

State Government Special Inquiry

GOVERNMENT PROGRAMS AND PROJECTS 2008-17

JOHN LANGOULANT AO, SPECIAL INQUIRER

FEBRUARY 2018

Special Inquiry - Background

Three Inquiries have been undertaken by the Government:

1. The Special Inquiry into Government Programs and Projects;
2. The Service Priority Review; and
3. The Sustainable Health Review.

This Special Inquiry into Government Programs and Projects was established under Section 24H of the *Public Sector Management Act 1994*. This gave the Inquiry authority to call for materials and hold hearings.

Common for new Governments to take stock: Barnett's Commission of Audit, Gallop's Costello Audit, Court's Independent Commission to Review Public Sector Finances.

Special Inquiry-Terms of Reference

Required review of 26 specific matters.

Once commenced the 26 matters disaggregated into 31.

- 10 in Royalties for Regions;
- 7 in Health;
- 6 in Synergy and Western Power;
- The Stadium and Swan River Pedestrian Bridge;
- 6 other matters.

Terms of Reference-Continued

- 31 Issues required to be assessed for:
 - adequacy of decision making; business cases; procurement processes;
 - value for money outcomes and use of commercial-in-confidence,
- In addition a clear and concise explanation required of the factors that led to the State's operating deficits and unsustainable debt position.
- What lessons were learnt and what measures should be introduced to ensure greater rigour and transparency in decision making.
- Budget of \$1.5m. Actual approximately \$1.1m
- Commenced 15 May 2017. Reported on 21 December. Road Safety and Rugby WA finalised on 31 January 2018.

Approach Taken

- Established small team from across the public service -17 at its peak. Engaged consultants as required.
- The issues to be examined were scoped having regard to the key issues involved and a desire not to duplicate current or previous reviews.
 - consequently didn't consider water issues in PCH, design of Elizabeth Quay or the Stadium bridge, construction of FSH-as examples
- 123 people attended at 47 formal hearings. 50 other meetings were held.
- Leaders of the Opposition and National Party WA appeared at hearings. Mr Barnett declined but responded briefly in writing to a number of issues put to him by letter – see copy at Appendix B of Volume One and discussion of issues in Governance Chapter in Volume One.

Report presentation

Two Volumes.

Volume One captures:

- The main themes arising from the 31 Reviews;
- Analysis of Where did the money go?;
- A summary of the Recommendations allocated to agencies with responsibility for their implementation.

Volume Two addresses the 31 matters:

- Chapter format responds to the Terms of Reference requirements
- Findings have been reached in all chapters;
- Recommendations of a whole government nature have been incorporated into Volume One's recommendations. Agency and issue specific recommendations in Volume two.

Themes from 31 Reviews

Main Themes were:

- Deficiencies in Governance;
- Reduced Public Sector Capability;
- Poor Transparency;
- Weak Project Management;
- Issues in Procurement and Contract Management;
- Reform of Government Trading Enterprises; and
- Impact of Royalties for Regions program.

Key Findings from 31 Reviews

The main Findings identified were:

- Management of 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, including in the regions, expanded expenditure pressures;
- the public sector lacked a sense of common purpose and understanding of and attention to due process;
- Cabinet's governance practices were deficient:
 - Cabinet submissions proposing new projects were often accompanied by poor or no business cases;
 - Cabinet Submissions were often not properly consulted across the public sector.
- Governance arrangements across departments were satisfactory and for major projects appropriate;
- Central agencies' authority and capability were eroded;

Key Findings (continued)

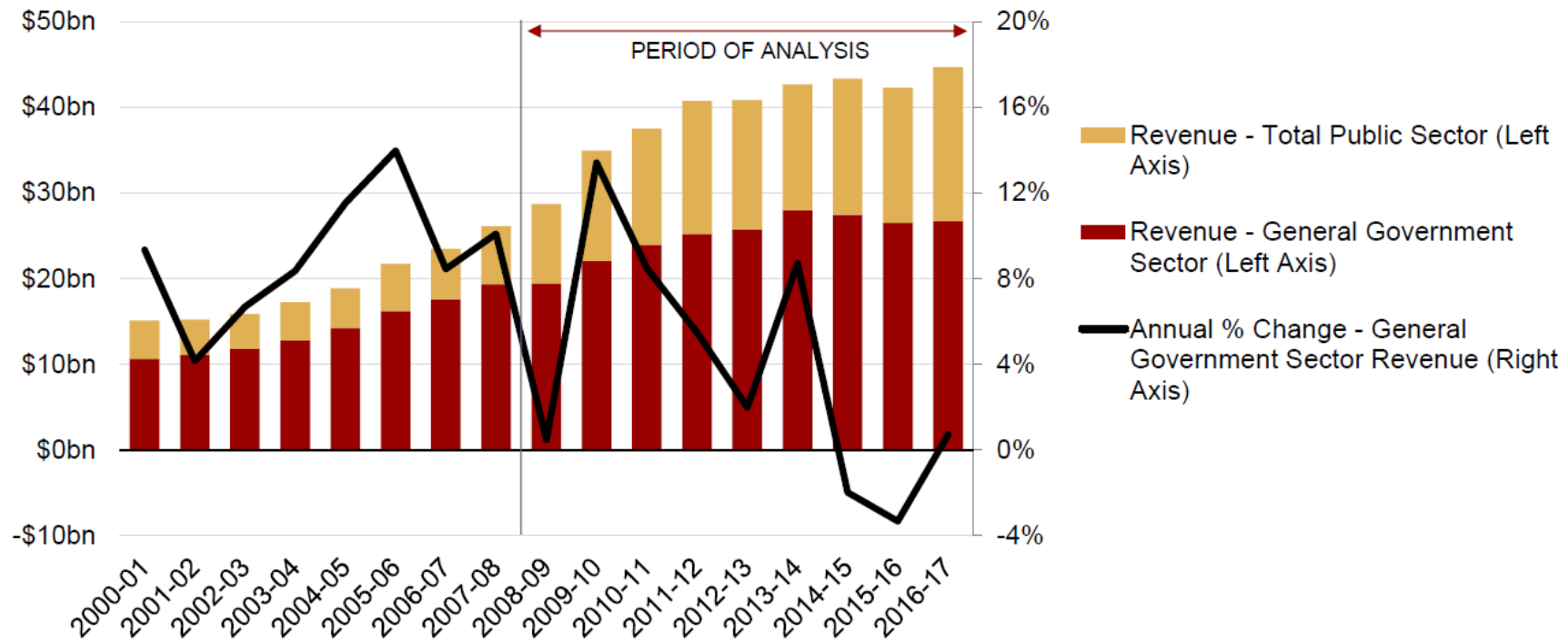
- Project planning based on rigorous business cases were exceptions rather than the norm.
- The statutory arrangements for boards and committees needs standardising and GTEs need overarching legislation to enhance oversight;
- Greater transparency of government practices including regular reporting on progress of major projects is required;
- Procurement arrangements need simplifying and standardising including for GTEs and capital works;
- Capability gaps emerged in the public sector across a range of disciplines including financial and risk management, governance, procurement, contract management, project planning and evaluation;
- The accountability agencies, especially the Auditor General, are not well heard; and
- The Government defaulted to confidentiality around major projects rather than transparency.

The Good, The Jury Out, The Poor

Good	Jury Out	The Poor
Bulgarra Regional Sports Complex	Gov Next-ICT	Royalties for Regions - ex Bulgarra/Quarter Poor business cases, cost overruns.
St John of God Midland Hospital	QE11 Carpark	Serco contract at FSH No business case, high risk.
Elizabeth Quay	The Quarter	Muja Poor governance, risk management and cost overruns.
Perth Stadium	NurseWest Arrangements	Swan River Bridge Poor governance and contract management. Cost increase.
Karratha Health Campus	Temporary Personnel	Perth Children's Hospital Poor contractor and steering committee oversight. Synergy and Western Power Poor governance, transparency and accountability.

Where did the money go?

Figure 2: Revenue Earned by the State Government of Western Australia, 2000-01 to 2016-17²

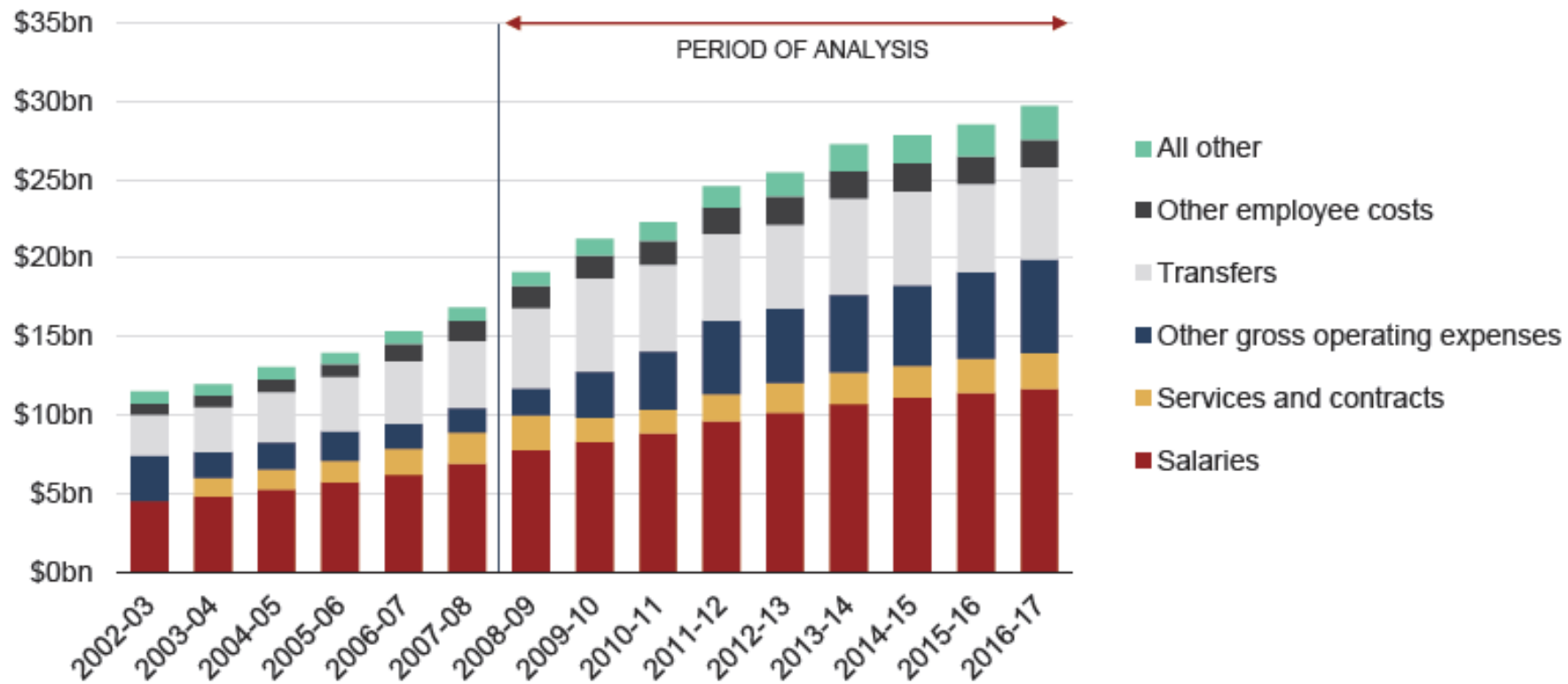


² Successive State Budget Papers

Where did the money go - Revenue

Revenues were plentiful, increasing by \$28 billion between 2008-09 and 2013-14. By 2016-17 after two years of declines revenues were still \$26.7 billion or 37% higher than in 2008-09.

Figure 36: General government expenditure by classification⁵²

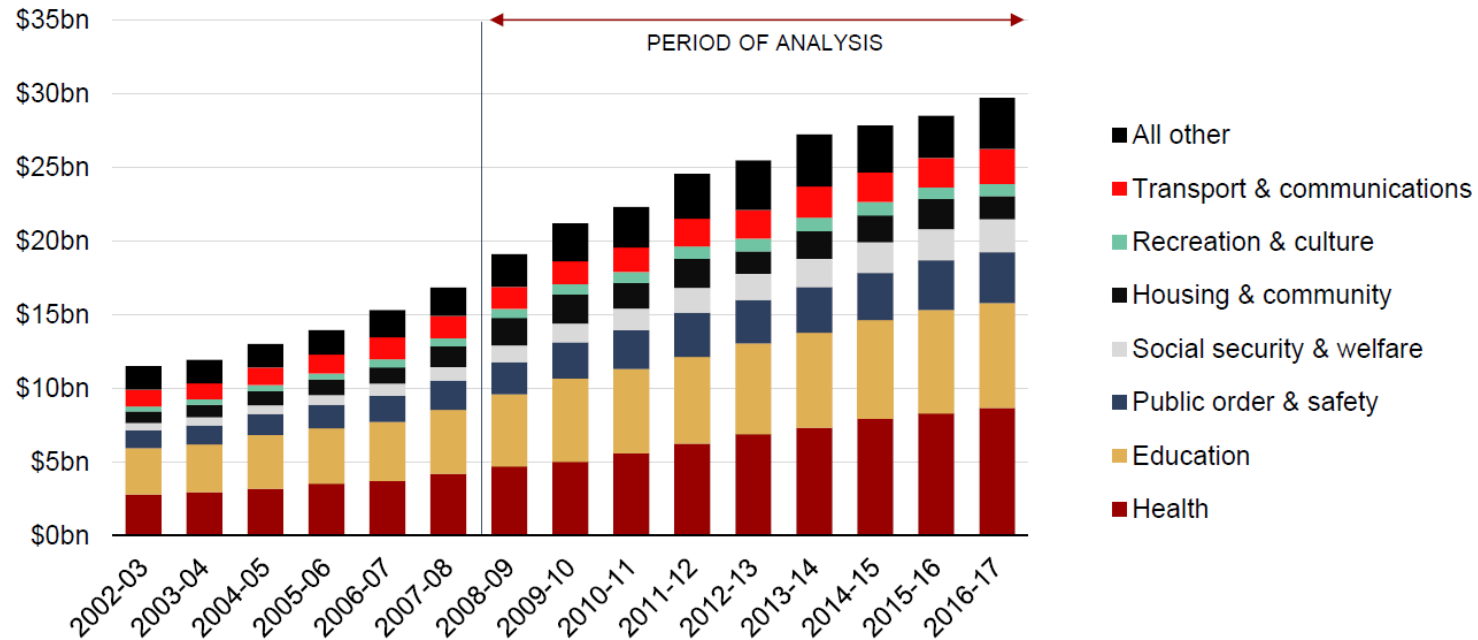


⁵² Successive State Budget Papers

Where did the money go - Expenses

Salaries rose in the nine years prior to 2008-09 by 7.9% a year and then by a further 7.8% a year in the four years to 2013-14. Growth slowed to 3% a year in the two years to 2016-17-but even then WA's general government employee costs per capita were 13% higher than in NSW and 30% higher than in Victoria. OGOE's rose by 15.4% a year-50% in health. Pages 258-261.

Figure 4: Western Australia General Government expenditure by classification⁴

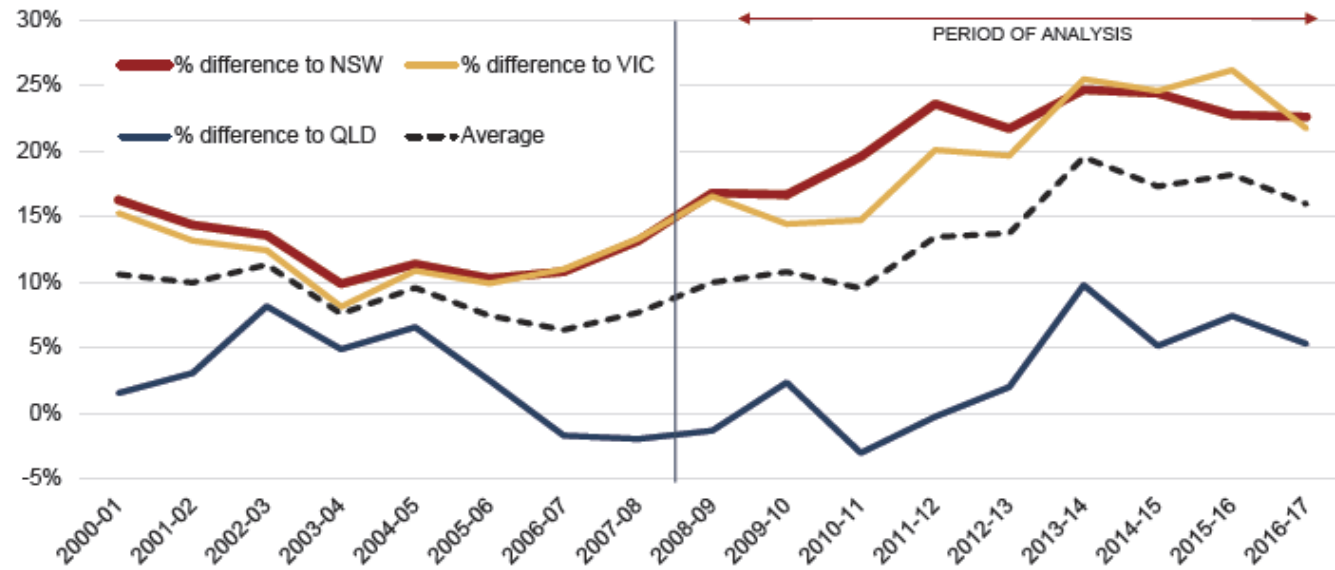


⁴ Successive State Budget Papers

Where did the money go - Expenses

Income was spent as quickly as it entered State coffers. General Government outlays grew by 6.6% a year led by Health at 8.1% per year, Education at 5.3% a year. Recurrent outlays growth in WA must be curtailed.

Figure 31: Percentage difference in per capita general government outlays between WA and major Australian states³⁹



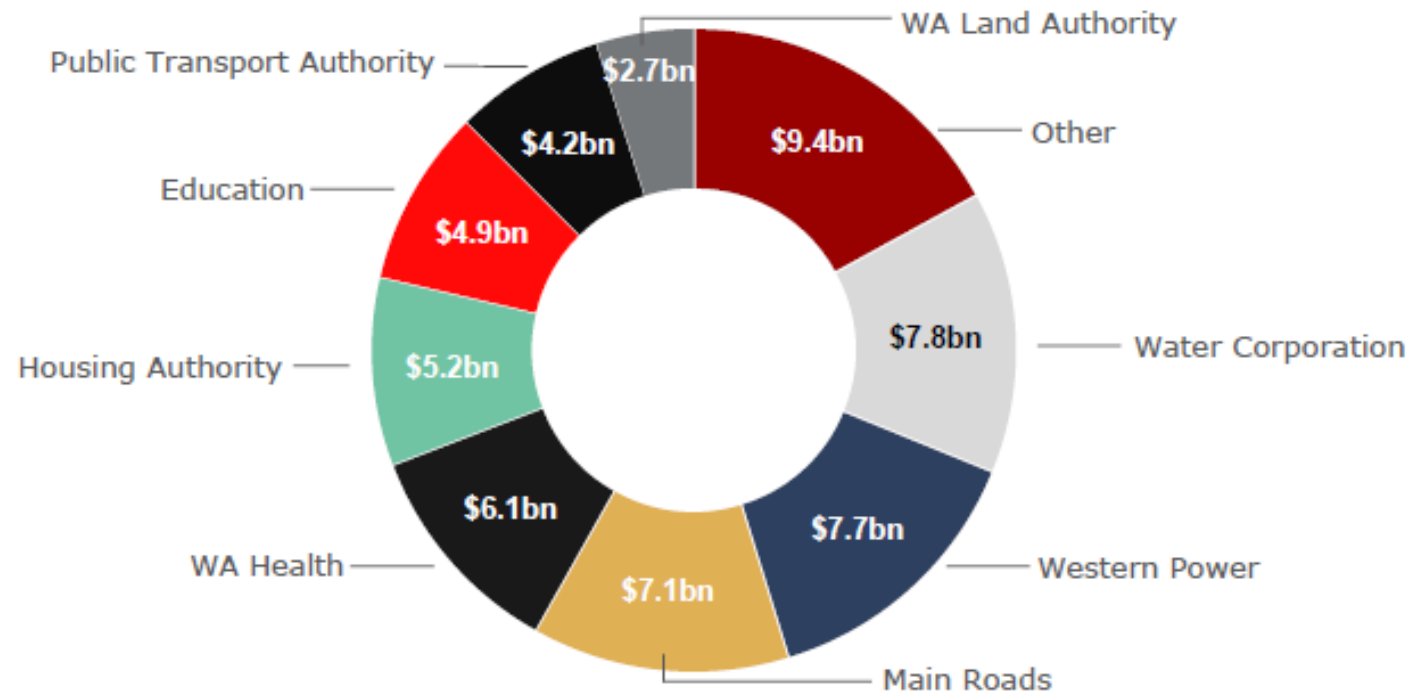
³⁸ Respective State Budget Papers

³⁹ Respective State Budget Papers

Where did the money go –WA is a big spender

Against NSW, Vic and Queensland WA's per capita expenditure rose from being 10% higher than average in 2007-08 to 19.5% higher in 2013-14 before easing to 16% higher in 2016-17. Against NSW and Vic these gaps peaked at or above 25%.

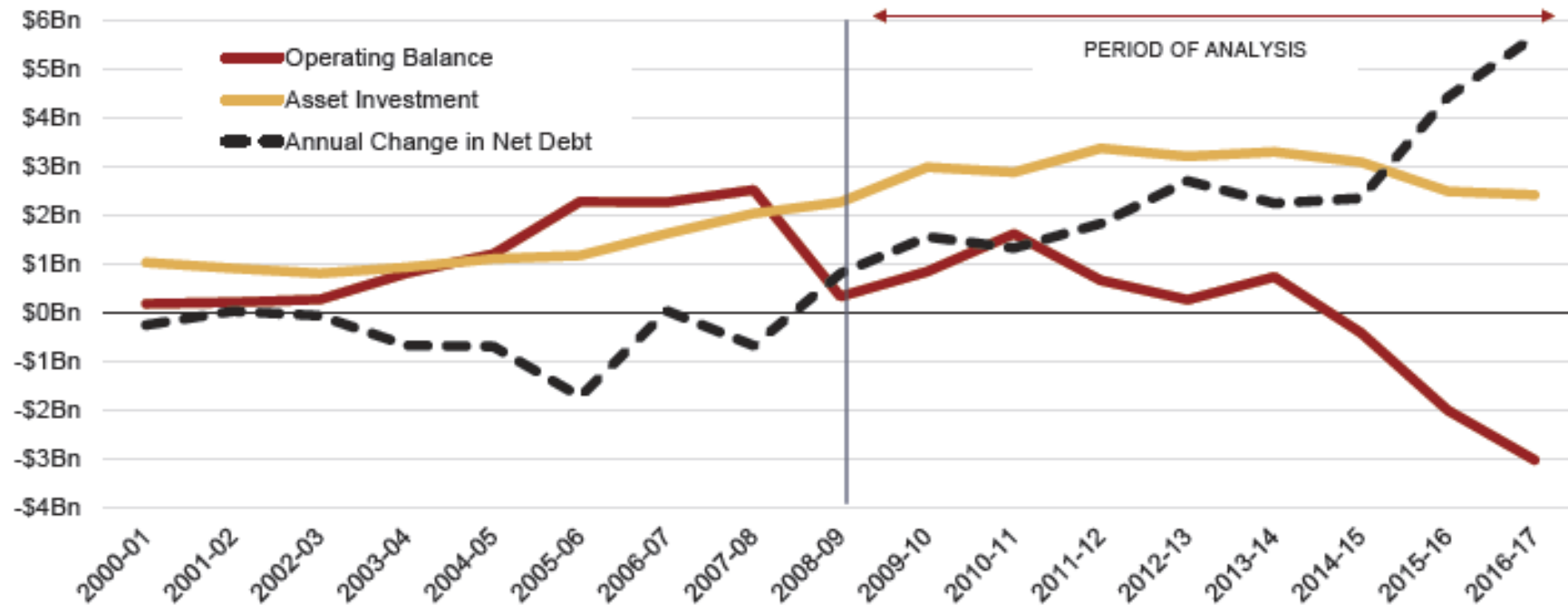
Figure 8: Asset Investment by the Western Australia Total Public Sector, by Major Agency / Public Corporation, 2008-09 to 2016-17⁹



Where did the money go - Infrastructure Expenditure

Infrastructure investment grew from a high base across all areas of the public sector – Decision makers were not prepared to reduce this expenditure as debt growth accelerated.

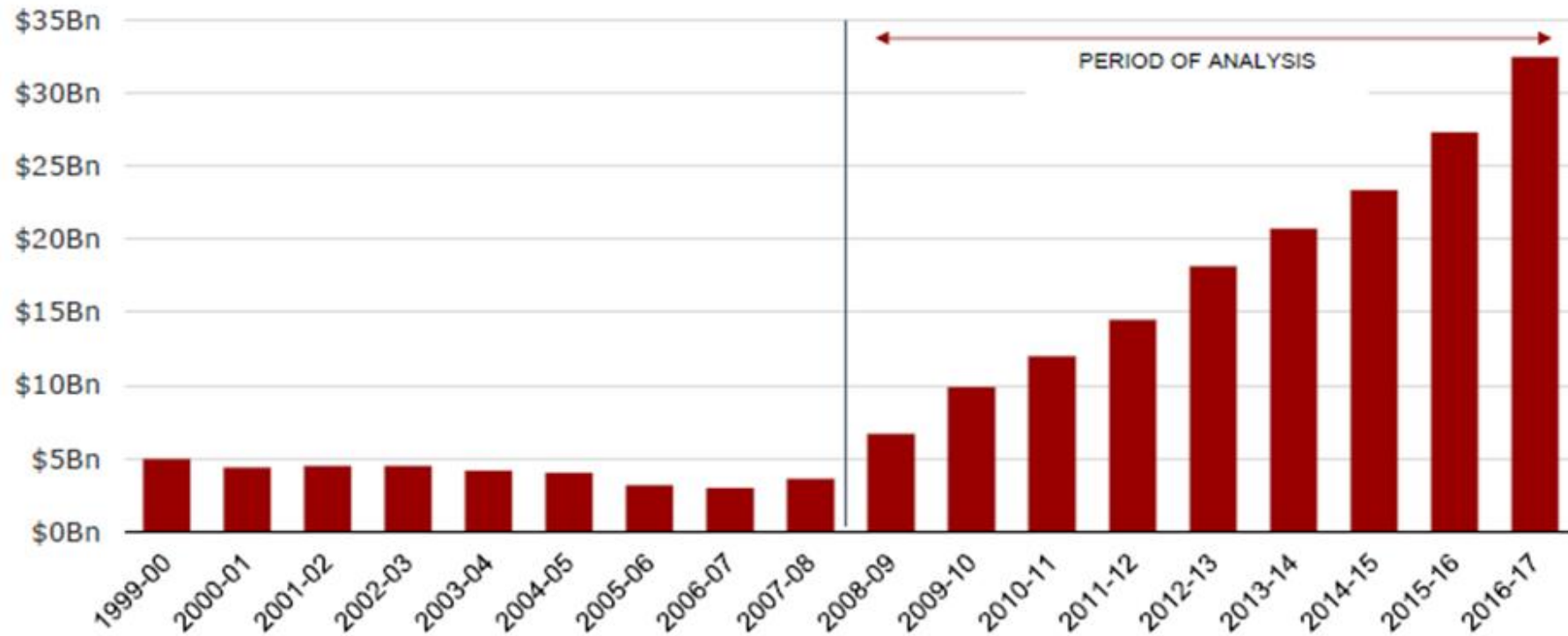
Figure 9: Western Australia General Government Sector Operating Balance and Asset Investment Program Relative to Change in General Government Net Debt.¹⁰



Where did the money go – Declining cash surplus grew debt

The combination of operating revenues being converted into expenses meant the growing infrastructure budget needed to be funded by greater debt. When revenues collapsed (in 2014-15) debt ballooned. Comparing this period with the period up to 2008-09 is instructive.

Figure 6: WA total public sector net debt⁷



⁷ Ibid

Where did the money go – Declining cash surplus grew debt

Total public sector net debt increased almost five fold over eight years from \$6.7b in 2008-09 to over \$32.5b in 2016-17, an increase of \$25.8b. Even while revenues were strong net debt grew by \$14.6b or 400% between 2007-8 and 2012-13.

Where did the money go – Lessons Learned

- The State's revenue base is narrow and subject to great volatility;
- While revenue growth can turn on a dime, expenses can't be managed as rapidly;
- Larger budget surpluses are needed when infrastructure spending is high;
- The integrity of the annual budget process must be restored;
- Cash budget positions (measuring debt requirements) need greater attention;
- Forward estimates need to be developed with care and budgets set more conservatively;
- Treasury's forecasting capability needs augmenting. Economic and financial risks need greater exposure in budgeting;
- Assets investments need greater planning and prioritising and contract management more attention through asset acquisition and development.

Key Recommendations

There are 107 whole-of-government recommendations.

The Executive Summary lists 12 themed recommendations-see pages 13-20 of Volume One. Pages 165-178 of Volume One list all whole-of-government recommendations by responsible agency.

All told the recommendations will amount to major changes in the way government operates.

Some key recommendations;

- The Cabinet must impose the highest standards in its governance of the State:
 - Demanding that Submissions are prepared in consultation with all agencies which have a 'right to know';
 - Requiring all submissions with a financial impact on the State be submitted to Cabinet through the ERC;
 - Enforce the 10 day consultation period for all Submissions with financial implications; and
 - Cabinet agendas need to include periodic review of the State's key financial and legal risks.

Key Recommendations (continued)

- The Government must work more closely with its public service in the development and implementation of its objectives and major policies:
 - Ensure the public sector is aware of the government's priorities;
 - Agency strategic plans to be aligned with Government's strategic objectives;
 - Build on the DG Leadership Council;
 - Ensure key performance measures, like financial targets are meaningful and observed;
 - Central agencies must have their authority and capability rebuilt to provide leadership and guidance across the public service;
 - Government Trading Enterprises must be engaged in these processes.
- The integrity of the annual budget process must be restored:
 - Ministers must be required to fund new expenditure measures from reprioritising existing budget allocations.
 - the Royalties for Regions program must form part of the annual budget process;
 - All Submissions involving a financial implication for the Government must be first presented to the ERC after obtaining sign-off from the Department of Treasury.

Key Recommendations (continued)

- Government agencies must work more collaboratively with a common purpose and trusting that 'frank and fearless' advice to Ministers and Cabinet will be respected:
 - The Premier through the Cabinet must lead this culture of engagement between Ministers and public servants including in public discourse through the media;
 - The central agencies must set the standards of engagement across the public service led by the Department of the Premier and Cabinet.
 - Training programs to enhance skills in governance, risk management, financial management, project management and procurement must be instituted across the Public Service and the Government more broadly.

Key Recommendations (continued)

- The identification, prioritisation and development of the State's infrastructure requirements must be enhanced:
 - Establish Infrastructure WA with a clear remit to assess periodically the adequacy of the State's infrastructure base and future infrastructure needs across the short, medium and long terms;
 - The Department of Finance's Strategic Projects business unit must continue to have oversight of contractual relationships with major builders/constructors;
 - Steering Committees established to oversee major works must have appropriate membership, and governance practices including Cabinet sub-committee oversight;
 - The Department of Finance should be authorised to act as a Project Management Office for all State works.

Key Recommendations (continued)

- Transparency, accountability and openness with the community in the delivery of public services and infrastructure must increase:
 - A Parliamentary Budget Office must be established to oversee the costing of election commitments by all parties and the provision of information on major new expenditure proposals by non-government parties;
 - The governance and procurement practices of Government Trading Enterprises need strengthening and made more transparent. The legal structure and governance practices of other larger public authorities need greater standardisation;
 - Key aspects of major projects such as cost, timeframe and project definition plans need to be developed carefully before announcements are made and public expectations framed;
 - Continuous disclosure on the progress of major projects should be made available to the public through easily accessible means;
 - The State's accountability agencies must be heard more clearly and their Reports –especially those of the Auditor General–acted on more rigorously by all in government;
 - Government must change the default position on the use of commercial-in-confidence reasons for withholding information to one of demanding release of this information.