism on taxation and royalty revenues. These revenue sources are therefore examined in detail below, although grants and subsidies are also addressed given their importance to overall income for the State.

Figure 5: State Government’s major own source revenues and GST grants as a % of total General Government revenue\(^5\)

\(^5\) Successive State Budget Papers
The overestimation of total General Government revenue from the 2012-13 Budget is mainly due to optimism on taxation and royalty revenues. These revenue sources are therefore examined in detail below, although grants and subsidies are also addressed given their importance to overall income for the State.

Royalties

Mineral and petroleum royalties are an income source for the State Government as they are levied on the premise that resources are owned by the WA community. A royalty is a purchase price for the resource, reflecting the fact that the community should earn a fair return for the loss of its non-renewable mineral resources. Royalties are levied on both mineral and petroleum extraction in WA.

Mineral extraction in Western Australia is diverse and includes some 50 different minerals in commercial production. Under the Mining Act 1978 (WA), royalties are payable on all minerals. Petroleum royalties collected for onshore projects are retained by the State Government, while offshore royalties are shared between the State and Commonwealth in accordance with the relevant legislation.

Royalties comprised less than 5% of total General Government revenue in the late 1990s, although its importance as a revenue source for the State increased significantly as global commodity prices and domestic extraction both increased through the 2000s. By 2008-09 royalties accounted for over 12% of total revenue and reached a record high share of 22% in 2013-14. Royalties accounted for almost 20% of revenue in 2016-17.

Iron ore royalties

Figure 7 confirms that the growth in importance of royalties to General Government revenue is very much explained by iron ore royalties specifically. On average, iron ore royalties accounted for 86% of total mineral and petroleum royalties, and 14.3% of total General Government revenue during the period of analysis.

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6 Successive State Budgets; * denotes that forward estimates in these years are only compared to years in which actual data is available
The growth in iron ore royalty receipts reflects the State’s vast wealth of iron ore deposits, which were developed in earnest as the global iron ore price rose sharply through the mid-2000s. This delivered higher royalty income to the State due to the ad valorem royalty mechanism levied on iron ore. Under this mechanism, royalties are calculated as a proportion of the ‘royalty value’ of the mineral where the royalty value is broadly calculated as the quantity of the mineral in the form in which it is first sold, multiplied by the price in that form, minus any allowable deductions.\(^9\)

This concentration of State income within a single source of revenue created significant risk for the State Government during the period of analysis. Accurately forecasting short to medium term global iron ore price movements and domestic production volumes became an even more critical task in order to keep State finances on a sustainable footing.

As illustrated in Figure 8, projected growth in iron ore royalty revenues was highly conservative over the forward estimates in each of the 2008-09, 2009-10 and 2010-11 Budgets. This delivered significant windfalls to the State Government. For example, over the respective forward estimates periods of the above three budgets, the State Government earned $3.4bn, $4.3bn and $5.1bn more than it had forecast due to the conservatism of the projections.

While forecasts contained in the 2011-12 Budget were relatively accurate, projections between the 2012-13 and 2014-15 Budgets were over-optimistic, culminating in the 2014-15 Budget which expected average yearly growth in iron ore royalty revenue over the forward estimates, against an actual average decrease.

\(^9\) Successive State Budget Papers
Projections of iron ore royalty revenue over the forward estimates were subsequently revised down sharply in the 2015-16 and 2016-17 Budgets, although actual revenues increased over these periods relative to the decreases that were projected. Notably, actual iron ore royalty receipts increased by over 30% in 2016-17 against a projected 10% decline.

The deficit in expected iron ore royalties relative to actual from 2014-15 was a material driver of the reduction in the General Government operating balance between 2014-15 and 2016-17. This change in just one revenue source available to the State illustrates the risk that developed in managing State finances over this period. To illustrate the point, all else equal if forecasts of iron ore royalties contained in the 2013-14 Budget had been realised through to 2016-17, then the General Government operating balance would not have fallen into deficit until 2016-17 and would have been 46% lower in any case than the prevailing deficit in 2016-17 (i.e. a $1.6bn deficit rather than the prevailing $3bn deficit in 2016-17).

Figure 8: Successive projections of change in iron ore royalty receipts relative to actual

Understanding why the forecast of iron ore royalties from 2014-15 were so unpredictable is important in understanding the risks that were imbedded in State finances at the time.

Iron ore price forecast accuracy

Figure 9 below shows the forecast price of iron ore in successive budgets compared to the actual price. Both the benchmark Free on Board (FOB) and Cost and freight (CFR) prices of iron ore are shown in Figure 9.

From the 2010-11 Budget, iron ore price assumptions were reported on the FOB basis (i.e. excluding freight), while price assumptions were reported on the CFR basis from the 2013-14 Budget. The 2015-16 and 2016-17 Budgets only reported prices on a CFR basis. Additionally, prices in Figure 9 are only shown from 2010-11 Budget as iron ore price assumptions prior to this time were not reported, given that forecasts were based on a percentage change to annual contract prices.

[11] Successive State Budgets; * denotes that forward estimates in these years are only compared to years in which actual data is available
It is evident from Figure 9 that price forecasts formulated across various Budgets for the 2011-12, 2012-13 and 2013-14 years were relatively accurate. However, Figure 9 illustrates that 2014-15 marked a critical turning point in the global iron ore market. Benchmark prices decreased substantially in that year: -43% on a FOB basis and -42% on a CFR basis over the year. However, none of the Budgets prior to (and including) the 2014-15 Budget foresaw the sharp decline in the iron price from 2014-15. For example, across the forward estimates of the 2014-15 Budget itself, the actual iron ore price was on average, 47% lower than forecast prices. With the collapse in price observed in 2014-15, the 2015-16 Budget saw WA Treasury apply drastic downward revisions to projections of the iron ore price for that year and beyond.

However, given the volatile and opaque characteristics of the world iron ore market, a key question in this regard is whether any commodity forecasters correctly picked the turning point in the global iron ore price from 2014-15. Figure 10 shows the average of Consensus Economics market forecasts of the iron price during the period of analysis. Average forecasts are shown according to the year in which they were made (average of quarterly forecasts are shown in Figure 10), with projections compiled by Consensus Economics for the coming 10-quarter period.

The critical period from June 2014 to June 2017 is clearly marked in Figure 10. The iron price fell sharply during this time, a decline that was largely unforeseen by both WA Treasury and Bureau of Resource and Energy Economics. It is evident from Figure 10 that market forecasters also did not predict the severity of the decline in the iron ore price from June 2014. Forecasts made in 2011-12, 2012-13 and 2013-14 failed to foresee the price decrease (although it is clear that a downward trend in the iron ore price was expected for some time).

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12 Successive State Budget Papers; WA Treasury; ^FOB price, *CFR price
13 Consensus Economics prepares monthly compilations of mineral and energy forecasts published by a range of different forecasters around the world.
For example, forecasts made in 2013-14 for 2014-15 and 2015-16 were on average 36% and 48% higher than actual respectively. Even market forecasts prepared throughout 2014-15 for 2015-16 were on average 35% higher than the actual prevailing price.

The difficulties in accurately forecasting global iron prices during this period of time were therefore not limited to WA Treasury alone. A large part of the complexity in forecasting the world iron ore price stemmed from a structural change in the iron ore market which occurred in the late 2000s.

Figure 10: Consensus Economics, average of successive market projections of the global iron ore price relative to actual (USD per tonne)\textsuperscript{14}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{iron_ore_price_forecasts.png}
\caption{Consensus Economics, average of successive market projections of the global iron ore price relative to actual (USD per tonne)\textsuperscript{14}}
\end{figure}

In the 2008-09 and 2009-10 WA Budgets, Treasury’s Budget-year iron ore price forecasts were based on the actual or anticipated outcome of annual benchmark contract negotiations between the three largest iron ore producers (Vale, BHP and Rio Tinto) and major European, Japanese and Chinese steel mills. When one major iron ore producer and steel mill secured an agreement, other market participants typically followed with the same annual change in contract prices.

Treasury’s price assumptions across the forward estimates were then based on analysis of market fundamentals, spot prices and consensus estimates. Iron ore price assumptions were reported as a forecast percentage change in price rather than benchmark spot prices, which were relatively new at the time.

The annual benchmark contract system resulted in much more predictable movements in iron ore prices and royalty revenue, although contract negotiations sometimes extended beyond the Budget cut-off date, which caused unanticipated movements in prices and royalty revenue.

\textsuperscript{14} Consensus Economics. Note: FOB price projections were provided until Q2 2014 after which time CFR price forecasts were provided. Actual CFR price shown is price at the end of each quarter.
The annual benchmark system began to break down from 2008 when producers and mills no longer accepted the prices negotiated by other parties. In 2009, the market began to shift towards contracts negotiated on a quarterly basis or linked to the spot price. This greatly increased unanticipated price and royalty revenue volatility, particularly as the share of WA General Government revenue from royalties increased.

Iron ore price forecasting methodology

Keeping the challenges in forecasting global iron ore price movements in mind, it is still important to consider the appropriateness of the forecasting approach employed by WA Treasury. The approach was refined throughout the period of analysis as price movements and market circumstances changed.

From the 2010-11 Budget, WA Treasury introduced a detailed iron ore price forecasting methodology to match developments in the iron ore pricing system. Iron ore price assumptions were reported on the benchmark FOB basis, with forecasts comprising a starting point, interpolation and end point.

The starting point of forecasts was the latest quarterly contract price, which was estimated as the average benchmark FOB spot price over the previous three months. Prices over the forward estimates were derived from a linear interpolation to the mean long-run price published by Consensus Economics in the last month of the forecast period (e.g. June 2014 in the 2010-11 Budget).

The linear interpolation from the current spot price to a mean long-run price meant that Treasury’s forecast methodology was unable to reflect short term fluctuations in the iron ore price. For example, if the current quarterly price was high for a given budget year and the long-run price was also high, the linear interpolation employed would have suggested that prices would remain high over the forward estimates. This left the State vulnerable to sharp, near term movements in the iron ore price.

Moreover, Treasury often removed forecast outliers from the mean long-run price published in the Consensus Economics Survey if it was judged that these were skewing the mean. This meant that any projections correctly predicting a sharp decrease in future iron ore prices may have been removed from Treasury’s forecasting process, being deemed an outlier. This would have biased the forecasts prepared by Treasury to the upside.

Although this methodology was adjusted in subsequent years, the same risks of inaccuracy discussed above remained. Notably in the 2014-15 Budget, WA Treasury put forth its contention that the stability and lack of short-term volatility implied by its forecasting methodology was required for budget planning. However, it was precisely this inability to gauge short-term volatility that adversely affected the General Government operating budget.

The latest 2017-18 State Budget appears to have picked up on the inflexibility of the previous forecasting methodology. Medium-term price assumptions are now derived from the mean of medium-term Consensus Economics estimates, rather than from a mean long-run Consensus estimate. WA Treasury believes that this change is expected to reduce volatility in medium-term price assumptions and royalty projections, and better align Treasury’s price assumptions with other forecasters.

15 Consensus Economics prepares monthly compilations of mineral and energy forecasts published by a range of different forecasters around the world.
**Taxation**

The State Government levies taxes on a range of activities, including the payment of wages, gambling, insurance, and transactions and ownership of property and motor vehicles. Taxation was the second largest contributor to the General Government revenue take during the period of analysis, comprising 31% of revenue, on average.

Payroll tax accounted for approximately 40% of General Government taxation revenue during the period of analysis and also made up 12.2% of total General Government revenue over the same period. Property related taxes accounted for 33% of General Government taxation revenue on average, during the period of analysis. Property taxes include land tax, Metropolitan Region Improvement Tax (MRIT), transfer duties and other taxes. Remaining ‘other’ tax revenue comprise taxes on goods and services and include gambling, insurance, motor vehicle taxes, the Mining Rehabilitation Levy and the Landfill Levy.

Figure 11 illustrates the relative size of the three broad sources of State taxation revenue (payroll taxation, property taxes and other taxes) through time and the ratio of taxation revenue to total General Government revenue.

Figure 12 shows successive forecasts of taxation revenue relative to actual over consecutive forward estimates during the period of analysis. Figure 12 confirms that growth projections over the forward estimates were generally below actual growth until the 2011-12 Budget. The change in taxation revenue was subsequently overestimated in each budget from the 2011-12 Budget.

FIGURE 11: WA taxation revenue by source, and as a % of total General Government revenue\(^\text{16}\)

\(16\) Successive State Budget Papers
Figure 12: Successive projections of change in General Government taxation receipts relative to actual\textsuperscript{17}

<table>
<thead>
<tr>
<th>Year</th>
<th>Projected average over forward estimates</th>
<th>Actual average over forward estimates</th>
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<td>2016-17 Budget*</td>
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Figure 13: Successive projections of change in payroll tax receipts Relative to actual\textsuperscript{18}

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<th>Year</th>
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<th>Actual average over forward estimates</th>
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<td>2016-17 Budget*</td>
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Payroll tax revenue

Payroll tax is a general purpose usually tax assessed on the wages paid by an employer for services provided in Western Australia. The payroll tax rate is generally levied at a flat rate on the value of employer payrolls above a specified threshold.

\textsuperscript{17} Successive State Budgets; * denotes that forward estimates in these years are only compared to years in which actual data is available
\textsuperscript{18} Successive State Budgets; * denotes that forward estimates in these years are only compared to years in which actual data is available
As such, payroll tax revenue is driven primarily by growth in employment and wages. Employment growth was initially underestimated relative to actual growth over the forward estimates in the early years of the period of analysis, before being overestimated in each of the budgets between 2012-13 and 2015-16.

Projections of wages growth followed a similar pattern as employment projections made over the period of analysis, although wages growth was consistently overestimated relative to actual from the 2010-11 Budget through to the 2016-17 Budget. This reflected a failure to gauge the speed at which wages growth actually unwound in WA.

Figure 14 confirms that consistency existed in the State Budget forecasts of growth in wages, employment and that of payroll tax receipts.

**Figure 14: Forecasts of the change in payroll tax receipts, wages and employment over successive forward estimates periods**

<table>
<thead>
<tr>
<th>Budget Year</th>
<th>Payroll Taxation</th>
<th>Wage Price Index</th>
<th>Employment</th>
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<td>2016-17 Budget*</td>
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The stabilisation in wages growth from 2013-14 to the end of the period of analysis – while gauged by WA Treasury – was largely underestimated. This may reflect a belief that wages growth is often ‘sticky’, in that employers often face difficulty in paring back wage bills, especially after periods of rapid wage increases. However, the severity of the broader economic downturn in WA meant wages growth was brought under control relatively quickly.

Along with overestimates of employment growth during this period, the overestimation of wages growth also underpinned the lower than expected payroll tax revenue earned by the State Government during this period.

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19 Successive State Budget Papers; * denotes that forward estimates in these years are only compared to years in which actual data is available.
Cyclical and structural considerations

Employment and wage drivers can be characterised by structural and cyclical components (which are examined in detail in Section 3). Cyclical factors were an influence during the period of analysis as employment and wages growth both softened more quickly than expected as economic conditions in WA weakened.

However, structural factors were also a consideration as employment growth during the period of analysis was characterised by higher growth in part time and casual jobs compared to full time jobs growth (see Section 3). This has obvious implications for the value of an employer’s payroll tax liabilities.

Figure 15 shows the value of actual payroll tax revenue to the State per worker in WA (i.e. across the entire workforce), and the ratio of actual payroll tax revenue to total General Government revenue.

**Figure 15: Payroll tax revenue per worker and percentage share of General Government revenue accounted for by payroll tax, Western Australia**

Figure 15 would suggest that the levelling-off in payroll tax receipts from 2013-14 is likely to be more cyclical than structural in nature, with the reduction in revenue per worker coming after a period of sharp growth in payroll tax revenue relative to the size of the WA workforce.

For example, at its peak in 2013-14 the value of payroll tax revenue per worker in WA had more than doubled compared to 10 years previously, and was almost 40% higher over the previous five year period. This occurred mostly as a result of broader employment and wages growth, as no major adjustments were applied to the payroll tax rate or threshold over the period of analysis.

Meanwhile, the share of payroll tax revenue relative to all other General Government revenue sources remained around 12% after 2013-14, despite payroll tax having decreased in aggregate nominal terms during this period (i.e. the decline was commensurate with broader weakness in the State’s revenue base). Structural drivers of the decline in payroll tax revenue would be expected to see a sharper and more sustained decrease in these metrics through time compared to other revenue sources than what has been observed to date (although a longer time series is needed to judge this accurately).

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20 Successive State Budget Papers, Australian Bureau of Statistics
Grants and subsidies

As noted above, grants and subsidies from the Commonwealth Government comprised, on average 33% of total General Government revenue over the period of analysis. The State Government receives grants and subsidies from the Commonwealth in order to carry out a range of assigned duties. These are paid in the form of general purpose grants (which are not tied to any specific usage) and specific purpose payments (tied to a specific purpose). Specific purpose grants are typically aimed at funding infrastructure and services related to health, education, workforce development, disability services, and housing.

Figure 16 confirms that the value of grants and subsidies levelled-off over the period of analysis at approximately $8bn per annum. However, the importance of grants and subsidies as a revenue source reduced over this time relative to other sources of State income. The share of General Government revenue represented by grants and subsidies progressively reduced over this period from 42% of General Government revenue in 2008-09 to a low of 28% in 2015-16 (this share rose to 30% in 2016-17). This reflects the reduction in Goods and Services Tax (GST) grants from the Commonwealth during the period of analysis.

Figure 16: WA grants and subsidies by source, and as a % of total General Government revenue

Figure 16 illustrates that GST grants from the Commonwealth is typically the single largest item of grant and subsidy revenue provided to the State Government. However, the share of revenue accounted for by GST grants has reduced over time – from 44% of total grant and subsidy revenue in 2008-09 to 24% in 2016-17. This reflects the much publicised Commonwealth Grants Commission process of achieving horizontal fiscal equalisation across Australian States and Territories. These issues are discussed in further detail below.

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21 Successive State Budget Papers

22 The Commonwealth Grants Commission (CGC) recommends how the revenues raised from the GST should be distributed to the States and Territories to achieve horizontal fiscal equalisation (HFE). HFE as defined by the CGC is a process by which State governments should receive funding from the pool of GST revenue such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.
GST grants

GST grants to WA were reduced during the period of analysis as the State’s ability to raise revenue from its own sources increased during this time – primarily from iron ore royalties and payroll taxation. Despite the decrease in GST grants to WA during the period of analysis, total grant and subsidy revenue to the State remained largely unchanged during this time, at approximately $8bn per annum (Figure 16). This is indicative of rising non-GST grant revenues provided to the State – particularly grants for health and education purposes.

Although GST grants decreased by an aggregate $2bn during the period of analysis, this was offset by grants for health and education from the Commonwealth, which increased by almost $2.3bn over the same period (although increases in these non-GST grants were in line with increases to other States on a per capita basis – see the section on non-GST grants below).

Figure 17 and Figure 19 demonstrate these issues, with Figure 19 replicating Figure 16 although iron ore royalty receipts and payroll tax revenue are also plotted together with GST grants and other grants to the State. It demonstrates that although WA’s GST grants were clipped during the period of analysis, it did not create a hole in State finances as large as the public debate on this issue might suggest. Other State income sources largely replaced the State’s declining GST grants during the period of analysis.

Figure 17 illustrates this point, showing the share of total General Government revenue accounted for by GST grants; other Commonwealth grants and subsidies; iron ore royalties; and payroll tax revenue. It is evident from Figure 17 that although WA’s falling GST revenue was a constraint on State finances, this effect was offset by a combination of non-GST grant revenue, iron ore royalties and payroll tax receipts.

The rise in these revenue sources kept the aggregate share of these four sources of revenue as a proportion of total General Government revenue at approximately 60% throughout the period of analysis. The notable exception is 2014-15, when this share fell to 55%, as iron ore royalty revenue and payroll tax receipts decreased sharply and GST grants also decreased.

Figure 17: Selected revenue sources for the WA Government

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23 Successive State Budget Papers
This raises the issue of equity for WA, being effectively penalised with lower GST grants due to its ability to raise own-source revenue in the form of royalties and other taxes, while the method of assessing and calculating GST grants to the States (i.e. a three-year assessment period and two-year lag) has meant that GST payments have not recovered in time to plug the hole in revenue left by sharp decreases in those own source revenues since 2014-15 (Figure 18).

Figure 18: GST grants, other grants and iron ore royalties, share of General Government revenue

![Graph showing GST grants, other grants, and iron ore royalties compared to General Government revenue over time.](Figure 18)

Figure 19: Yearly change in WA General Government revenue, by revenue source

![Graph showing the yearly change in WA General Government revenue by various sources over time.](Figure 19)
Projections of GST payments to the State

Figure 20 shows successive Budget estimates of the expected change in GST grants over the forward estimates periods relative to the actual change over the same period. Figure 20 confirms that, overall, WA Treasury foresaw the impending decline in GST grants to the State. In most years of the period of analysis, WA Treasury’s projected decline in GST grants were more aggressive than the actual decreases that prevailed.

The sharp forecast decreases in GST grants (up to the 2014-15 Budget) were driven by a belief that other own-source revenue streams would continue to remain relatively high over the forward estimates, thereby reducing the State’s GST returns.

The Productivity Commission\(^{26}\) has also noted that WA’s falling GST shares were predicted by WA Treasury. In the 2011-12 Budget, the Productivity Commission point out that the State projected a fall in its GST relativity (WA’s relative per capita share of GST grants, which is the ratio of WA’s GST grant share to its population share) from 72% to 33% by 2014-15 (the actual relativity in 2014-15 was 38%).

**Figure 20: Successive projections of change in GST grants relative to actual\(^{27}\)**

Non-GST grants

As shown in Figure 17, non-GST grants were also an important source of income to the State during the period of analysis. Non-GST grants accounted for 21% of total General Government revenue during the period of analysis.

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\(^{27}\) Successive State Budgets; * denotes that forward estimates in these years are only compared to years in which actual data is available.
Non-GST grants comprise of grants through the State (Commonwealth payments to assist schools, local governments and local government roads), specific purpose grants (Commonwealth payments for health, education, disability and housing services delivered by the State), and other grants / partnerships payments. Specific purpose grants are the largest of these grants, accounting for 43% of all non-GST grants to the State during the period of analysis, and over 9% of total General Government revenue during the period of analysis.

The largest of all non-GST grants centre on funding for health and education. On average, health and education related grants accounted for over 61% of total non-GST grants during the period of analysis. However, the importance of health and education grants rose over the period of analysis, from just over 50% in 2008-09 to close to 70% by 2016-17.

It needs to be remembered that the provision of grants to States or not for profit entities or non-statutory entities has a direct impact on GST relativities.

Figure 21: Non-GST grants to the WA State Government, 2008-09 to 2016-17

28 Successive State Budget Papers
Figure 21 illustrates that health and education related grants to Western Australia increased steadily on a per capita basis during the period of analysis. Per capita health grants increased by an average of 4.3% per annum during the period of analysis, while education grants rose by an average of 4.7% per annum. Figure 23 and Figure 24 also confirm that the rise in WA’s health and education grants over this period have broadly kept pace with the per capita change in these payments by the Commonwealth to other States. The per capita data shown in Figure 23 and Figure 24 for WA differs from Figure 25 as they capture specific purpose payments only to the States (i.e. excluding any other partnership payments and grants through the State that may be related to health and education).

Figure 23: Specific purpose health grants to major States, per capita basis, 2008-09 to 2016-17

Notably, Figure 3-25 above also shows that per capita grants unrelated to GST, health or education shrunk by an average of 1.6% per annum during the period of analysis. This reflects sharp decreases in the absolute value of these grants in 2014-15 and 2015-16. The decreases in 2014-15 and 2015-16 totalled $712m, and were partly offset by an additional $512m in health and education related grants. These decreases nonetheless added to budget constraints, particularly as they coincided with the collapse in WA’s major own-source revenues of iron ore royalties and payroll taxes.

Figure 22: Non-GST grants to the WA State Government, per capita basis, 2008-09 to 2016-17

Successive State Budget Papers
Commonwealth Budget papers
Notably, Figure 22 above also shows that per capita grants unrelated to GST, health or education shrunk by an average of 1.6% per annum during the period of analysis. This reflects sharp decreases in the absolute value of these grants in 2014-15 and 2015-16.

The decreases in 2014-15 and 2015-16 totalled $712m, and were partly offset by an additional $512m in health and education related grants. These decreases nonetheless added to budget constraints, particularly as they coincided with the collapse in WA’s major own-source revenues of iron ore royalties and payroll taxes. For example, all else equal, had the State continued to receive non-GST, non-health and non-education related grants from 2014-15 to 2016-17 at the same per capita level as it did in 2013-14, it may have improved the budget bottom line by approximately $1.4bn in total across these three years. This would have reduced the prevailing General Government operating deficit in 2016-17 by approximately 15% (or $448m).

**Hypothecated revenue**

Hypothecated revenue refers to government revenue sources that are specifically designated to be spent on a particular programme or use. The most prominent examples of own-source revenue hypothecation in WA include vehicle licensing fees (which are transferred to Main Roads WA for investment in the road network) and Royalties for Regions (whereby a portion of royalties are transferred to the Department of Regional Development for investment in regional infrastructure and programs).

A large portion of Commonwealth grants to the State are also hypothecated. Specific purpose grants to the State (e.g. for health, education, housing etc.) and through the State (e.g. to support local governments, schools etc.) explicitly limit the uses of those funds.

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21 Commonwealth Budget papers
Although the hypothecation of government revenue is often promoted on the basis of transparency and accountability (as tax payers have clarity on where the tax they remit is spent), hypothecation can also curtail a government’s flexibility to spend when and where it is needed most\(^{32}\). This inflexibility is a constraint in the context of economic efficiency if the hypothecated revenue can achieve better value for money elsewhere (e.g. to retire debt).

It is important to note that hypothecated revenue, by way of being designated for a specific purpose, cannot typically be offset by reducing non-hypothecated revenues to the beneficiary agency. For example, vehicle licensing fees are hypothecated to Main Roads with the specific purpose of investing in the road network. It is difficult for the State Government to subsequently reduce Main Roads’ annual appropriation (which is largely committed toward operating the agency) in recognition of the hypothecated revenue stream.

Flexibility in committing revenue to the most economically efficient endeavour is particularly critical during lean budgetary times, especially if public debt is rising rapidly (as was the case during the period of analysis).

Figure 25: Hypothecated revenue, Western Australia, by source and as % of total general Government revenue\(^{33}\)
It is difficult to challenge the rationale for specific purpose payments from the Commonwealth. The Commonwealth has a legitimate interest in ensuring that tax payer funds are invested by the States to meet the health, education, housing and other basic needs of Australians. There is more of a case to argue that these grants would be more efficiently allocated if the terms and conditions contained in the grant arrangements as to how the moneys were to be used were reduced. However, the need for hypothecated own-source revenue is more debatable.

Almost $14.2bn of own-source General Government revenue was hypothecated to Royalties for Regions (RfR) and Main Roads WA (as part of road funding under the Road Traffic Act) over the period of analysis, with RfR accounting for the bulk of this. Over $8.3bn was appropriated to the RfR program from royalty receipts during the period of analysis.

**General Government expenditure**

**Aggregate trends**

State Governments play a critical role in redistributing income and wealth through the community. This is achieved through the collection of revenue, (in WA this includes taxation, royalties and Commonwealth grants) to deliver services including healthcare, education, housing, disability support services and law and order. However, in undertaking this role of redistribution and service provision, it is imperative that the State budget be managed sustainably.

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34 State Budget Papers, WA Treasury
This section examines trends in WA State Government expenditure during the period of analysis (2008-09 and 2016-17) to identify key issues that contributed to the deterioration in WA’s State finances. It is important to distinguish between General Government recurrent expenses and capital investment. Recurrent expenses are the focus of this chapter and consider spending on the operations of government agencies. Asset investment affects the government balance sheet.

Figure 27 shows the aggregate expenditure of the WA Total Public Sector and the General Government sector since 2000-01. Expenses of the General Government Sector predominantly relate to public services and infrastructure provided by government agencies (termed recurrent expenditure). Expenses incurred by public financial and non-financial corporations typically relate to the services and infrastructure provided by those corporations.

In 2016-17, the Total Public Sector had an expenditure base of around $46.9bn, of which $29.7bn (or 63%) was attributable to the General Government sector (Figure 27).

Figure 27 confirms that, although the rate of increase in General Government recurrent expenditure reduced over the period of analysis, increases in expenditure were nonetheless recorded in every year. General Government expenditure rose by an average of 6.6% per annum during the period of analysis, although expenditure growth decreased to an average of 2.9% per annum between 2014-15 and 2016-17.

In contrast, General Government revenue peaked in 2013-14 at almost $28bn, with revenue falling in 2014-15 and 2015-16, and rising marginally in 2016-17 (General Government revenue increased by only 3.8% per annum during the period of analysis as a result).

In aggregate over the period of analysis, General Government expenses increased by $10.6bn while revenue rose by only $7.2bn. The majority of this gap emerged between 2014-15 and 2016-17, when the total change in General Government expenditure exceeded the change in revenue by $3.7bn.

35 Successive State Budget Papers
Figure 27 also illustrates the volatility in General Government revenue from year to year, with the annual percentage change in revenue rarely flat or broadly constant through time. This volatility is reflective of both the nature of the WA economy, as well as the nature of the State’s revenue base.

This presented significant challenges for the State Government during the period of analysis. General Government expenditure on services and infrastructure is typically entrenched and long term in nature, while its revenue base can change sharply over short periods. Therefore, perhaps more than any other State in Australia, Western Australian governments need to exercise significant caution in managing expenditure in order to achieve sustainable budget outcomes.

**Composition of expenditure**

Part of the reason why General Government expenditure is entrenched and therefore difficult to manage in concert with rapid changes in revenue is the nature of the spending undertaken. Figure 28 shows the composition of General Government expenses by portfolio. During the period of analysis, nearly two thirds of expenditure was related to the health, education, and public order and safety.

Being essential services, funding to these portfolios cannot easily be cut in response to sharp changes in revenue. However, far from being cut, these three areas of outlay soaked up a growing share of General Government expenses during the period of analysis, rising from 61.7% in 2008-09 to 64.8% in 2016-17. This rise was driven predominately by health spending, whose share of General Government outlays increased from 24.7% in 2008-09 to 29.2% in 2016-17. Of the $10.6bn total increase in General Government spending during the period of analysis, some $7.5bn was attributable to health, education, and public order and safety.

**Figure 28: WA General Government expenditure, by function**

[Graph showing WA General Government expenditure, by function]

While acknowledging the challenges in curbing outlays in relation to essential services, it is important to consider if the rates of increase in spending recorded in these areas were justified. For example, health expenditure increased by an average of 8.4% per annum over the period of analysis, well above that of broader General Government expenditure during the same time (6.6% per annum). Notably, this continued the rate of increase in health spending recorded before the period of analysis, whereby an average of 8.5% growth per annum was recorded over the five years prior to 2008-09.

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36 Successive State Budget Papers
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Proportionality of expenditure

Examining General Government spending on a per capita basis is a useful means of measuring the proportionality of changes in expenditure over time. Recurrent expenditure on the delivery of government services would be expected to rise during periods of high population growth. For example, a general increase in service delivery requirements due to changes in the size and composition of the population may well influence spending on services such as education, health and law and order. Figure 29 shows the value of General Government expenditure during the period of analysis on a per capita basis.

Figure 29: WA General Government expenditure, by function, per capita terms

Figure 29 shows that per capita General Government expenditure continued to increase steadily during the period of analysis, with average growth of 4.6% per annum compared to 5.5% in the five years prior to 2008-09. Figure 30 confirms that WA remained above all other States in terms of per capita General Government expenditure in 2016-17.

In 2016-17, per capita General Government outlays in WA ($11,530) were 23% higher than in New South Wales, 22% higher than Victoria and 5% more than Queensland. Moreover, the 4.6% average annual growth in per capita General Government outlays in WA during the period of analysis was the highest of the major States (3.6% per annum in New South Wales; 3.7% per annum in Victoria; and 3.8% per annum in Queensland).

37 Successive State Budget Papers
Per capita General Government outlays in WA have historically been higher than other States as a result of needing to providing services across WA’s large geographic area and to disparate population clusters. However, the size of this gap to other States has widened over time. Figure 30 shows the percentage difference between per capita General Government outlays in WA and per capita outlays in New South Wales, Victoria and Queensland.

Figure 30: General Government expenditure, major Australian States, per capita basis

It is evident from Figure 30 that the difference in per capita outlays between WA and other States has followed a rising trend over time, particularly during the period of analysis. Against these three States, per capita expenditure in WA has risen from being 10% higher than average in 2007-08 to 16% higher than average in 2016-17 (although this gap rose as high as 19.5% in 2013-14).

1.2.4 Expenditure projections

WA Treasury prepare forecasts of General Government expenditure each year as part of the State Budget and Mid-year Financial Projections Statement. Projections are prepared over a three year time horizon (known as the forward estimates period) and the Budget year itself. The accuracy of expense forecasts are just as critical to State finances as the accuracy of its revenue projections. Accurate

Figure 31: Percentage difference in per capita general government outlays between WA and major Australian states

38 Respective State Budget Papers

39 Respective State Budget Papers
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**Expenditure projections**

WA Treasury prepare forecasts of General Government expenditure each year as part of the State Budget and Mid-year Financial Projections Statement. Projections are prepared over a three year time horizon (known as the forward estimates period) and the Budget year itself. The accuracy of expense forecasts are just as critical to State finances as the accuracy of its revenue projections. Accurate expenditure forecasts also inform decision-making by the State Government with regard to spending priorities, timing of outlays and scale of spending.

Unlike the macroeconomic and revenue forecasts prepared each Budget year, the State Government ought to have greater control over the future direction of its expenditure through the setting of short to medium term agency budgets. Therefore a greater level of accuracy would be expected for projections of expenditure growth.

Figure 32 illustrates the accuracy of WA Treasury’s Budget forecasts over the period of analysis, showing the forecast change in total General Government expenditure over successive forward estimates periods relative to actual change over the same periods.

Figure 32 confirms that actual expenditure growth over the Budget year and forward estimates in the first four Budgets outstripped projected growth (particularly sharply in the first three Budgets in particular). Notably, actual spending significantly exceeded the same-year Budget forecast by as much as $1.1bn in the 2008-09 Budget (5.8% of total spending), and by $917m (4.3% of total spending) in 2009-10.

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*Figure 32: Successive forecasts of growth in WA General Government expenditure relative to actual, Budget year and forward estimates ($m)*

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40 Successive State Budget Papers
Subsequent years from the 2012-13 Budget saw forecasts more accurately predict actual spending. Forecast expenditure growth was lower than actual across the Budget year and forward estimates in four of the five remaining years. This “underspend” coincides with the downturn in economic conditions in WA (see Chapter 3.3), indicating an awareness of the need to keep expenditure under control.

However, even after General Government revenue collapsed in 2014-15, actual expenditure growth over the Budget year and forward estimates exceeded the forecasts contained in the 2015-16 and 2016-17 Budgets. This inability to keep expense growth under control to meet forecasts even as revenue fell sharply is particularly notable given that the projections shown in Figure 32 for the 2015-16 and 2016-17 Budgets reflect short term projections (i.e. because forecasts are only compared to actuals to 2016-17 in Figure 32). Two key factors may explain the State Government’s inability to rein in expenditure growth more sharply than forecast:

- A tendency to re-assign savings achieved from measures implemented rather than genuinely save
- The emergence of the ‘year-round’ Budget process.

These issues are discussed below.

Reassignment of funds from savings measures

Higher outlays relative to forecast during 2015-16 and 2016-17 are partly attributable to savings measures such as the Targeted Voluntary Separation Scheme, which entailed up-front costs. However, it also reflects a reluctance to pursue balanced and meaningful reductions in expenditure – particularly in front line services – even as revenue decreased significantly.

For example, the 2015-16 Budget acknowledged the fact that further savings measures had been introduced in response to the significant decline in General Government revenue. The State Government duly identified $137m in Agency Expenditure Review savings and reforms to social concessions worth $199m over the forward estimates period. However, these savings were merely reallocated to fund priority frontline services (i.e. health, education and law and order) in that budget41.

Similarly, in the 2016-17 Budget, individual agencies were allocated the savings arising from the Government’s decision to limit increases in public sector wages and associated conditions to 1.5% per annum for all new agreements from 1 June 2016. Over the period to 2019-20, the revised wages policy was projected to reduce salary and superannuation expenses by $813m in the General Government sector42. Further, while the 2016-17 Budget made a savings provision of $461m against 54 agencies that were to be subject to Agency Expenditure Reviews throughout 2016-17, agency-specific savings for WA Health were to be retained and reinvested in hospital services.

The 2014-15 Budget contained similar themes, with new expenditure savings measures and timing changes offsetting the impact of additional expenditure for front-line services in that budget43. The 2013-14 Budget also noted that General Government expense growth was forecast to be lower as a result of savings and reform.

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41 2015-16 WA Budget, Economic and Fiscal Outlook, Budget Paper No. 3, Page 123.
42 2016-17 WA Budget, Economic and Fiscal Outlook, Budget Paper No. 3, Page 100.
measures, although those measures simply enabled the Government to accommodate additional spending on Budget Priorities, new policy initiatives, and address cost and demand pressures impacting priority services44.

Although this process of funding portions of General Government expenditure from savings measures no doubt helped to limit expense growth, more needed to be done to improve the operating balance and limit the growth in debt. In particular, the practice of reallocating savings to fund priority services created little incentive for those agencies (which account for the bulk of General Government spending) to pursue meaningful cost reductions.

The emergence of the year-round Budget process

Limiting recurrent expenditure growth is also hindered by the growing trend towards decisions with financial impact being made outside the Budget process. A feature of the current view of budgeting within Government is that policy changes with spending implications have become a year-round process. This means for example that Mid-Year Reviews have become financial policy decision making events akin to mini-Budgets. For example, every Mid-Year Review during the period of analysis contained some new expenditure policy decisions taken since the Budget earlier that year. Although the impact of policy versus parameter decisions ceased to be split into these parts from the 2013-14 Mid-Year Review, in the previous five Mid-Year Reviews a collective $3.1bn of spending due to policy changes were added over the forward estimates periods.

This defies the purpose of the Mid-Year Review, which ought to focus on providing a parametric update to the Budget forecasts. It also undermines financial policy outcomes, such as managing within whole-of-government financial targets, and undermines the importance of the Parliamentary process around the approval of appropriations and management of key administrative objects (such as the Treasurer’s Advance and calls against available borrowing limits established by Loan Acts).

Expenditure trends by agency

Section 1 identified health and education as the key functions responsible for expenditure growth during the period of analysis, while savings achieved from various cost-cutting measures were also reallocated into these front line services from 2013-14. These functions as key sources of General Government expenditure growth are further illustrated in per capita spending terms.

WA General Government expenditure per capita amounted to $8,533 in 2008-09, rising to $11,530 in 2016-17. Of the $2,996 increase, $1,263 (or 42.2%) is attributable to higher spending in health, followed by $574 (19.2%) attributable to education. All other high-level functions of the General Government account experienced moderate growth, with the exception of housing and community (which declined by $219 per capita between the first and final years of the period). The accounts of the relevant agencies related to health and education – WA Health and the Department of Education – are examined below to identify the factors that led to this growth45.

45 Note that the split of recurrent expenditure by function is prepared by WA Treasury to meet their reporting requirements for the ABS government finance statistics under the “classification of the functions of government (COFOG)” framework. The COFOG framework is difficult to reconcile with expenditure in agency accounts. However, ABS guidance on inclusions and exclusions under each category suggests that COFOG classification of costs is much broader than agency outlays alone. For example, spending by police colleges on ‘general education of police personnel’ is classified under ‘education’ in COFOG, but would appear in the WA Police agency income statement rather the WA Department of Education. Therefore, the COFOG estimates of cost by function tend to be larger than the total expenditure of individual agencies within portfolios relating to that function.
WA Health

WA Health has the single largest agency budget, accounting for 29.7% of General Government spending in 2016-17. The WA Health budget grew by an average of 8.1% per year during the period of analysis, exceeding the 6.6% annual growth in total General Government expenditure. This above-average growth mostly reflects a rise in employee costs within WA Health, which rose by an average of 7.2% per annum during the period of analysis. Employee costs accounted for 57% of total WA Health spending during the period of analysis.

Figure 33 considers how well WA Health spending was forecast during the period of analysis. It compares successive forecasts of average growth in health expenditure in the Budget year and forward estimates period to actual growth during the period of analysis. It is evident that actual spending growth over the budget year and forward estimates significantly exceeded the forecasts in each year. The scale of the overspending generally decreased from year to year, suggesting that as the Budget operating balance deteriorated over time, more emphasis was placed on restricting agency expenditure in line with budgeted figures.

**Figure 33: Successive forecasts of average growth in WA health expenditure relative to actual, Budget year and forward estimates ($m)**

![Chart showing successive forecasts of average growth in WA health expenditure relative to actual, Budget year and forward estimates ($m).](image)

Forecasts of expenditure growth in the budget year itself are a good metric of forecast accuracy, as these forecasts would be expected to be the most accurate, given the 12 month forecast horizon and the State Governments have a greater level of control over the future direction of expenditure through the setting of agency budgets (particularly over a 12 month period). On average, actual health expenditure exceeded budget year forecasts by 3.1% each year during the period of analysis, adding $1.75bn to health costs above the initial budget year projection (accounting for 2.8% of total actual spending on health during this period).

Moreover, the fact that actual growth in health expenditure outstripped forecasts in the final three Budgets of the period of analysis – a period coinciding with very weak General Government revenue – epitomises the fiscal challenge facing WA of entrenched expenditure and volatile revenues. Stricter cost controls and structural reform to achieve meaningful cost reduction in areas such as health are therefore critical for the sustainability of the WA Budget.

By function, admitted patient care in public hospitals represents the largest area of health expenditure, accounting for an average of 52.6% of the agency’s budget over the period of analysis. This is followed by public hospital care provided to non-admitted patients (11.6%), mental health (7.5%), emergency care (7.5%), preventative medicine and health promotion (6.8%), aged care (6.6%), and patient transport (2.5%).

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66 Successive State Budgets, * denotes that forward estimates in these years are only compared to years in which actual data is available.
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Public hospital admitted patient care and emergency care were the most significant contributors to growth in total health expenditure during the period of analysis, growing at an average annual rate of 9.1% and 21.4% respectively. For emergency care, this rate of growth represents a near four-fold increase in costs over the period of analysis. The growth in costs for both emergency care and patient care in public hospitals is well above the rate of increase in patient separations and presentations. On average, the cost per public hospital patient separation grew from $5,654 in 2008-09 to $7,526 in 2014-15, a 33.1% increase. Across emergency departments, the average cost per patient presentation grew from $292 in 2008-09 to $800 in 2014-15, representing a total increase of 174%.

Department of Education

Two key structural changes during the period of analysis need to be acknowledged before considering recurrent expenditure on education. Firstly, for the first two budget years of the period of analysis, the Department of Education and Training was responsible for primary and secondary State schools, as well as vocational education and training (VET) at secondary and post-secondary levels. However, the VET functions were transferred to the Department of Training and Workforce Development (DTWD) in October 2009. So as to enable consistent analysis over time, references in this section to ‘Department of Education’ include both the Department of Education and the VET functions of DTWD.

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47 The 2017-18 Budget Papers altered the presentation of accounts for service areas, for example by no longer reporting expenditure on patient transport or preventative medicine and health promotion. As a result, 2015-16 and 2016-17 actual figures are not available for these items. Where this has occurred, average shares are given over the first seven years of the period of analysis only.

48 Average annual growth between 2008-09 and 2014-15 only. As a consequence of accounting framework changes, figures for 2015-16 and 2016-17 are not comparable to previous years.

49 The Australian Institute of Health and Welfare defines ‘hospital separation’ as the process by which an episode of care for an admitted patient ceases. A separation may be formal or statistical. A formal separation refers to the administrative process by which a hospital records the cessation of treatment and / or care and / or accommodation of a patient. Statistical separation refers to the administrative process by which a hospital records the cessation of an episode of care for a patient within the one hospital stay.
Secondly, the Department of Education absorbed the functions of the former Department of Education Services and School Curriculum and Standards Authority from 1 July 2017. Therefore, the actual expenditure figures for 2015-16, and estimated actuals for 2016-17, published in the 2017-18 State Budget, reflect these changes. For consistency, expenditure relating to these functions has been deducted from the agency’s total expenditure for 2015-16 and 2016-17 so as to remain consistent with previous years’ figures.

The Department of Education ranked second behind WA Health in terms of size of agency expenditure during the period of analysis. Expenditure by the Department of Education totalled $43bn during the period of analysis, accounting for an average of 19% of annual General Government expenses during the period of analysis. Its total expenditure grew by an average of 5.3% per year, less than the 6.6% annual growth in total General Government spending.

By function, expenditure on the operation of primary schools comprised the largest component of education expenditure (an average of 53.2% over the period) followed by secondary schools (32.9%), and vocational education and training (13.4%). Significant amounts of capital was invested by the State Government in education and training infrastructure during the period of analysis ($4.9bn or 9% of total government asset investment). This is reflected in recurrent expenditure on primary, secondary and VET which grew in concert with the larger asset base (Figure 34).

Spending on both primary and secondary education rose by an average of 6% per annum over the period of analysis, while spending on VET increased by an average of 2.1% per annum. Spending on VET ramped-up in 2010-11 and 2011-12 as labour shortages worsened in WA, although the broader weakening in labour market conditions from 2013-14 saw year-on-year reductions in VET related expenditure in the last three years of the period of analysis.

By expenditure class, the growth in education expenditure during the period of analysis mostly reflects a rise in employee costs, which rose by an average of 6.5% per annum during the period of analysis. Employee costs accounted for 65% of total education spending during the period of analysis.

Figure 34: WA education and training expenditure by service area

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Successive State Budget Papers
By expenditure class, the growth in education expenditure during the period of analysis mostly reflects a rise in employee costs, which rose by an average of 6.5% per annum during the period of analysis. Employee costs accounted for 65% of total education Health spending during the period of analysis.

Figure 34 compares successive forecasts of education expenditure to actual levels over the Budget year and forward estimates. In a similar pattern to WA Health, forecasts tended to significantly underestimate actual expenditure in the early years of the period of analysis before greater control over expenditure appears to have been exerted from 2013-14 (although actual growth in outlays still exceeded forecasts). Notably, budget year forecasts of education spending were relatively accurate, with actuals below forecasts by a total of $29m over the period of analysis relative to the $43bn aggregate outlay during this time.

Figure 35: Successive forecasts of average growth in WA Department of Education (and Training) expenditure relative to actual, Budget year and forward estimates

Expenditure trends by classification

As well as categorising costs according to agency and function, the General Government income statement also defines operating expenditure by high-level classifications. By classification, General Government salaries was the largest area of General Government expenditure during the period of analysis. Salaries comprised an average of 39.6% of total General Government spending over the period of analysis (or $89.5bn in total). Including superannuation and other associated costs, total employee expenses averaged 46.2% (or $104bn in total).

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51 Successive State Budget Papers. Note: Forecasts from the 2008-09 and 2009-10 Budgets are for the Department of Education and Training. Subsequent forecasts are summed for the Department of Education and the VET functions of the Department of Training and Workforce Development, as are the actual figures. * denotes that forward estimates in these years are only compared to years in which actual data is available.
Salaries grew by an annual average of 6.0% during the period of analysis, and total employee costs by 5.6%. The 6.0% average annual growth in General Government salaries over the period of analysis continued the high rates of growth in the preceding nine years to 2008-09, during which salaries rose by an average of 7.9% per annum. Figure 36 shows the relative contributions that these components have made to the growth of General Government expenditure over time.

Figure 36: General government expenditure by classification

Section 3 discusses the growth in public sector wages relative to the private sector during the period of analysis. It is notable that the profile of growth in total General Government employee expenses during the period of analysis reflects the additional pressure placed on the State Government to keep recurrent spending under control in its second term. Growth averaged 7.8% from 2008-09 to 2012-13, but fell to 3% per year between 2013-14 and 2016-17. This reduction in growth is largely attributable to policies enacted to freeze recruitment and reduce annual salary increases under enterprise bargaining agreements, especially toward the end of the period of analysis.

On a per capita basis, total employee expenses in the WA General Government sector (i.e. salaries, superannuation and other associated costs) rose by an average of 3.6% per annum during the period of analysis, with every Western Australian shouldering a cost of $5,202 in 2016-17 to meet the employee expenses of the General Government sector.

Figure 37 shows the value of General Government employee costs on a per capita basis across selected States in 2016-17 and 2008-09. It confirms that despite the reduction in costs from 2013-14, WA still had the second highest per capita General Government employee costs of the major States in 2016-17. In 2016-17, per capita General Government employee costs in WA were 13% higher than in New South Wales and almost 30% higher than in Victoria. However, per capita costs in WA were comparable to Queensland and South Australia. Meanwhile growth in per capita costs was also second highest in WA between 2008-09 and 2016-17 at 28% (although all States were close to this mark over the same period).

52 Successive State Budget Papers
High per capita General Government employee costs in WA are reflective of large wage increases awarded to the WA public service in recent years, which have resulted in Western Australian public sector workers having amongst the highest wage levels of all States. Table 1 shows the current annual salaries of selected front line public service roles, as well as salaries for general public servants. While it is challenging to compare public sector salaries on a completely equal footing, the positions are on a comparable basis as far as possible across States. It is evident that Western Australian public servants rank highly nationally for each of the examples provided.

Table 1: Interstate salary comparisons as at August 2017

<table>
<thead>
<tr>
<th>Position / State</th>
<th>Remuneration ($ per annum)</th>
<th>Effective year</th>
<th>National ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police (Sergeant) Entry level</td>
<td>103,177</td>
<td>2018</td>
<td>2</td>
</tr>
<tr>
<td>Western Australia</td>
<td>105,690</td>
<td>2018</td>
<td>1</td>
</tr>
<tr>
<td>New South Wales</td>
<td>102,997</td>
<td>2018</td>
<td>3</td>
</tr>
<tr>
<td>Queensland</td>
<td>90,279</td>
<td>2018</td>
<td>5</td>
</tr>
<tr>
<td>South Australia</td>
<td>98,444</td>
<td>2018</td>
<td>4</td>
</tr>
<tr>
<td>Tasmania</td>
<td>85,766</td>
<td>2018</td>
<td>6</td>
</tr>
<tr>
<td>Teachers</td>
<td>104,049</td>
<td>2018</td>
<td>1</td>
</tr>
</tbody>
</table>

53 Respective State Budget Papers, Australian Bureau of Statistics
54 WA Treasury. *Equivalent to Western Australian PSGOGA Level 6.1. Rates applicable at December 2016
Position / State | Remuneration ($ per annum) / Effective year | National ranking
---|---|---
New South Wales – Step 13 | 100,299 | 2
Victoria – T2-6 | 99,518 | 3
Queensland – Band 3, Step 4 | 93,032 | 6
South Australia – Step 9 | 100,288 | 4
Tasmania – Level 12 | 97,763 | 5
Nurses | 2018 | 
Western Australia – RN1.8 | 86,452 | 3
New South Wales – RN08 | 87,866 | 2
Victoria – RN G2YR10 | 79,191 | 6
Queensland – RN07 | 88,474 | 1
South Australia – RNM 1.10 | 85,902 | 4
Tasmania – RN G3 Year 8 | 79,329 | 5
General Public Servants* | 2016-17 | 
Western Australia – 6.1 | 98,966 | 1
New South Wales – 8.1 | 96,784 | 2
Victoria – 5.1 | 89,327 | 5
Queensland – 6.1 | 89,940 | 4
South Australia – 6.1 | 87,384 | 6
Tasmania – BR-R 1-4 | 92,646 | 3

In 2008-09, current transfers were the next largest component of expenditure after employee costs. Current transfers refer to payments to other levels of government and the not-for-profit sector to fund the delivery of services that fall into the State Government’s purview. Current transfers accounted for 23.8% of total recurrent expenditure in 2008-09, although this share declined to 18.2% in 2016-17.

Conversely, other gross operating expenses (OGOE) accounted for just 8.9% of spending in 2008-09, but had grown to 20.0% of total expenditure by the end of the period of analysis. OGOE comprises a range of non-wage operating costs, although the largest outlays tend to relate to items such as:

- Services purchased from non-government agencies and not-for-profits
- Operating leases for accommodation and motor vehicles
- Equipment and building repairs and maintenance
- Consumable expenses
- Utility costs.

While attention is often paid to the fact that salaries grew by an annual average of 6.0% (and total employee costs by 5.6%), much of the additional General Government spending incurred over the period of analysis was driven by OGOE, which grew at an annual average of 17.7%. This growth was not concentrated within a few years (and therefore not necessarily reflective of one-off costs), but rather...
OGOE increased steadily each year during the period of analysis. Of the additional $10.6bn in total General Government expenditure over the period of analysis, $4.2bn was attributable to OGOE, while $3.9 billion was attributable to salaries.

On a per capita basis, OGOE rose by an average of 15.4% per annum during the period of analysis indicating expenditure growth well above population change. In 2016-17, every Western Australian withstood a cost of $2,304 to pay for the non-wage operating costs of the General Government. Figure 38 confirms that the rise in OGOE was also the largest component of General Government expenditure growth during the period of analysis on a per capita basis.

Figure 38: Contribution to per capita change in General Government expenses, by expense classification

This failure to keep non-wage operating costs under control had a significant impact on the General Government operating budget during the period of analysis. For example, had per capita OGOE been held broadly constant at 2008-09 levels throughout the period of analysis (but incorporating 5% inflation per annum given the nature of OGOE items), all else equal, this would have generated a total saving of approximately $19.6bn. Assuming these savings were applied to the budget bottom line (i.e. not spent elsewhere), this would have saved the General Government operating budget from falling into deficit during the period of analysis, and thereby reduced General Government borrowings by $5.5bn.

Unpublished financial data was provided by WA Treasury to identify the source of the growth in OGOE by government agency. WA Health alone accounted for 50% of the total outlays on OGOE by the entire General Government sector during the period of analysis. This is in contrast to the total annual contribution of WA Health to total General Government expenses during the period of analysis (around 27.2% per annum). OGOE within WA Health increased at an annual average rate of 12.4% during this period, including a sharp rise in 2010-11 alone (+52%). Overall, these non-wage costs within WA Health represented 8.2% of total General Government spending each year during the period of analysis.

55 WA State Budget Papers
Chapter summary

• The General Government sector fell into an operating deficit in 2014-15 for the first time in 14 years. On average over the period of analysis General Government revenue increased by 3.8% per annum while expenses rose by 6.6% per annum. The annual change in General Government expenses exceeded the annual change in revenue in six out of the nine years that comprise the period of analysis.

• Although revenue growth briefly exceeded the rise in expenses in 2013-14 — enabling the State Government to sustain a small operating surplus in that year — consecutive decreases in General Government revenue in 2014-15 and 2015-16 saw the operating budget slip into deficit. This was despite the State Government managing to reduce its expenditure growth from 2013-14.

• The deterioration in the operating budget of the General Government sector reflects multiple issues, including the macroeconomic conditions of the time. However, the period of analysis was notable not only for the scale of the deterioration in the budget, but also for the fact that the State was unprepared when it occurred.

• The volatility in revenues and the State’s requirement for new public works investments require the State to run larger operating surpluses than has been the practice in the past.

Revenue

• WA has a narrow revenue base relative to other States. On average, 38% of WA General Government revenue was concentrated within payroll tax, land tax, transfer duty and royalties. This is a much higher share than other States, chiefly due to sizeable iron ore royalties.

• However, the concentration and narrowness of the revenue base increases its vulnerability to sharp changes in those revenue sources.

• While the system of distributing GST grants aims to ensure each State has the fiscal capacity to provide services and the associated infrastructure at the same standard, a challenge for WA is how quickly the system of distributing GST grants is able to mirror the volatility in the State’s economic base and own source revenues. These challenges were well known to the Government before they emerged.

Mineral and petroleum royalties comprised less than 5% of total General Government revenue in the late 1990s, although this share had risen to over 12% by 2008-09 and 22% by 2013-14. The growth in importance of royalties is explained by iron ore royalties which, on average, accounted for 86% of total royalties and 14.3% of total General Government revenue during the period of analysis.

• This concentration of State income within a single source of revenue created significant risk for the State Government during the period of analysis. Ensuring the budget surpluses were adequately large to protect against downside volatility in major revenue sources was essential in order to keep State finances on a sustainable footing.

• The optimistic projections of iron ore royalty revenue from 2014-15 primarily reflect a failure to gauge the turning point in the global iron ore market, whereby benchmark prices fell sharply from that year.
None of the Budgets prior to (and including) the 2014-15 Budget foresaw the sharp decline in the iron price from 2014-15. The State Government failed to gauge the turning point in the global iron ore market from 2014-15, although many other forecasters similarly failed.

- The complexity in forecasting the world iron ore price stems from a structural change in the iron ore market which occurred in the late 2000s. The annual benchmark system began to break down in the late 2000s as the market shifted towards contracts negotiated on a quarterly basis or linked to the spot price. This greatly increased unanticipated price and royalty revenue volatility.

- WA Treasury largely foresaw the impending decline in GST grants to the State. In most years of the period of analysis, WA Treasury’s projected decline in GST grants were more aggressive than the actual decreases that prevailed.

- Health and education related grants to Western Australia increased steadily on a per capita basis during the period of analysis, broadly in line with the per capita increase in these payments by the Commonwealth to other States. However, per capita grants unrelated to GST, health or education shrunk by an average of 1.6% per annum during the period of analysis due to decreases in 2014-15 and 2015-16 totalling $712m. This added to budget constraints, particularly as they coincided with the collapse in WA’s major own-source revenues of iron ore royalties and payroll taxes.

- During the period of analysis, up to $14bn of own-source General Government revenue was hypothecated to specific purposes. This reduced the State Government’s flexibility to invest these funds in the most economically efficient manner – for example, to pay down debt.

**Expenditure**

- Although General Government expenditure growth decreased between 2014-15 and 2016-17, the cuts to spending growth were still outweighed by weak revenue conditions, giving rise to the deficit in the operating position.

- The volatility in General Government revenue from year to year presented significant challenges for the State Government during the period of analysis, as General Government expenditure is typically entrenched, while its revenue base can change sharply over short periods. As such, perhaps more than any other State in Australia, Western Australian governments need to exercise significant caution in managing expenditure because of its volatile revenue base in order to achieve sustainable budget outcomes.

- Part of the reason why General Government expenditure is entrenched and therefore difficult to manage in concert with rapid changes in revenue is due to the fact that nearly two thirds of expenditure is related to health, education, and public order and safety. Funding to these portfolios cannot easily be cut in response to sharp changes in revenue. However, far from being cut, these three areas of outlay soaked up a growing share of WA General Government expenses during the period of analysis. Controlling spending growth in key portfolios is critical to WA budget outcomes.

- In 2016-17, per capita General Government outlays in WA were higher than in New South Wales, Victoria and Queensland. Moreover, the average annual growth in per capita General Government outlays in WA during the period of analysis was the highest of the major States. Per capita General
Government outlays in WA have historically been higher than other States as a result of needing to provide services across WA’s large geographic area and to disparate population clusters. However, the size of this gap to other States has also widened over time (from being 10% higher than average in 2007-08 to 16% higher than average in 2016-17).

- Although projections of expenditure growth were better aligned to actual from 2012-13, difficult decisions to achieve balanced and meaningful reductions in expenditure were not made. Savings achieved from various measures were rarely used to pay down debt or improve the operating position of the budget, but rather were reallocated to meet expenditure commitments elsewhere in the Budget, particularly for priority services. This practice of reallocating savings to fund priority services created little incentive for those agencies (which account for the bulk of General Government spending) to pursue meaningful cost reductions.

- Curbs on spending growth were also undermined by a culture within government which views Budget processes as a year-round cycle, with Mid-Year Reviews now treated as ‘mini’ budgets. For example, every Mid-Year Review during the period of analysis contained some new expenditure policy decisions taken since the Budget earlier that year. This defies the purpose of the Mid-Year Review, which ought to focus on providing a parametric update to the Budget forecasts.

- The State Government failed to meet its own tight expenditure growth forecasts for WA Health from 2014-15 and 2016-17 – a period coinciding with very weak General Government revenue. This epitomises the fiscal challenge facing WA, of entrenched expenditure against volatile revenue sources. Stricter cost controls and structural reform to achieve meaningful cost reduction in areas such as health are therefore critical for the future sustainability of the WA Budget.

- WA Health has the single largest budget in the General Government sector, accounting for 29.7% of expenses in 2016-17. The WA Health budget grew by an average of 8.4% per year during the period of analysis, with actual spending growth over the budget year and forward estimates significantly exceeding the forecasts in each year.

- The Department of Education ranked second behind WA Health in terms of size of agency expenditure during the period of analysis. Total expenditure grew by an average of 5.3% per year, less than the 6.6% annual growth in total General Government spending.

- By class, General Government salaries were the largest area of General Government expenditure during the period of analysis. Salaries comprised an average of 39.6% of total General Government spending over the period of analysis. Including superannuation and other associated costs, total employee expenses averaged 46.2% (or $104bn in total).

- Although the State Government managed to reduce growth in General Government employee costs from 2013-14, on a per capita basis, total employee expenses in the WA General Government sector remained the second highest of the major States in 2016-17. High per capita General Government employee costs in WA are reflective of large wage increases awarded to the WA public service in recent years, which have resulted in Western Australian public sector workers having amongst the highest wage levels of all States.
• The State Government also failed to keep non-wage operating costs under control during the period of analysis. This had a significant impact on the General Government operating budget during the period of analysis, as these general operating expenses represented the largest area of growth during the period of analysis.

• Non-wage operating expenses grew by an average of 17.7% per annum over the period of analysis and were not driven by one-off costs but rather by steady, annual growth. These expenses accounted for $4.2bn of the total $10.6bn increase in General Government spending. Other general operating expenses also rose by 15.4% per annum on a per capita basis, indicating expenditure growth well above the rate of population change. Significant savings would have been achieved if these costs were kept under control.

SECTION 2 - REVIEW OF THE STATE BALANCE SHEET POSITION

Between 2008-09 and 2016-17, the balance sheet of the WA State Government was characterised by a significant increase in liabilities such that the net debt position of the State increased almost five-fold during this period. This rise in debt is primarily due to higher borrowings by the WA General Government sector, which were directed to asset investment as well as the need to plug the rising gap between recurrent expenditure and revenue.

Introduction

The most comprehensive measure of the overall strength of the State’s financial position is net worth.\textsuperscript{56} Net worth is the difference between the State’s total assets and total liabilities. The net worth of the total public sector\textsuperscript{57} increased by only 3.2% to $110.6bn during the period of analysis (2008-09 to 2016-17). This small improvement in net worth consists of a 111% increase in the value of liabilities held by the total public sector, against a 31% increase in the total value of assets. The large and sustained increase in liabilities has resulted in a significant increase in the net debt position of the State Government.

In nominal terms, the net debt of the Total Public Sector increased almost five-fold in nine years from $6.7bn in 2008-09 to over $32.5bn by 2016-17. This Chapter examines the sources and issues surrounding the rapid increase in the net debt position of the State Government during the period of analysis. Consideration is given to the change in the net debt position, the drivers of debt, and the context of the growth in debt relative to broader changes in the WA economy and population during this period of Western Australia’s history.

\textsuperscript{56} WA State Budget 2008-09, Paper 3, Economic and Fiscal Outlook, Page 14.

\textsuperscript{57} The total public sector consolidates the general government sector, the public non-financial corporations sector (which includes entities operating on a predominantly cost recovery basis like the State’s ports, and the electricity and water utilities), and the public financial corporations sector (which includes agencies such as the Western Australian Treasury Corporation and the Insurance Commission of Western Australia).
Sources of deterioration in net debt

Net debt is a balance sheet indicator calculated as the difference between liquid financial assets (including loans made by governments) and financial liabilities. It is an indicator of the strength of the public sector’s financial position and the sustainability of the future call on public sector cash. As noted above, the net debt of the total WA public sector increased by $25.8bn between 2008-09 and 2016-17 (Figure 39).

Figure 40 shows the source of net debt by government sector (split by General Government sector and Public Corporations). It is evident that the increase in State indebtedness has been driven by the debt of the General Government sector, accounting for $21.9bn of this increase while the value of net debt held by State Government Public Corporations (or Government Trading Enterprises) accounted for the remaining $3.8bn increase.

Public Corporations include agencies that largely seek to recover costs through user charges in non-financial and financial markets. Public non-financial corporations include the State’s ports, and the electricity and water utilities. Public financial corporations refer to agencies such as the Western Australian Treasury Corporation and the Insurance Commission of Western Australia.

Figure 39: WA total public sector net debt

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59 State Government Public Corporations (or Government Trading Enterprises) can be non-financial or financial in nature.
60 Successive State Budget Papers.
Figure 40: WA total public sector net debt, by source

The net debt of the General Government Sector is calculated as the residual of the liquid financial assets of the General Government sector to its gross debt liabilities (adjusted for convergence). Therefore, net debt can deteriorate as a result of decreasing liquid assets and/or increasing gross debt liabilities.

Figure 41 illustrates these two components of General Government net debt over the period of analysis. It confirms that a rise in gross debt liabilities (+$21.8bn in nominal terms) underlies the deterioration in the net debt of the General Government sector compared to the reduction in liquid financial assets (-$0.84bn).

Borrowings make up the bulk of General Government Sector gross debt liabilities (approximately 96% in 2016-17 – see Figure 3-5). General Government Sector borrowings increased by $21.7bn over the period of analysis. It is therefore critical to understand the drivers of growth in General Government borrowings, given the increase in these borrowings significantly contributed to the deterioration in the net debt position of the State during the period of analysis.

Figure 41 provides national context for the growth in the net debt of the WA General Government Sector. Figure 41 illustrates the ratio of General Government net debt to revenue. This ratio provides a broad indication of a State’s ability to meet the net debt obligations of its General Government sector from existing revenue.

As a percentage of General Government revenue, Western Australia currently holds the highest net debt position of the major States (72.6% in 2016-17). Although the total size of General Government debt in other States is larger than WA, the debt position in WA is significant in comparison to the current size of its revenue base. Western Australia’s current net debt to revenue position is at record highs, leaving the State vulnerable to external shocks (keeping in mind the State’s typically volatile economic base).

Figure 41: Net debt to revenue of the General Government Sector, major Australian States

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61 Successive State Budget Papers, Australian Bureau of Statistics
62 Respective State Budget Papers
The net debt to revenue position of the Queensland General Government sector, shown in Figure 41, is particularly notable. Its General Government sector has maintained low borrowings throughout the period of analysis ($33.9bn in 2016-17) relative to its revenue base ($56.4bn in 2016-17). In contrast, Western Australia’s General Government sector held borrowings worth $23.6bn in 2016-17 relative to a revenue base of $26.7bn. Queensland, like Western Australia, also experienced rapid economic growth led by the resources sector during the period of analysis. Understanding the source of the increase in General Government Sector borrowings in WA is therefore critical (see Chapter 2.2.1 below).

**Deterioration in General Government Sector net debt**

The net debt of the General Government sector is calculated as the residual of the liquid financial assets of the General Government sector to its gross debt liabilities (adjusted for convergence). Therefore, net debt can deteriorate as a result of decreasing liquid assets and/or increasing gross debt liabilities.

Figure 42 illustrates these two components of General Government net debt over the period of analysis. It confirms that a rise in gross debt liabilities (+$21.8bn in nominal terms) underlies the deterioration in the net debt of the General Government sector compared to the reduction in liquid financial assets (-$0.84bn).

Borrowings make up the bulk of General Government sector gross debt liabilities (approximately 96% in 2016-17 – see Figure 43). General Government sector borrowings increased by $21.7bn over the period of analysis. It is therefore critical to understand the drivers of growth in General Government borrowings, given the increase in these borrowings significantly contributed to the deterioration in the net debt position of the State during the period of analysis.

**Figure 42: Composition of General Government net debt**

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63 Successive State Budget Papers
Change in General Government sector borrowings

General Government sector borrowings are determined by its financing requirement. The financing requirement is calculated as the net operating balance of the General Government Sector less the net acquisition of non-financial assets. Therefore, falling operating balances and / or rising net acquisitions of non-financial assets can increase the financing requirement. Borrowings are needed to fund operating deficits and asset purchases.

During the period of analysis the State Government found itself in a position of needing to borrow to fund both operating deficits and asset purchases. Figure 44 illustrates the composition of the General Government sector financing requirement during the period of analysis in cumulative terms. In accrual terms, it is evident that depreciation adjustments and other items reduced the aggregate financing requirement of the General Government sector by just over $10.6bn between 2008-09 and 2016-17 (i.e. the bars sitting above zero in 2016-17 in Figure 44).

Although these items reduced the cumulative financing requirement, they were significantly offset by purchases of non-financial assets. Purchases of non-financial assets are related to the Capital Works Program or Asset Investment Program undertaken by the State Government. This includes investment in a variety of assets related to health, education, utility infrastructure, and transportation.

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64 Successive State Budget Papers
66 As per Australian Accounting Standards, Compiled AASB Standard AASB 1049, the net acquisition of non-financial assets reflects the purchase of non-financial assets plus changes in inventories and other movement in non-financial assets. This is then subtracted from sales of non-financial assets and depreciation.
67 Depreciation is removed from the calculation of the financing requirement as it represents a provision for the reduced value of assets, rather than an actual cost outlay. Therefore, borrowing is not required to cover depreciation costs.
68 Other items include sales of non-financial assets and inventories.
69 2015-16 WA State Budget, Budget Paper No. 3 – Economic and Fiscal Outlook, Page 164.
By far the largest component of the Capital Works Program is the fixed asset spending undertaken by the total public sector. Fixed asset spending creates or maintains the value of an asset held by the agency and is reflected on the agency’s balance sheet.

However, by long-standing convention, the Capital Works Program also includes expenditure provided by the Government in support of fixed asset spending outside of the total public sector. From year-to-year this has included assistance in facilitating construction of strategic assets which will have flow-on benefits to the State economy; grants to local government, non-government agencies and community groups to purchase fixed assets; and the Keystart housing loan program as well as other home lending programs.  

This section defines asset investment by the State Government as purchases of non-financial fixed assets across the Total Public Sector. This investment typically accounts for the bulk of the State’s Capital Works Program.

Asset investment by the General Government Sector added $25.9bn to its financing requirement over the period of analysis, meaning the net financing requirement of the General Government sector increased by over $16.5bn during the period in cumulative terms (Figure 44). The $16.5bn rise in the General Government financing requirement accounts for the bulk of the $21.7bn increase in borrowings (Figure 4.5 above). As noted above, this increase in borrowings is the main driver of the rise in gross debt liabilities, which in turn underlies the deterioration in the net debt position of the State.

Figure 44: Composition of the financing requirement of the WA General Government sector, cumulative terms

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70  WA State Budget 2008-09, Paper 3, Economic and Fiscal Outlook, Page 133.
71  Successive State Budget Papers
Impact of the recurrent budget

While asset investment by the General Government sector was a key contributor to the deterioration in the net debt position of the State over the period of analysis, the recurrent budget also had a significant impact on borrowings towards the latter stages of the period of analysis. The General Government operating balance is a contributor to the size of the financing requirement, as operating surpluses reduce the financing requirement. Therefore, the State’s inability to meet its expectation of operating surpluses in successive Budgets also explains the increase in net debt.

Figure 45 shows the yearly (rather than the cumulative terms shown in Figure 44) operating balance and asset investment components of the General Government sector financing requirement relative to General Government net debt.

Figure 45: WA General Government sector operating balance and Asset Investment Program relative to change in General Government net debt

It is notable that asset investment – while a key contributor to net debt over the period of analysis – did not grow rapidly over this period on a year on year basis. Asset investment by the General Government sector increased by an average of 2.9% per annum during the period of analysis, while total public sector investment increased by an average of only 1% per annum. However, growth at these rates – while unspectacular – maintained asset investment at high levels from the preceding period.

Between 2001-02 and 2007-08, investment by the General Government sector increased by an average of 15% per annum, while investment by the total public sector increased by an average of 12.2% per annum.

The critical difference between these two periods of time is that operating surpluses prior to the period of analysis largely matched or exceeded the value of asset investment each year. This limited the size of the financing requirement. Even though asset investment increased at more moderate rates during the period of analysis, the value of outlays did not match operating surpluses. As shown in Figure 45, operating surpluses generally followed a declining pattern through the period of analysis. This created an increasing need to borrow to pay for asset investment between 2008-09 and 2016-17.

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Figure 45: WA General Government sector operating balance and Asset Investment Program relative to change in General Government net debt

72 Successive State Budget Papers
However – all other things equal – even if the State Government did manage to achieve target operating surpluses throughout the period of analysis, a rise in the General Government Sector net financing requirement (and associated net debt) would still have prevailed due to sustained funding of the State’s asset investment program.

Net debt and cash balances

As well as asset investment and operating deficits, behavioural elements may also explain the consistent increase in net debt over the period of analysis. The WA State Government (like other States) adopt the net operating balance of the General Government sector as a headline budget metric to illustrate the strength of the State’s recurrent budget.

The net operating balance of the General Government sector is based on accrual accounting methods, and is a function of the General Government operating statement (akin to a business’s profit and loss statement). As such, the operating balance does not reflect outlays related to investment in assets (and also includes other non-cash items such as depreciation). In a government context, the value of outlays related to asset investment can be significant, as investment in the public asset base is a fundamental responsibility of the State.

To this extent, the net cash balance is a more expedient measure of the ‘true’ operating position of the General Government sector, particularly for decisions on recurrent spending and asset investment by the Expenditure Review Committee (ERC). The net cash balance is a function of cashflows from the operating, investment and financing activities of the General Government. Cash balances therefore reflect the health of the recurrent budget as well as asset investment activities, and the financing required to fund those operating and investment activities.

Figure 46 shows the net operating balance of the General Government sector against the net cash balance and net purchases of non-financial assets (on a cash basis). It is evident that the General Government sector has been operating from a negative net cash position since 2008-09, predominantly as a result of net investment in non-financial assets.

A preoccupation among decision-makers such as the ERC on the headline accruals-based net operating balance may have established a false sense of security regarding the State’s ability to fund future asset investment during the period of analysis. This may have resulted in continued purchases of non-financial assets which contributed to the growth in net debt, even though the underlying cash position of the State Budget has been in deficit since 2008-09.

73 The main difference between accrual and cash basis accounting lies in the timing of when revenue and expenses are recognised. The cash method accounts for revenue only when funds are received, and for expenses only when funds are outlaid. Under the accrual basis, revenues and expenses are recorded when earned, regardless of when funds are actually received or paid.

74 The ERC currently consists of the Treasurer (Chair), Premier, Minister for Regional Development, Minister for Planning, Minister for Mines and Petroleum and Minister for Finance. The ERC considers all policy issues with financial implications and recommends a course of action to Cabinet on these issues. The principal function of the ERC is the formulation of the annual State Budget. Outside the budget process the ERC monitors the delivery of strategic Government commitments, the achievement of Government desired outcomes and other matters with major financial and/or economic impacts.
2.3 Capital Works and Asset Investment

A rise in asset investment by the General Government sector is identified as a key source of the deterioration in the net debt position of the State Government. As such, this section considers the sources and issues of the growth in asset investment during the period of analysis. Two aspects of asset investment undertaken by the General Government sector are considered:

- **Proportionality of asset investment** – this part of the section considers the proportionality of asset investment relative to wider considerations of economic growth, population, State finances and budget strategy.

- **Corrective actions** – this part of the section considers the corrective actions undertaken by the State Government to curb growth in asset investment and net debt, as well as the potential for more significant actions.

### Capital Works and Asset Investment

Growth in the financing requirement of the General Government Sector during the period of analysis was underpinned by growing asset investment, while a sharp decline in the General Government operating balance from 2014-15 also contributed to rising net debt.

However, a rise in government debt as a result of increased asset investment is not necessarily an unfavourable outcome in and of itself, particularly within the context of a rapidly expanding economy and population. The physical size of the State of Western Australia and its heavy industry base means the provision of efficient infrastructure is critical to WA’s economic success. Efficient transport networks, modern information and communication technology, sustainable water and energy supplies, and effective social infrastructure are vital to improve living standards.

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75 Successive State Budgets
In this context, it is important to consider that strong economic and population growth generated a need for significant investment in infrastructure during the period of analysis. This being the case, government investment in infrastructure should ideally be proportional to its own financial scale and revenue base, as well as to population and economic growth to keep debt to sustainable levels. These matters are considered below.

Proportionality to State Government finances

While asset investment by the State Government should ideally keep pace with population and economic growth, it is important that the level of investment remains proportional to wider government finances.

Proportionality to revenue

The above discusses the ratio of net debt to revenue as measure of State financial capacity. However, as a more direct measure of the proportionality of asset investment, Figure 47 shows the scale of asset investment to revenue. Figure 47 confirms that the scale of asset investment by Public Corporations fell relative to the size of its revenue base during the period of analysis. This reflects the fact that revenue earned by Public Corporations increased by an average of 12.3% per annum during the period of analysis, while investment by Public Corporations increased by an average of just 0.3% per annum over the same time.

Figure 47: Asset Investment Program as a percentage of revenue, by source

Asset investment as a share of revenue in the General Government sector follows a similar pattern, although the rate of decline over the period of analysis is not as sharp as for Public Corporations: General Government sector revenue increased by an average of 3.8% per annum over the period of analysis, while investment in the AIP increased by an average of 2.9% per annum.

On this basis, asset investment of the scale undertaken by both the General Government Sector and Public Corporations may appear proportional to broader State finances. This is particularly the case given that State Governments typically desire to meet community expectations to realise dividends from any significant

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76 Successive State Budget Papers
growth in State revenues. However, of greater relevance in assessing the proportionality of asset investment to wider government finances is its scale relative to the net operating balance (see below).

Proportionality to operating balance

Cash balances afford a more expedient view of the fiscal position of the State (as opposed to operating balances). However, operating balances – being a headline metric of budget strength – are more likely to have informed decision-making on asset investment during the period of analysis. As such, the discussion below focusses on the proportionality of asset investment relative to operating balances rather than cash balances.

Operating surpluses reduce the net financing need of the public sector. Figure 48 shows the degree of ‘cover’ afforded by the operating balance to the value of asset investment each year during the period of analysis. Figure 48 shows that high operating surpluses provided a large degree of cover to expand asset investment between 2003-04 and 2007-08, avoiding any significant increase in the financing requirement (and any subsequent adverse impact to net debt).

This was particularly the case within the General Government sector, where annual operating surpluses notionally paid for annual asset investment between 2004-05 and 2007-08 (in all years, this ratio was well in excess of 100%). Although the long term trend in the ratio of operating balance to asset investment shown in Figure 48 may be interpreted as characteristic of governments’ counter-cyclical budget management (i.e. saving in the good times and spending during the bad times), it is not necessarily reflective of long term budget strategy. As discussed in Chapter 2, the timing and scale of the ‘bad times’ were largely unforeseen.

In particular, conditions changed from 2008-09 with the onset of the Global Financial Crisis (GFC). The GFC resulted in a $2.2bn decline in the General Government operating surplus between 2007-08 and 2008-09 to $318m. However, reflecting the high degree of uncertainty at the time, the scale of this decline was not fully gauged for two years, until the 2010-11 Budget. The 2008-09 Budget itself predicted an operating surplus of $1.86bn for that budget year, while the 2009-10 Budget included an estimated actual of $647m for 2008-09 (still twice as high as the final actual).

Figure 48: Ratio of operating balances to asset investment, by source

In particular, conditions changed from 2008-09 with the onset of the Global Financial Crisis (GFC). The GFC resulted in a $2.2bn decline in the General Government operating surplus between 2007-08 and 2008-09 to $318m. However, reflecting the high degree of uncertainty at the time, the scale of this decline was not fully gauged for two years, until the 2010-11 Budget. The 2008-09 Budget itself predicted an operating surplus of $1.86bn for that budget year, while the 2009-10 Budget included an estimated actual of $647m for 2008-09 (still twice as high as the final actual).
With such significant deterioration in the operating balance largely unforeseen, asset investment continued apace during this period of economic uncertainty. Approximately $5.2bn had been outlaid on asset investment in the General Government sector between 2008-09 and 2009-10 by the time the true scale of the impact of the GFC on State Government finances in prior years was fully gauged in the 2010-11 Budget.

Notably, although projected General Government operating balances were scaled back in the 2009-10 Budget in response to the weaker post-GFC economic environment, asset investment remained firm. This may partly reflect the long term nature of asset investment, which makes it difficult to wind back quickly in response to rapid short term changes in risks. As such, the ratio of coverage between the General Government operating balance and asset investment fell to just 14% in 2008-09 and to 28% in 2009-10.

Although operating surpluses were maintained in subsequent years, these were not as large as in the mid-2000s, yet asset investment remained at high levels relative to the mid-2000s. This saw the ratio of operating balances to asset investment remain at low levels before the sharp and unexpected downturn in General Government revenue from 2014-15 resulted in steep and sustained declines in this ratio.

**Proportionality to budget forecasts and strategy**

The potential for a major structural imbalance in State finances to emerge from growing asset investment was gauged before General Government revenue fell sharply from 2014-15, exposing this structural imbalance. Successive State Budget Papers over the period of analysis discussed the growing awareness (and concern) over time regarding the potential for net debt to grow to unsustainable levels. Although predicted operating surpluses provided the State Government with a degree of comfort to continue investing in assets following the GFC, budget strategy concerning the risks around net debt and asset investment increasingly recognised the potential for trouble as forecast operating balances across budgets began to diminish over the forward estimates. As noted above, these risks materialised faster than anticipated in 2014-15 due to the unforeseen decrease in General Government revenue (revenue fell by 2.2% in this year).

A critical question emerging from the above analysis is why asset investment was not curbed more significantly to ensure net debt did not grow unsustainably – particularly given this risk was on the State Government’s radar. A lack of focus on the cash balance may explain this in part, although the State Budget commentaries show a particular change in tone between the 2012-13 Budget and 2013-14 Budget, where descriptions of the net debt position of the State changed from being “affordable” to “a significant challenge” across the two budgets respectively.

Nonetheless, asset investment by the General Government sector still totalled $11.2bn between 2013-14 and 2016-17 – just $1.1bn below the prior four-year period.

Part of the reason why asset investment was not wound back more sharply as the recurrent budget deteriorated may be explained by the level of investment compared to broader considerations of economic growth and population change. These issues are discussed in the next component of this section.
Proportionality to population and economy

As previously noted, a rise in government debt as a result of increased asset investment is not necessarily an unfavourable outcome in and of itself, particularly within the context of a rapidly expanding economy and population. Figure 49 and Figure 50 show the value of asset investment during the period of analysis on a nominal per capita basis, and as a proportion of nominal State Final Demand respectively.

Figure 49: Purchases of non-financial assets (AIP) per capita, WA

Figure 50: Purchases of non-financial assets (AIP) as a percentage of WA State Final Demand

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78 Successive State Budget Papers
79 Successive State Budget Papers
While population growth is a useful benchmark (given more fixed-asset investment is typically required as demand for public assets tends to rise with population), it is important to note that projections of population growth during the period of analysis often reflected the general over-optimism in the long term economic outlook for WA. As such, to the extent that decisions on asset investment were made with future population growth in mind, such decisions would have overestimated the need for additional infrastructure.

Figure 49 shows that following consistent rises to 2009-10, per capita asset investment by the General Government Sector flattened out at these high levels over the period 2010-11 to 2012-13 before falling between 2014-15 and 2016-17. The decline in per capita investment in the latter years of the period of analysis reflect the moderate scaling of asset investment from 2013-14 following the downward revisions to the forward estimates of the operating balance in that budget year.

Similarly, Figure 50 suggests that the rapid rise in General Government asset investment also overstepped broader growth in the domestic economy during the early stages of the period of analysis. Figure 50 also suggests that asset investment attributable to Public Corporations failed to keep pace with broader economic growth during the period of analysis.

While additional population may well justify increased government investment, it is difficult to define whether that level of investment was appropriate on a per capita basis. In reality several factors can influence annual levels of per capita investment by the State beyond population and economic growth alone (e.g. the age and nature of the asset stock, borrowing costs, access to alternative funding sources etc.).

Additionally, the relationship between asset investment and population and economic growth can often be non-linear. Governments typically invest through economic cycles to support growth, even when the economy and population shrink. Additionally, large public investment projects entail multi-year construction cashflows, meaning the “investment tap” cannot easily be turned off when the economic cycle turns. In such circumstances, asset investment and debt may continue to increase relative to other economic metrics.

Notwithstanding these issues, Figure 51 provides a comparison of per capita investment in non-financial assets by the total public sector in WA and across other States during the period of analysis. The comparisons confirm that per capita investment in WA was consistently among the highest of all States during the period of analysis. Price effects explain only part of the per capita growth in asset investment by the General Government sector during this period. Prices increased by approximately 1.9% per annum between 2008-09 and 2016-17.

Although per capita comparisons provide a useful context for the proportionality of capital investment, it does not reflect the challenge faced by WA governments in providing infrastructure across a very large geographical area characterised by disparate population centres. This often adds to infrastructure costs in WA, and is less of an issue in other jurisdictions.

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80 Calculated using a price deflator based on estimates of State Final Demand during the period of analysis.
Nature of investment under the AIP

The above analysis confirms that asset investment was a key driver of the growth in State net debt, while both the level and growth in asset investment in WA was also disproportionate to other States and to wider population growth in WA itself. It is therefore important to understand where asset investment was directed by the State Government during the period of analysis.

This component of the section considers the types of assets invested in by the State Government during the period of analysis. Considering the nature of investment during the period of analysis provides some indication of the need and rationale for investment.

Consideration of asset investment at a project-level is beyond the scope of this study. Rather, investment is considered at an agency level only. Additionally, no consideration is given to the productivity of the investment, as fixed-asset investment typically yields benefits over a long period of time. This makes it difficult to accurately assess productivity during the period of analysis, particularly as benefits yielded from some assets may only rise gradually over time and peak in the long term as opposed to the initial years of operation.

Figure 52 illustrates the cumulative investment by the total public sector in fixed assets over the period of analysis, according to major agencies and public corporations.

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81 WA Treasury; Respective State Budget Papers; Australian Bureau of Statistics Catalogue. 3101.0
Figure 52 confirms that investment by the Water Corporation; Western Power; Main Roads; WA Health; the Housing Authority; Education; and the Public Transport Authority accounted for 83% of asset investment by the total public sector during the period of analysis. This share is broadly in line with the total share of asset investment accounted for by these agencies and corporations during the passage prior to the period of analysis.

Notably, the share of total public sector asset investment accounted for by Health increased from an average of 4.7% per annum between 1999-00, to an average of 10.7% per annum during the period of analysis – an increase more than any other major agency or public corporation during this time. This reflects the previous State Government’s policy, which aimed to invest over $7bn in health assets between 2008-09 to 2018-19 as part of a major upgrade and expansion of the State’s healthcare infrastructure.

Corrective actions
Savings measures applied

With the above analysis in mind, a key question remains as to what (if anything) the State Government could have done differently to correct the unsustainable path of net debt and ensure investment remained proportional to broader State finances, population growth and economic activity. To this extent, the State Government did undertake periodic reviews of asset investment in light of broader economic and fiscal conditions.

However, the value of savings measures implemented were small relative to the total size of asset investment by the Total Public Sector. For example, the State Government implemented around $6.2bn worth of measures to reduce asset investment during the period of analysis. However, the value of these measures
savings represent just 10.9% of the total actual value of asset investment that ensued over the period of analysis ($56.2bn).

To this extent, it is telling that agencies appear to have relied on project-level cost savings to yield efficiencies through the latter stages of the period of analysis (such as more favourable tender outcomes), rather than implementing sterner measures such as deferrals or reductions in project scope. The latter would have been required to make more meaningful reductions in net debt.

For example, in order to fully offset the impact of the deteriorating operating balance on net debt during the period 2013-14 to 2016-17, total savings in General Government asset investment worth $4.8bn would have been required during this period. This translates to investment cut backs in the order of 25% per annum during this period, which would have been politically difficult (if not impossible) to achieve. This is in contrast to the average annual decrease of 6.5% per annum actually achieved.

Section summary

• The net worth of the total public sector (assets less liabilities) increased by only 3.2% during the period of analysis (2008-09 to 2016-17). This small improvement in net worth is due to a 111% increase in the value of liabilities held by the total public sector. This large and sustained increase in liabilities underlies the significant deterioration in the net debt position of the State Government.

• In nominal terms, the net debt of the total public sector increased almost five-fold in the nine years from 2008-09 to over $32.5bn by 2016-17. This deterioration in the net debt position of the State Government is driven primarily by the General Government sector. Approximately 85% of the increase in the net debt of the total public sector during the period of analysis is attributed to the General Government sector.

• Net debt can deteriorate as a result of decreasing liquid assets and / or increasing gross debt liabilities. The gross debt liabilities of the General Government sector increased significantly during the period of analysis, due to increased borrowings. Borrowings of the General Government sector increased by $21.7bn during the period of analysis, eclipsing a small reduction in the value of its liquid financial assets. This increase in borrowings mostly explains the deterioration in the net debt position of the State during the period of analysis.

• The growth in General Government sector borrowings is primarily underpinned by rising purchases of non-financial assets. These investments are part of the State’s Capital Works or Asset Investment Program.

• As well as rising purchases of assets, the State’s inability to meet its expectations for operating surpluses in successive Budgets also underpins the increase in net debt. The sharp and unexpected downturn in General Government revenue from 2014-15 effectively ‘blew a hole’ in net debt from 2014-15 as borrowings were then required to fund the operating deficit in the recurrent budget, as well as pay for asset investment.

• Expenditure and investment decisions within State Government may have also been undermined by a preoccupation with predicted net operating balances over the forward estimates during the period of analysis. Although net operating surpluses help to fund asset investment and reduce reliance
on borrowings, underlying net cash balances provide a clearer view of the State’s fiscal position as it reflects the impact of outlays on asset investment. A focus on the underlying cash balance may have curbed recurrent expenditure and / or asset investment earlier in the period of analysis, thereby curtailing growth in the State’s debt position.

- Asset investment by the General Government sector was proportional to operating balances from 2003-04 to 2007-08, as high operating surpluses provided sufficient cover to expand asset investment and avoid significant increases in net debt. However, conditions changed from 2008-09 with the onset of the Global Financial Crisis. Operating balances no longer provided the same level of coverage to expand asset investment, yet asset investment remained at high levels. This imbalance was brought to bear from 2014-15 when State Government revenue unexpectedly decreased.

- However, the potential for a major structural imbalance in State finances to emerge from growing asset investment was gauged before General Government revenue fell sharply from 2014-15, exposing this structural imbalance. Budget commentary concerning the risks around net debt and asset investment grew more pointed each year as forecast operating balances across budgets began to thin out over the forward estimates. However, asset investment was not curbed to any significant extent in proportion to these risks. Indeed, asset investment by the General Government sector totalled $11.2bn between 2013-14 and 2016-17, just $1.1bn below the prior four-year period.

- Although high levels of government asset investment during period of analysis may be justified due to population increase, investment was consistently higher in per capita terms than many other States, while the rise in investment by the General Government sector was also disproportionately greater than wider growth in the State’s population over this time. Price effects only explain part of this increase.

- Approximately $18bn was invested in health, roads and education infrastructure during the period of analysis. This investment accounts for over 70% of total asset investment by the General Government sector during the period of analysis, and one-third of all asset investment by the total public sector over this time. Investment in health-related infrastructure increased proportionally more than any other major agency or public corporation during the period of analysis.

- Although the State Government implemented multiple savings measures during the period of analysis to curb growth in asset investment, these savings were small relative to the broader scale of the asset investment program. The State Government also appear to have relied on project-level cost savings to yield efficiencies, rather than stronger measures such as project deferrals or reductions in project scope. The latter would have been required to make more meaningful reductions in net debt.

- Significant corrective action on asset investment would have been required over a short period of time to maintain the net debt position on a sustainable footing once operating deficits emerged in the General Government Sector’s recurrent budget. Corrective actions of the magnitude required to offset operating deficits are unlikely to have been practically achievable. This underlines the importance of accurate budget forecasting of revenue and expenses, and consideration of long term risks in setting levels of asset investment that are consistent with a sustainable net debt position.
SECTION 3 - REVIEW OF THE ECONOMIC ENVIRONMENT

The period 2008-09 to 2016-17 was one of the most unique chapters in Western Australia’s economic history. The rapid change in macroeconomic conditions experienced during this period underpin the current condition of State finances. The high level of uncertainty during this time may have complicated the setting of long term budget strategy, with this complexity compounded by little emphasis being placed on evaluating and understanding how adverse low probability-high impact risks might affect the Budget. Greater external independent challenge and review of State Government economic forecasts may well have been beneficial in this regard.

Introduction

Retrospective reviews of State finances have the benefit of hindsight, however, the reality is that decision-making by policy makers and bureaucrats during Budget processes can be challenging, particularly amidst uncertain economic conditions, such as the period of analysis (2008-09 to 2016-17). Therefore, understanding the macroeconomic environment of the period is important when considering the decision-making during a period that entailed significant changes in State finances.

This section explores the process by which economic forecasts were developed and reviewed by the State Government during the period of analysis, and also considers the change in key macroeconomic conditions during this time. Particular focus is given to those parameters that have the most significant impact on State Budget outcomes. These include:

- Gross State Product and State Final Demand
- Business investment
- Wages.

Macroeconomic forecasting for State Budget purposes

Each year WA Treasury produces a set of economic forecasts for the Budget year and the three following years (forward estimates) on behalf of the State Government. These forecasts are developed using a range of techniques. However, all key published forecasts are informed by:

- Analysis of recent and historical trends and seasonality patterns in the underlying series
- Leading indicators
- Econometric modelling (where possible)
- External consultations
- Cross-checks with private sector forecasts
- Scenario analysis
- Review by the Treasury Executive.

84 Discussions with WA Treasury as part of this study revealed that the forecasts presented in the State Budget and Mid-Year Review publications are informed by consultations with companies, peak industry groups, private forecasters, various State government agencies and departments, the Australian Bureau of Statistics (ABS), the Reserve Bank of Australia, and the Commonwealth Treasury. Companies include major oil and gas producers, iron ore producers, a large retailer, a number of recruitment agencies, and a number of commercial and residential property developers.
Judgement is used when combining this information into point forecasts.

WA Treasury have prepared various products in-house to measure its performance in economic forecasting. This has been an ongoing process incorporated into the role of Treasury analysts in the last five to six years in particular, given the economic volatility experienced in WA.

Regular forecast tracking meetings within the Economic and Revenue Forecasting division of WA Treasury aim to evaluate the accuracy of forecasts against actual data movements, trends in lead indicators, and other relevant developments.

WA Treasury publications such as the Annual Report on State Finances and its departmental Annual Report, as well as the key performance indicators reported in the Budget Papers, compare Budget forecasts and actual outcomes for each Budget year and significant variations in economic and revenue forecasts are highlighted and explanations for the variations are provided.

Budget forecasts (both macro and revenue) are tracked against actuals following every data release (e.g. quarterly for State Final Demand, annually for Gross State Product, monthly for labour force and taxes). If forecasts are tracking away from actuals, WA Treasury identify the reasons. Part of every Mid-Year Review process is to review and assess the performance of the Budget forecasts and update them as necessary to reflect latest data and changes in trends and expectations. This may also require model updates and further consultation with external parties.

Treasury analysts are required to analyse forecast performance, to understand the drivers of forecast deviations from actuals (for example, what was different from Treasury’s expectations and other factors that were not anticipated) and make the necessary adjustments to the expected impacts of those drivers, or improve existing models to include new drivers or changes in the structure of the existing drivers. For example, econometric models and analytical approaches used by Treasury have evolved over the years to reflect the impact of the Global Financial Crisis (GFC) and the peak and trough of the State’s mining cycle.

The macroeconomic environment and the State Budget

Gross State Product and State Final Demand

Gross State Product (GSP) is the headline measure of economic output within State economies. The projections of GSP contained in successive WA State Budgets are an important metric, as they encapsulate the State Government’s expectations for economic growth and are therefore important to the forward estimates of government revenue, expenditure and investment.

WA GSP expanded by 41% in real terms over the nine years from 2008-09 to 2016-17 (Figure 53), outpacing all other States during this time. Growth of this order was driven by high global commodity prices, which were driven by strong demand from China. The non-rural component of the Reserve Bank of Australia’s Commodity Price Index increased by 261% between January 2004 and October 2008. Although commodity markets softened with the onset of the Global Financial Crisis (GFC) in late 2008, prices recovered quickly in the immediate aftermath, rising by 58% over the two years to October 2011. This price growth fuelled significant investment in new production capacity in the WA resources sector.
Ongoing construction activity from these investments spanned multiple years to bolster growth in WA and insulate the State economy against the effects of the GFC from 2008 to 2011. Real GSP in WA increased by 4.0% in both 2009-10 and 2010-11 as developed economies suffered in the aftermath of the GFC (the OECD managed growth of just 0.3% and 2.8% over the same period).

However, as China’s demand for commodities softened from 2011-12, so too did economic activity in WA (Figure 54). Resource companies responded to softer global commodity prices by slowing approvals for new major projects. Amidst weaker economic activity, the private sector began cost-cutting to maintain profitability through greater operational efficiency.

The dampening of economic growth in WA is particularly evident in an alternative measure of economic activity: State Final Demand (SFD). SFD measures economic growth in the same manner as GSP but excludes (among other things) exports and imports (or ‘net exports’). Therefore, SFD provides a measure of domestic economic activity. The expansion in SFD in WA also peaked in 2011-12 at a historically high 14.9% rate of growth (Figure 54).

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85 Data for GSP in 2016-17 from the official ABS State Accounts was not available at the time of reporting. Growth in 2016-17 is based on estimates from the Department of Treasury published in the 2017-18 Budget Papers.

86 Australian Bureau of Statistics Catalogue 5220.0
In the subsequent year however, SFD increased by only 4.2% and contracted sharply thereafter. At the end of the period of analysis, the State’s domestic economy was 11.3% smaller than in 2011-12 following four consecutive years of contraction to 2016-17.

Figure 55 illustrates the annual percentage change in the quarterly value of SFD in WA since modern records began. This broader period of time gives better context to the level of volatility in domestic growth experienced during the period of analysis. Annual growth in SFD recorded a peak-to-trough decline of over 24 percentage points between the June quarter 2012 and the June quarter 2016. This level of change in annual growth over such a short period of time is unprecedented in the State’s recent economic history.

Despite this sharp decline in domestic economic activity during the period of analysis, the headline measure of GSP displayed annual growth every year during the period of analysis. This was by virtue of rising net exports, which were driven by the completion of resource-related project construction and a subsequent ramp-up of production for export.

The changing pace of economic growth and subsequent depth of the decline in domestic economic activity experienced in WA during the period of analysis caught many off guard. Forecasts of GSP and SFD by WA Treasury during the period of analysis reflect this, shifting from pessimism during the GFC to optimism as commodity prices bounced back, through to a failure to gauge the depth of the impending downturn as commodity prices softened (Figure 2-4 and Figure 2-5).

The 2009-10 Budget, composed as the GFC was sweeping the world economy, predicted a sharp decline in that coming year and in 2010-11, with modest recovery to follow. In reality, the opposite occurred: the State economy grew faster in 2009-10 than it had in 2008-09 because commodity prices recovered so swiftly. Nonetheless, the conservative attitude persisted in subsequent years, with Budget forecasts of GSP significantly underestimating the extent of growth in 2010-11 and 2011-12.
Despite this sharp decline in domestic economic activity during the period of analysis, the headline measure of GSP displayed annual growth every year during the period of analysis. This was by virtue of rising net exports, which were driven by the completion of resource-related project construction and a subsequent ramp-up of production for export.

The changing pace of economic growth and subsequent depth of the decline in domestic economic activity experienced in WA during the period of analysis caught many off guard. Forecasts of GSP and SFD by WA Treasury during the period of analysis reflect this, shifting from pessimism during the GFC to optimism as commodity prices bounced back, through to a failure to gauge the depth of the impending downturn as commodity prices softened (Figure 56 and Figure 57).

The 2009-10 Budget, composed as the GFC was sweeping the world economy, predicted a sharp decline in that coming year and in 2010-11, with modest recovery to follow. In reality, the opposite occurred: the State economy grew faster in 2009-10 than it had in 2008-09 because commodity prices recovered so swiftly. Nonetheless, the conservative attitude persisted in subsequent years, with Budget forecasts of GSP significantly underestimating the extent of growth in 2010-11 and 2011-12.

Figure 56: WA budget forecasts of average GSP growth in budget year and forward estimates against actual

However, Figure 2-5 confirms that the forward estimates period in the 2012-13 Budget signalled the turning point in the cycle, which the State Government (and many other forecasters) failed to gauge. While a slowing in SFD growth over the forward estimates was anticipated by WA Treasury in subsequent budgets from 2013-14, successive forecasts of growth predicted neither the extent of the decline nor the fact that it would continue over several years. This meant that actual revenue conditions faced by the State Government were significantly different relative to expectations, as conditions changed rapidly every year.

Importantly, the speed and scale of the decline in economic output was not gauged by WA Treasury, or other forecasters. Figure 3-6 compares forecasts of the yearly percentage change in State Final Demand in WA published in successive State Budgets with actual conditions, showing a significant underestimation of the extent of growth in 2010-11 and 2011-12.

Figure 57: WA budget forecasts of average SFD growth in budget year and forward estimates against actual

Projected average Actual average

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89 WA Budget Papers; * denotes that forward estimates in these years are only compared to years in which actual data is available.
However, Figure 57 confirms that the forward estimates period in the 2012-13 Budget signalled the turning point in the cycle, which the State Government (and many other forecasters) failed to gauge. While a slowing in SFD growth over the forward estimates was anticipated by WA Treasury in subsequent budgets from 2013-14, successive forecasts of growth predicted neither the extent of the decline nor the fact that it would continue over several years. This meant that actual revenue conditions faced by the State Government were significantly different relative to expectations, as conditions changed rapidly every year.

Importantly, the speed and scale of the decline in economic output was not gauged by WA Treasury, or other forecasters. Figure 58 compares forecasts of the yearly percentage change in State Final Demand in WA published in successive State Budget papers against successive forecasts of the same prepared by Deloitte Access Economics. Comparisons are made in Figure 58 from 2013-14 as this was the year from which State Final Demand began to decline in WA. Deloitte’s forecasts from the first quarter (Q1) of each year are shown as these are the most comparable to the State Budget forecasts in terms of timing and availability of data (Deloitte’s Q1 forecasts are released in April each year, while State Budgets are typically handed down in May each year).

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90 WA Budget Papers; * denotes that forward estimates in these years are only compared to years in which actual data is available.
91 Only Deloitte Access Economics and the Chamber of Commerce and Industry of WA (CCI) prepare detailed forecasts of the WA economy. CCI forecasts were not available at the time of publishing.
It is evident from Figure 58 that projections of the yearly change in State Final Demand by WA Treasury were generally slightly more conservative than Deloitte (with the exception of the 2013-14 forecast year in which WA Treasury were more pessimistic than Deloitte about the outlook). Additionally, medium term forecasts by both Deloitte and WA Treasury were often inaccurate compared to actual, especially for 2016-17 when State Final Demand fell by over 7%. Neither WA Treasury nor Deloitte expected WA domestic growth to fall so sharply, not even in early 2016.

For example, in early 2015 neither Deloitte nor WA Treasury foresaw the impending collapse in business investment in 2016-17. Forecasts by both were revised down sharply one year later, although Deloitte’s forecasts were far more negative than WA Treasury in April 2016, even overshooting the actual decline in that year.

**Business investment**

Business investment is critical to State Budget forecasts as construction expenditure related to investment projects influences the outlook for economic growth in WA, and also has implications for government revenue through payroll tax and future mineral and petroleum royalty revenue (where those projects relate to resource extraction). The rapid rate at which business investment unwound in WA was a key reason why forecasters failed to correctly predict the extent and timing of the broader downturn in WA domestic growth.

Business investment grew to become an important driver of economic activity in WA during the 2000s, peaking at a share of 34% of SFD in 2011-12 and 2012-13 compared to a share of 14% in 1999-00. However, Figure 59 illustrates the volatility in business investment experienced during the period of analysis.

Although the annual profile of business investment in WA has historically been ‘lumpy’, reflecting
the commencement and completion of a small number of major projects, sustained growth in global commodity prices drove strong business investment in the State through the mid-2000s. This underpinned growth in business investment of 13.6% on average per annum over the nine years preceding the period of analysis.

Figure 59: WA business investment, annual % change, real terms

![Figure 59](image)

Such large and consistent year-on-year increases in investment during this period was unique in the history of WA. The term ‘commodity super-cycle’ entered West Australian vocabulary as a result of China’s sustained rapid economic growth. In reality, this investment growth in WA (as always) was built on an unpredictable foundation: engineering construction work associated with the resources sector.

93 Australian Bureau of Statistics Catalogue 5220.0
94 WA Budget Papers; * denotes that forward estimates in these years are only compared to years in which actual data is available.
For example, during the period of analysis, the value of business investment in WA increased by an average of 5% per annum on average (in real terms), with a peak increase of +59% in 2011-12 and a peak decrease of -38% in 2016-17. Between 2008-09 and 2012-13, around 78% of the growth in business investment in WA was attributable to engineering construction. Equally, almost 60% of total business investment in WA during this period was also accounted for by the resources sector alone (Figure 62).

Figure 61: Construction share of total business investment in WA

Figure 62: Resources sector share of total business investment in WA

The global supply response to the sustained growth in demand for commodities from China had created near oversupply in many key commodity markets by 2012 – particularly iron ore. Iron ore inventories in

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95 Australian Bureau of Statistics Catalogue 5206.0
96 Australian Bureau of Statistics Catalogue 5625.0
China reached a record high of approximately 100 million metric tons in mid-2012\textsuperscript{97}.

Supply-demand conditions in many commodity markets worsened as global economic growth remained weak post the GFC, curbing demand for many of China’s exports, particularly steel. As shown Figure 3-10 above, 2012-13 marked the ‘beginning of the end’ of the investment boom in WA as these global factors became entrenched.

The speed and scale of the impending decline in business investment in response to weaker global economic growth was not gauged by WA Treasury, or other forecasters. Figure 63 again compares forecasts of the yearly percentage change in business investment in WA published in successive State Budget papers against successive forecasts of the same prepared by Deloitte Access Economics\textsuperscript{98}.

Comparisons are made in Figure 63 from 2013-14 as this was the year from which business investment began to decline in WA. Deloitte’s forecasts from the first quarter (Q1) of each year are shown as these are the most comparable to the State Budget forecasts in terms of timing and availability of data (Deloitte’s Q1 forecasts are released in April each year, while State Budgets are typically handed down in May each year).

Figure 63: Comparisons of forecast change in WA business investment, Deloitte and WA Treasury\textsuperscript{99}

It is evident from Figure 63 that projections of the yearly decrease in business investment by WA Treasury were generally more conservative than Deloitte (with the exception of the 2013-14 forecast year). Additionally, medium term forecasts by both Deloitte and WA Treasury were often inaccurate compared to actual, especially for 2016-17.

For example, in early 2015 neither Deloitte nor WA Treasury foresaw the impending collapse in business


\textsuperscript{98} Only Deloitte Access Economics and the Chamber of Commerce and Industry of WA (CCI) prepare detailed forecasts of the WA economy. CCI forecasts were not available at the time of publishing.

\textsuperscript{99} Deloitte Access Economics Business Outlook; Successive State Budget Papers.
investment in 2016-17. Forecasts by both were revised down sharply one year later, although Deloitte’s forecasts were far more negative than WA Treasury in April 2016, even overshooting the actual decline in that year.

The challenges faced in accurately forecasting business investment proved costly, as large-scale investment from the resources sector provides a major boost to economic activity in WA beyond the direct value of investment alone. Investment from the resources sector (often largely foreign funds previously not within the State’s capital stock) bolster local employment, wages and consumption in a relatively short period of time as investment in construction is outlaid. These benefits have positive flow through impacts to parts of economy beyond the resources and construction sectors alone.

However, just as growth in business investment delivered economic gains to wider parts of the economy on the way up, the sharp unwinding in investment also had material negative wealth impacts on the way down. The value of wealth generated by the services sector decreased by 4% and 2.1% in 2013-14 and 2014-15 respectively.

Forecasting challenges

A key question is why forecasters and policy makers did not see the scale and length of the impending decline in business investment coming. The ability or otherwise to accurately forecast business investment is important given the manner in which it drives other key macroeconomic indicators such as employment and wages, dwelling investment and exports. A number of factors make engineering construction investment in the WA resources sector difficult to forecast:

- **Concentration** – the total value of the investment pipeline tends to be underpinned by a small number of very large projects. Investment in WA can therefore be subject to time delays, cancelled or scaled back depending on the unique circumstances of a few mega-projects
- **Volatility** – a very large part of the investment pipeline in WA is not linked to predictable underlying factors, but rather is inextricably linked to highly volatile, global commodity prices
- **Investment progress** – difficulties are often faced in anticipating the scale and timing of major local outlays for projects approved / under construction, while changes in the scale of such outlays (i.e. due to major cost overruns or savings) can also be challenging to anticipate.

The sensitivity of total business investment to a small number of projects, and the uncertainty overlaid on this by volatile global price conditions and project idiosyncrasies introduce considerable risks into Budget forecasting in particular. Cancelled or deferred construction expenditure on resource projects not only depresses the outlook for economic growth in WA, it also has negative implications for government revenue through lower payroll tax and mineral royalty revenue.

For example, in early 2014 as the investment cycle was turning, approximately 48% of the value of the major project investment pipeline in WA was accounted for by five projects alone.

Even changes in the nature of these proposed investment projects can have a significant impact on

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100 Defined as projects ‘under consideration’.
growth, even though it may not be immediately apparent from the value of the investment pipeline. For example, Woodside’s 2013 decision to cancel plans for a $45 billion gas hub at James Price Point to process resources from the Browse fields – and subsequent preference for a floating LNG facility (with lower local construction investment compared to an onshore option) – had a significant impact on the outlook for construction investment in WA.

The linkages between business investment in WA and global commodity prices further complicate the investment outlook. Figure 64 plots the annual percentage change in monthly world benchmark prices for iron ore, natural gas and crude oil during the period of analysis: three of the most important commodity prices in the context of the WA State Budget.

The challenges in accurately forecasting such price movements to understand their potential impact on investment plans in the resources sector are plain to see. The percentage change in iron ore prices during the period of analysis range from +200% to -50% on an annual basis, while the price of crude oil varies from between +100% to -50% during the course of a one-year period. Yet these price movements have a tangible impact on growth in WA. For example, the decision by BHP in August 2012 to postpone its $20 billion outer harbour project in Port Hedland was primarily underpinned by growing volatility in iron ore prices at the time.\(^\text{102}\)

**Figure 64: Monthly benchmark prices of selected commodities, annual % change**\(^\text{103}\)

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**Wages**

Budget projections of wages growth influence the State Government’s forecasts of payroll tax revenue. Forecast wages growth also have a significant effect on the State Budget by way of its influence on the wages of the public sector. Aggregate public sector wages is the single largest item of recurrent expenditure of the State Government.

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\(^\text{103}\) World Bank.
The Wage Price Index (WPI) is the preferred measure of wages growth utilised in the State Budget. The WPI measures changes over time in the price of wages and salaries and is unaffected by changes in the quality or quantity of work performed.

Wages in WA increased sharply in the lead up to the period of analysis as labour demand outstripped supply amidst records levels of economic growth. Rates of unemployment in WA fell steadily from the early 2000s to lows of just 3.2% and 3.3% in 2006-07 and 2007-08 respectively. As such, WA wages increased by an average of 3.9% per annum in the nine years prior to the period of analysis, peaking at 5.8% in 2007-08.

Wages grew by a further 4.1% per annum on average during the first five years of the period of analysis before broader weakness in the State economy resulted in much slower rates of growth from 2013-14. Wages growth reached twenty-year lows at the end of the period of analysis, falling to 1.9% in 2015-16, and just 1.4% in 2016-17.

Overall, wages increased by an average of 3.2% per annum over the period of analysis. This is above wages growth across Australia over the same period (3% per annum).

Figure 65 shows the difference in wage growth across public and private sectors in WA. It should be noted that the public sector WPI reflects wage growth at all levels of government in Western Australia, not just State Government. However, the large number of State Government employees compared to Commonwealth and Local Government employees in WA means that State Government wage growth is likely to drive changes to the public sector wage index in any case.

Figure 65: Wage Price Index, WA annual % change, by sector

While private and public sector wage growth generally move in tandem, fluctuations in public wages tend to be more subdued and reflect a lag relative to private wages. For example, private wage growth peaked at 6.3% in 2007-08, while public wage growth peaked a year later at 5.7%. Likewise, private

104 Australian Bureau of Statistics Catalogue 6345.0
wage growth declined rapidly to just 3.0% in 2009-10 as the effects of the financial crisis set in, while public wage growth reached a trough of 3.7%, again one year later.

Although public sector wage growth in WA tends to lag growth in the private sector Figure 65 also confirms that wage growth in the public sector did not decelerate as quickly as private sector wages from 2013-14 in response to weaker economic and labour market conditions.

Public sector wages increased by an average of 3.8% per annum over the period of analysis, compared to average annual growth of 3.1% across the private sector, although this disparity is most notable during the latter stages of the period of analysis.

Wage growth in the public sector outpaced growth in the private sector for five consecutive years to 2016-17 by an average of 1% per annum. Despite the State’s economic downturn being in full swing in 2015-16, public sector wages growth accelerated in this year, increasing by 3.3% compared to 2.9% growth in the previous year. Additionally, public sector wage growth was around 1.8 percentage points higher than private sector wage growth in 2015-16.

Despite the tendency for public sector wage growth to lag private sector wage growth, the larger increases in public sector wages between 2012-13 and 2016-17 are not reflective of public sector wages “catching-up” to the private sector. In the 10 years to 2011-12, public sector wages increased at a comparable rate (4.2% per annum) to the private sector (4.3% per annum).

Rather, the sustained growth in public sector wages relative to the private sector in WA is indicative of State Government structures and policies which appear to permit public sector wages to benefit from strong labour market conditions, while insulating wages during periods of labour market weakness.

As an example, the 2013-14 Budget introduced a ‘Fiscal Action Plan’ to target budget imbalances. This included a number of measures to reduce the growth in General Government wages and salaries. However, just one year later in the 2014-15 State Budget, it was noted that, although considerable progress had been made to implement the broader Fiscal Action Plan, the key risks to fully realising the plan included:

- Successfully limiting wage and conditions increases to projected growth in the CPI, in accordance with the Government’s public sector wages policy. The outcomes of the then upcoming enterprise bargaining agreements for police, fire fighters, health salaried officers and general public servants were identified as posing particular risks to this assumption
- Related to the above point, agencies managing to the CPI cap on salaries expenditure was also considered a risk.

Section summary

- Each year WA Treasury produces a set of economic forecasts for the Budget year and the three following years (forward estimates) on behalf of the State Government. These forecasts are developed using a range of techniques. WA Treasury have prepared various products in-house to measure its performance in economic forecasting. This has been an ongoing process incorporated into the role of Treasury analysts in the last five to six years in particular given the economic volatility experienced in WA.
Despite the rigour applied in the forecasting process and attempts by WA Treasury to incorporate improvements in process and accuracy, the macroeconomic forecasts prepared across various State Budgets during the period of analysis were rarely accurate. This largely reflects the economic volatility of the time and the related difficulty in preparing economic projections in such an environment. This record is not surprising in the period of high volatility. It reminds policy setters of high risks that are adopted if budgets don’t build in greater conservatism when setting key budget measures in the future.

Gross State Product and State Final Demand are key measures of economic output. Projections of these metrics contained in successive WA State Budgets are important as they encapsulate the State Government’s expectations for economic growth and therefore influence forward estimates of government revenue, expenditure and investment.

Although the weakening in economic growth over the forward estimates was anticipated by the State Government in subsequent Budgets from 2013-14, successive forecasts of economic growth failed to predict the extent of the decline, or the fact that the decline would continue over several years. This meant that actual revenue conditions faced by the State Government were significantly different relative to expectations. WA Treasury were not alone in underestimating the scale of the decline in domestic growth in WA.

Business investment is critical to State Budget forecasts as construction expenditure related to investment projects influence the outlook for economic growth in WA, and also have implications for government revenue through payroll tax and future mineral royalty revenue. Business investment in WA fell more sharply than the State Government expected over the period of analysis as a result of a global increase in supply of key commodities such as iron ore, as well as weaker global economic growth following the GFC.

The difficulties in accurately forecasting wider economic growth in WA during the period of analysis has its origins in the inaccuracy of forecasting business investment. Business investment increased to a material 34% of State Final Demand by 2011-12 and 2012-13, yet was driven by volatile engineering construction activity in the resources sector. The total value of the investment pipeline in WA was largely underpinned by a small number of very large resource projects, the drivers of which were not linked to predictable underlying drivers. Difficulties are also often faced in anticipating the scale and timing of major local outlays for projects approved / under construction, while changes in the scale such outlays (i.e. due to major cost overruns or savings) can also be challenging to anticipate.

Wages growth also influence the State Government’s payroll tax revenues. Wages in WA increased by an average of 3.2% per annum over the period of analysis. However, wages growth in WA eased significantly from 2013-14 in response to weaker economic and labour market conditions.

Public sector wages increased by an average of 3.8% per annum over the period of analysis, compared to average annual growth of 3.1% across the private sector. The disparity between public and private sector earnings is particularly marked from 2012-13 to 2016-17. The larger average annual increase in public sector wages during this period is not reflective of State Government wages “catching-up” to the private sector.
In the 10 years to 2011-12, public sector wages increased at a comparable rate (4.2% per annum) to the private sector (4.3% per annum). Rather, the sustained growth in public sector wages relative to the private sector in WA is indicative of State Government structures and policies which appear to permit public sector wages to benefit from strong labour market conditions, while insulating wages during periods of labour market weakness.

SECTION 4 - KEY FINDINGS AND RECOMMENDATIONS

Key findings

The assessment undertaken uncovered seven key findings which together led to the deterioration in WA’s State finances between 2008-09 and 2016-17. These findings form the basis of a series of recommendations to assist the current and future WA State Governments in managing Western Australia’s State finances. The findings are as follows:

1. A failure to budget for volatility – the trends that emerged in the WA General Government operating budget during the period of analysis reveal a mismatch between the sources of WA State Government revenue and the drivers of State Government outlays. While WA’s income base can ‘turn on a dime’, its outlays cannot. To navigate this risk, the State Government needed to budget for volatility to keep State finances on a sustainable footing.

2. An unhealthy lack of conservatism – although population growth during the period of analysis may have warranted investment in the State’s asset base, decision-makers needed to be more conservative and questioning in their assessment of the need for long-term asset investment, as well as more courageous in considering deferment of projects and/or reductions to project scope – especially in light of the economic volatility of the time.

3. Incapacity of decision-makers – decision-makers lacked the capacity to act upon warning signs over the potential for unsustainable growth in net debt. This includes failing to consider the underlying cash balance in setting long-term asset investment strategy, and failing to adjust investment in line with budget strategy which canvassed the potential for such risk before it materialised.

4. Economic volatility obscured budget strategy – volatility in the State’s economic environment, underpinned by exposure to global commodities markets, created significant challenges in accurately forecasting macroeconomic developments and their potential effects on State Government finances. While heightened levels of uncertainty were not unique to government (few forecasters foresaw the collapse in iron ore prices), they may have induced too little attention being paid to forward projections of economic growth and fiscal health, hence adversely affecting the setting of long-term budget strategy.

5. A lack of focus on risks at the margin – acknowledging the economic volatility of the time, it remains unclear how much emphasis the State Government placed on evaluating and understanding adverse low-probability-but-high-impact risks at the margin of its central forecasts. This was evident during the period of analysis as Budget forecasts of many macroeconomic indicators regularly underestimated the potential for adverse change in the State’s economic circumstances.
6. **A lack of independent thought and challenge** – although the process of setting economic forecasts for the Budget year involves a range of techniques, few involve any significant external independent challenge and review. Additionally, although WA Treasury deployed various measures to assess its performance in economic forecasting, these involved only in-house analysis and review.

7. **A failure to budget for volatility** – the trends that emerged in the WA General Government operating budget during the period of analysis reveal a mismatch between the sources of WA State Government revenue and the drivers of State Government outlays. While WA’s income base can ‘turn on a dime’, its outlays cannot. To navigate this risk, the State Government needed to budget for volatility to keep State finances on a sustainable footing.

8. **Pursuing stability over reality** – part of enabling the State Government to budget for volatility is to provide as accurate a picture as possible on the most volatile, yet critical elements of the State Budget. Acknowledging the challenges faced by the entire forecasting community in accurately projecting the future path of economic activity and commodity prices in dynamic times Treasury’s forecasting record over the second term was found wanting. This is recognised by Treasury.

9. **An unhealthy lack of conservatism** – although population growth during the period of analysis may have warranted investment in the State’s asset base, decision-makers needed to be more conservative and questioning in their assessment of the need for long-term asset investment, as well as more courageous in considering deferment of projects and / or reductions to project scope – especially in light of the economic volatility of the time.

10. **Incapacity of decision-makers** – decision-makers lacked the capacity to act upon warning signs over the potential for unsustainable growth in net debt. This includes failing to consider the underlying cash balance in setting long-term asset investment strategy, and failing to adjust investment in line with budget strategy which canvassed the potential for such risk before it materialised.

**Recommendations**

A total of 20 recommendations have been formulated to assist the current and future WA State Governments in managing Western Australia’s State finances. These are as follows:

**Dealing with economic volatility**

1. **Quantification of downside economic risks** – given the volatility in the State’s economic base and its impact on State Government finances, the State Government should give formal, structured consideration to adverse low-probability-but-high-impact macroeconomic risks. This could be modelled on the Reserve Bank of Australia’s bi-annual Financial Stability Review in terms of its intent and approach (although it need not be either as frequent or as exhaustive as that review).

2. **Sharper focus on trends in key commodities** – many WA budget aggregates are directly or indirectly influenced by changes in global commodities markets. Notwithstanding the inherent challenges in forecasting conditions in volatile but key commodities markets (such as iron ore and oil and gas), the State Government should invest more resources to allow WA Treasury to better understand these markets and gather a variety of opinions on market direction and risks.
Improving the focus on risks at the margin

3. **Greater focus on economic risks at the margin** – while it is acknowledged that WA Treasury currently seeks opinions on economic conditions from a range of government and industry stakeholders as part of its forecasting process, the nature and structure of this process is not clear. External consultation should emphasise gathering views on low-probability-but-high-impact macroeconomic risks at the margin of Treasury’s central expectations. Such input may be used to formulate a periodic review of key economic risks, as per Recommendation 1.

4. **Broader engagement and consultation** – in addition to greater focus on low-probability-but-high-impact risks, the State Government should facilitate a broadening in the range of stakeholders WA Treasury engages with as part of its economic forecasting process, particularly with regard to local industry, and China-based bureaus of the State and Commonwealth Governments. This includes the WA Government trade office in China (operated within the Department of Jobs, Tourism, Science and Innovation) and the China offices of the Australian Trade and Investment Commission (Austrade).

Inviting greater independent challenge

5. **Greater independent challenge – macroeconomic forecasting** – given the State Government’s existing Budget processes rely heavily on internal review and analysis, consideration should be given to establishing an external macroeconomic forecasting working group, consisting of a small expert group of local industry and government representatives. The function of this group would be to mirror the existing review process provided by the WA Treasury Executive, with the aim of reviewing and challenging the State’s macroeconomic forecasts.

6. **Greater independent challenge – evaluation of forecast accuracy** – WA Treasury has prepared various products in-house to measure its performance in economic forecasting. However, as the preparer and reviewer of its own forecasts, periodic independent evaluation and analysis of forecast accuracy may provide improved insight, accountability and rigour to the existing evaluation process, including the embedding of lessons learned into the future forecasting process.

Dealing with unpredictable revenues and entrenched costs

7. **Quantification of downside budget risks** – given the volatility in the State’s economic base and its impact on State revenue, the State Government should develop a sensitivity test which canvasses a downside budget scenario for the Expenditure Review Committee (ERC) as part of the annual Budget process. This scenario (ideally published each year in the Budget) should illustrate the impact on State Budget metrics if given spending and investment decisions are overlaid on a lower-than-baseline outlook for economic growth and State revenue.

8. **Maintenance of surpluses as a hedge against risks** – given the underlying risks to Government revenue in WA, future State Governments should maintain a discipline to budget for, and deliver material General Government sector operating surpluses “in the good times” as both a safeguard against sudden and unforeseen revenue downturns, and as a means of funding the State’s investment in non-financial assets. This requires the setting of specific targets around the accumulation of surpluses. While the setting of specific budget targets is beyond the scope of this study, previous reviews of State Finances in other
Jurisdictions may provide a useful benchmark to assist the WA Government in exercising discipline in accumulating surpluses. For example, the Victorian Independent Review of State Finances recommended a medium-term goal of preserving the excess cash reserves, or equivalent financial assets, when revenue growth exceeded the rolling five-year average (which reflected the economic cycle in that State).

9. Towards a streamlined budget process – given the unpredictability of the State’s revenue base, a key step in mitigating excessive growth in government outlays, and ensuring sufficient scrutiny is provided to agency budgets, is to limit decisions with financial impact outside the Budget process.

10. Efficiency in front-line services – given their impact on the Budget bottom-line, the Health, Education and Law and Order portfolios should be subject to regular efficiency reviews as part of a process of continual expenditure management within these agencies. The Sustainable Health Review, announced in July 2017, includes the investigation of ways to drive improvements in safety and quality for patients, value and financial sustainability, including cost drivers, allocative and technical efficiencies. This is a good example of the breadth and depth of review needed to seek genuine change in spending habits while maintaining or improving user outcomes. The Productivity Commission’s research on Efficiency in Health and the findings of the Commonwealth’s Competition Policy Review (the Harper Review) in relation to frontline services also provide good examples of how and where reforms and action may yield material savings and efficiency outcomes.

11. Sharpen the focus on non-wage operating costs – given that non-wage gross operating costs (a collection of miscellaneous operating cost items) accounted for the bulk of the growth in total General Government outlays during the period of analysis, a review into the management and governance of these ledgers should be undertaken as a means of cutting spending and increasing accountability for these cost items. This review should focus on WA Health, which accounted for the bulk of non-wage expenditure.

Budgeting for volatility

12. Restoring the Expenditure Review Committee as financial gatekeepers – perhaps the single most important instrument for managing the operating Budget is an effective, disciplined Expenditure Review Committee (ERC) process. The authority of ERC’s decision-making is central to achieving and preserving Budget outcomes. Members of the ERC must be proficient in understanding the complexity of Budget issues, while its authority in decision-making should not be subject to unwinding or avoidance (such as taking issues directly to Cabinet).

13. Greater Ministerial accountability – increased financial flexibility could be achieved by providing Ministers with appropriate powers to reprioritise funding and/or expenditure across the agencies under their stewardship. This would provide Ministers with the ability to reallocate funding across their portfolios in response to increased needs within an agency, without affecting the budget bottom-line. It would also make Ministers more accountable for financial outcomes within their portfolios. Arrangements to support this approach may include the need for legislative changes (e.g. to the Financial Management Act 2006) and be subject to review and approval (for example by ERC, Cabinet and/or WA Treasury).

14. Re-thinking revenue hypothecation – while the hypothecation of own-source revenue improves transparency and can help to fund worthy causes, it also constrains the ability of the State Government to allocate funds to pay down debt and build operating surpluses. The flexibility to do this is crucial in times like the present, when the State budget is constrained. A review of the hypothecation of own-source revenue should be conducted to ensure this remains in the interests of the Western Australian community, particularly revenue hypothecated to Royalties for Regions, which accounted for the bulk of own-source revenue hypothecation.
Achieving better balance between stability and reality

15. A focus on short-term volatility – the experience of the State Government in forecasting iron ore prices suggests greater effort should be placed on understanding the potential for short-term fluctuations in key drivers that underpin major revenue streams – and building those mechanisms into Budget forecasts rather than eliminating them in the interests of stability. A better balance between stability and accuracy needs to be achieved if ERC is to make truly informed decisions. In this regard, Recommendation 7 will also assist ERC to understand the full profile of budget risks.

Towards more conservative decision-making

16. Greater rigour in asset planning processes – achieving material operating surpluses is dependent on robust government decision-making processes, including that major asset investment decisions are well prioritised and supported by compelling business cases that strictly follow the requirements of the Strategic Asset Management Framework (SAMF).

17. Make cash king – given the cash operating balance provides a clearer view of the State’s underlying fiscal position, this metric should be elevated in importance as part of the Budget process, with ERC required to consider the outlook for both accrual and cash balances in making investment decisions and in setting the recurrent budget.

18. Financial targeting – a Budget financial target specifically linked to asset investment should be formulated and adopted as a means of setting a limit on borrowings and ensuring accountability for the value of the investment program over time. It is acknowledged that a quasi-target currently exists in relation to net debt of the General Government sector, although a measure better targeted to the value of asset investment may be more pragmatic. For example, asset investment decisions should allow the State to maintain a surplus in the cash balance.

Building capacity among decision-makers

19. Take an inter-generational view of asset investment – infrastructure planning should be based on a long-term strategic planning horizon. A long-term lens should also be applied to funding decisions of infrastructure assets to ensure such decisions consider the financial impact on future generations. This will help shape the policy agenda beyond the period of four-year Parliamentary terms. To this extent, a more centrally organised and independent assessment process to set infrastructure priorities may help achieve greater focus on long-term outcomes. The establishment of an Infrastructure WA entity is recommended to address these issues;

20. Investigate alternative funding for investment – a greater commitment to reducing the size of the asset funding burden on the State Government is required through more thorough investigation of alternative sources of funding for major asset investment, including value capture mechanisms, Public-Private Partnerships, and Commonwealth Government sources of funding.
## APPENDIX N

### LIST OF MEETINGS

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<td>15 May 2017</td>
<td>Hon Premier Mark McGowan MLA Department of the Premier and Cabinet</td>
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<td>15 May 2017</td>
<td>Public Sector Commissioner Mr Mal Wauchope AO</td>
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# List of Hearings

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<td>Synergy&lt;br&gt;Mr L. Rowe, Chairman&lt;br&gt;Mr K. Horne, Deputy Chairman&lt;br&gt;Mr B. Ford, Acting Chief Executive Officer&lt;br&gt;Mr G. Roberts, General Manager, Commercial&lt;br&gt;Mr W. Bargmann, General Manager Corporate Services&lt;br&gt;Mr J. Froud, Manager Policy, Commercial Business Unit</td>
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<td>Western Power&lt;br&gt;Mr C. Beckett, Chairman&lt;br&gt;Mr G. Chalkley, Chief Executive Officer&lt;br&gt;Mr A. Cook, Senior Legal Counsel</td>
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<td>2 October 2017</td>
<td>Department of Planning, Lands and Heritage&lt;br&gt;Ms G. McGowan, Director General&lt;br&gt;Mr G. Finn, Planning Director&lt;br&gt;Mr D. Corr, Executive Director Land Asset Management Services&lt;br&gt;Mr M. Ryan, Manager Divestment Program – Land Asset Management Services</td>
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<td>2 October 2017</td>
<td>Public Transport Authority&lt;br&gt;Mr M. Burgess, Managing Director&lt;br&gt;Mr A. Cartledge, Acting Executive Director</td>
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<td>Main Roads Western Australia&lt;br&gt;Mr L. Coci, Acting Managing Director and Executive Director Infrastructure Delivery&lt;br&gt;Mr I. Spagnolo, Project Director</td>
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<td>WA Police – Road Safety Commission&lt;br&gt;Mr C. Dawson, Commissioner of Police&lt;br&gt;Ms L. Warbey, Commissioner’s Counsel&lt;br&gt;Mr I. Cameron, Road Safety Council Chairman and Acting Commissioner of Road Safety&lt;br&gt;Mr G. Colling, Acting Executive Director</td>
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<td>Department of Finance&lt;br&gt;Mr W. Sullivan, Deputy Director General, Building Management and Works&lt;br&gt;Mr V. Mrdak, Acting Director, Government Office Accommodation</td>
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<td>Metropolitan Redevelopment Authority&lt;br&gt;Mr K. Kinsella, Chief Executive Officer&lt;br&gt;Mr S. Henriques, Executive Director Project Delivery&lt;br&gt;Mr B. Boelen, Project Director&lt;br&gt;Mrs V. Hodgins, Director Legal and Governance Services</td>
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<td>Mr K. Papalia, Former Commissioner of Road Safety</td>
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<td>Mr B. Sabien, Acting Executive Director Investment Management</td>
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<td>Mr P. Stubbs, Director Major Projects</td>
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<td>Mr G. Comben, Manager Program and Decision Support</td>
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<td>Ms R. Standen, Principal Project Officer</td>
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<td>Mr F. Marra, Chief Executive Officer</td>
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<td>Mrs F. Barclay, Chief Financial Officer</td>
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<td>Mr M. Read, Manager Metro South</td>
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<td>Mr P. Pullinger, Strategic Advisor Legal</td>
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<td>Mr S. Nahajski, General Manager Regional</td>
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<td><strong>Department of Communities</strong></td>
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<td></td>
<td>Mr P. Whyte, Acting Director General</td>
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<td>Mr G. Cash, Assistant Director General Housing</td>
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<td>Mr S. Bell, Director Housing Programs</td>
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<td><strong>Horizon Power</strong></td>
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<td>Mr F. Tudor, Chief Executive Officer</td>
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<td>Mr D. Tovey, Company Secretary and General Manager Corporate Services</td>
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<td>Mr Z. Wilk, General Manager Pilbara Grid</td>
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<td>Mr N. Lockwood, Manager Strategic Projects and Solutions</td>
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<td>Mr F. van der Kooy, General Counsel</td>
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<td><strong>Mr S. Reed, Herbert Smith Freehills</strong></td>
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<td><strong>Department of Local Government, Sport and Cultural Industries</strong></td>
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<td>Mr D. Ord, Director General</td>
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<td>Mr R. Alexander, Co-Chair Perth Stadium</td>
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<td>Mr R. Hurst, Director Perth Stadium Project</td>
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<td>13 October 2017</td>
<td><strong>Town of Port Hedland</strong></td>
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<td>(via teleconference)</td>
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<td>Mr D. Pentz, Chief Executive Officer</td>
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<td>Ms J. Bianchi, Manager Governance</td>
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<td>13 October 2017</td>
<td><strong>Queen Elizabeth II Medical Centre Trust</strong></td>
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<tr>
<td></td>
<td>Mr S. Cole, Chairman</td>
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<td></td>
<td>Mr W. Salvage, Chief Executive North Metropolitan Health Service (and former board member of the Trust)</td>
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<td>Mr W. Anderson, Project Director</td>
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<td>Mr I. Fletcher AM JP, Commissioner</td>
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<td><strong>Mr R. Waldock, Former Department of Transport Director General</strong></td>
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<td>Mr D. Russell-Weisz, Director General</td>
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<td>Ms R. Brown, Deputy Director General</td>
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<td>Ms J. Laurence, Acting Director, Legal and Legislative Services</td>
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<td>Mr R. Toms, Chief Executive, Health Support Services</td>
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<td>Mr B. Bleakley, General Manager, Corporate Services, Health Support Services</td>
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<td>Mr W. Monaghan, Acting Chief Procurement Officer, Health Support Services</td>
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<td>Dr R. Lawrence, Chief Executive, Child and Adolescent Health Service and Perth Children’s Hospital Commissioning</td>
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<td>Ms K. Barrie, Former Advisor to the Minister for Energy</td>
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<td>Mr P. Helberg, Acting Deputy Director General, Building management and Works</td>
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# APPENDIX P

## LIST OF WRITTEN SUBMISSIONS

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<td>Ningaloo Centre</td>
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<td>Pilbara Accommodation, Pilbara Underground Power Project, Bulgarra Regional Sports Complex, Karratha Hospital relocation</td>
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### TRANSPARENCY IN GOVERNMENT PROJECTS DISCUSSION PAPER – LIST OF WRITTEN SUBMISSIONS

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<td>1</td>
<td>Mr Iain Rennie CNZM, Chair Service Priority Review Panel</td>
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<td>Ms Anne Nolan, Director General Department of Finance</td>
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<td>Under Treasurer Mr Michael Barnes</td>
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<td>Public Sector Commissioner Mr Mal Wauchope AO</td>
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<td>Ms Nicola Cusworth, Chair Economic Regulation Authority</td>
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<td>Acting Information Commissioner Ms Su Lloyd</td>
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<td>Crime and Corruption Commissioner Mr John McKechnie QC</td>
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<td>Public Sector Commission</td>
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<td>Department of Treasury</td>
<td>Government Trading Enterprises, Muja Power Station, Synergy Billing System, Synergy and Western Power – contracts, Woodlands transmission line, Project Vista</td>
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