Standing Committee on Estimates and Financial Operations — Seventy-seventh Report — "2017–18 Budget Cycle—Part 2: Annual Report Hearings" — Motion

Resumed from 8 May on the following motion moved by Hon Alanna Clohesy —

That the report be noted.

Hon TJORN SIBMA: Thank you very much, Mr Chair, for giving me the opportunity to continue the remarks I commenced this time last week, which was the day before the 2019–20 budget was brought down. As was explained in other contributions, this committee report is part of a cycle. It is the second instalment and reflects on the committee's examination of the 2017–18 budget cycle. There is, I hope, some value in reflecting on what we discovered throughout the course of those annual report hearings, as the issues we encountered to some degree are perennial ones and certainly will remain or are likely to remain relevant.

The CHAIR: If Hon Tjorn Sibma wishes the call, he has it.

Hon TJORN SIBMA: Thank you very much. Time can really move fast.

The CHAIR: You only had one minute from last week.

Hon TJORN SIBMA: As I was saying, despite the fact that these hearings were held in November last year and deal with the prior budget year, issues come to the surface throughout this process of examination that reveal themselves perennially and are likely to do so until root causes are more stringently identified and dealt with. One issue of concern to me, and I imagine for other committee members and indeed perhaps other members of this chamber, is the accountability, openness and transparency of government trading enterprises that operate under a different legislative scheme but are nevertheless certainly not absolved from the need to be transparent and open in their dealings. I want to again reiterate the singular finding of this committee report as it relates to one of those GTEs—namely, Synergy. The committee found that Synergy exhibits a culturally entrenched ambivalence about its statement of corporate intent responsibility. That is no insignificant finding. Pages 23 to 27 of the committee's report go into some detail about how and why that finding was made. In my view, the finding goes to the heart of the matter; that is, the prevailing corporate culture within Synergy, at least at the senior management level, is poor.

I might reflect on my own personal experiences of dealing with agencies throughout these processes in the very short time that I have been in this Parliament. I have to say that Synergy has distinguished itself with its arrogance by the fact that it comes to these hearings sometimes ill prepared to deal with lines of questions that should be anticipated. I find that a great disappointment. As this report makes clear, any reasonable person should be concerned about the conduct of Synergy, at least over the course of the preceding two financial years, for these reasons. These are facts. The first reason is that Synergy's 2016–17 annual report, which was the period before this one, did not include any information at all concerning its actual performance as measured against the targets that were established for that agency by way of its statement of corporate intent. No data was provided about how the agency performed. A reflection in the body of this report is not insignificant either, but it was taken no further—that is, the omission could perhaps be taken to be a technical breach of Synergy's reporting requirements as established under the Electricity Corporations Act 2005.

There was a nontrivial issue in that particular year, in that Synergy recorded a $12.5 million after-tax loss. In fact, it was that outcome that actually generated a fair degree of inquiry and further examination of Synergy. The second issue was that when Synergy attempted, to some degree, to make amends for that omission in the annual report for 2017–18, which is the period under consideration by this report, it mistakenly referred to targets that related to the wrong financial year—that is, to 2016–17. We seek performance within the appropriate period for a good reason, because we want to know how the agency performed within the context of that financial year. We are chasing information like the EBITDA data—earnings before income tax, depreciation and amortisation—because we want a sense of how the agency is managing its cash flow. That is a very good indicator of corporate health. We want a sense of the return on assets to get a sense of the varying profitability among its different asset bases, and we also want to get a sense of the return on capital employed to give an indication of whether the capital investment decisions made by the senior management of Synergy are actually the best ones. This may be mandated, but there seems to be reference to net promoter scores. I always find that an unusual inclusion for an agency such as Synergy, which has a unique market power. Nevertheless, those other financial ratios provide information that is necessary to get a good and timely handle on. That responsibility was not discharged because the agency mistakenly, and bizarrely, referred to the wrong year.

With respect to that mistake, as it was discovered by the committee, I can advise—this is in the report—that the Minister for Energy wrote to the committee in January this year confirming that an error had been made and that an addendum to the annual report, which would provide accurate information against the appropriate metrics, would be tabled early in this year's parliamentary sittings. Indeed, an addendum was tabled, although it was tabled in the Legislative Assembly. No explanation was incorporated in that addendum. As a snapshot, Synergy provided erroneous information, the committee picked up the error, and the minister said, "Yes, there seems to have been a mistake here; Synergy will correct the record." However, it corrected the record in the wrong place and without any explanation or apology. Frankly, I find that to be unacceptable and more than sly.

This mistake was made in the context of endemic late tabling by Synergy of core documents, like statements of corporate intent. When this issue was raised in the context of hearings, other than just acknowledging the fact that these things are uniformly late, the CEO of that organisation provided no explanation of why that has been the case and certainly gave no indication of a really serious effort to remediate that and table the statements in the appropriate period. I say all this without attempting to make any partisan observation at all. I note, and welcome, the fact that the Treasurer is engaged in a reform project for government trading enterprises, which seeks to improve the accountability and governance arrangements for agencies such as Synergy, but I would not like to take any early optimistic view about that outcome, if only because of Synergy's response to the much hyped, or much promulgated, Langoulant review. When asked about whether findings made in that review were likely to eventuate in any broader self-examination or remediation, Synergy effectively said, "No. We know there is a report, but we haven't really looked into the issue." If we were making these sorts of observations about the culture of a small and relatively inconsequential agency, we might be entitled to say our piece.

The CHAIR: Hon Tjorn Sibma.

Hon TJORN SIBMA: Thank you very much, Mr Chair.

If this was a small and inconsequential agency, we might be able to make these remarks, suggest areas for improvement by the appropriate minister, and perhaps take some comfort that those areas would be corrected. If it were the unfortunate case that no remediation was made, we could at least be somewhat reassured or mildly comforted by the fact that the impact on the community might be only trivial if that error were to perpetuate itself. But Synergy is no small and inconsequential agency; it is large and essential, and it occupies a position of largely unparalleled market power and influence, yet it is largely inoculated against the application of market forces. Therefore, as a chamber, we must retain confidence in its management and operations and, at the very least, in the accuracy of the information it provides to this Parliament.

I wish I could retain confidence in the agency in that way, but I cannot let go unmentioned that the operations of Synergy have come in for some criticism—that is putting it mildly—by the Economic Regulation Authority. I will not dwell too much on a matter that is largely unrelated to the report, but it provides context for Synergy's conduct, which I think is concerning. I will read to the chamber the notice provided by the ERA on 3 April this year. I will quote it very briefly —

> The ERA has investigated Synergy's balancing submissions in 14,812 trading intervals between March 2016 and July 2017, and has concluded that the prices offered exceeded Synergy's reasonable expectation of the short run marginal cost of generating the relevant electricity in 12,908 trading intervals, —

Of that original number of 14 812 —

> and that Synergy's behaviour was related to its market power. This may be a breach of the Market Rules.
>
> The ERA has calculated that Synergy's pricing behaviour increased Synergy's revenue by between $40 million and $102 million above what it would have received over the 15-month investigation period if it had bid according to the market rules.
>
> The ERA will now bring proceedings before the Electricity Review Board, in the interests of Western Australian consumers.

I do not want to prejudice what the outcome of that may well be, but I draw the attention of members to this if only to illustrate that Synergy has a serious reputational issue to address. It is not isolated to the information it provides to Parliament by way of its statutory reporting obligations. It might well start by remediating and evaluating the quality of the information it provides to Parliament through those mechanisms if only to partially rehabilitate its reputation, because we cannot permit an agency of this size, of this power and of this essential nature, to be run in a way that does not meet the very basic levels of accountability and decency that this Parliament demands on behalf of the people of Western Australia.

Hon DIANE EVERS: First, in my brief introduction on this, I want to say how strongly I value the opportunity to ask questions when we go through the annual report hearings and how strongly I encourage other members to take part in those hearings when they come about and to take part in the budget estimates hearings that will be held soon. The estimates hearings are our opportunity to drill down into the issues that we consider important. When we go through the facade of question time in the house, which we will embark on shortly, we ask a prepared question and get a prepared answer. In the hearings, we get to go beyond that and ask questions, listen to the answers and see how it relates to the other information we know, the budget information or the annual report information, and follow up with another question. Sometimes we do not know the target of our question; sometimes we are fishing, in a way. We can find information that may bring out things like Hon Tjorn Sibma was talking about regarding Synergy. That is what we want to hear. We want to find out whether any errors or issues are being covered up, and that is the benefit of these hearings. They are not the facade we see sometimes in this place; they are an opportunity to find out more about what is happening within the accounts of the departments and agencies that represent our government. I see that as a real reason for our being here. I recommend to others that they be involved in this.

Members will notice in the report that some of the things we focused on were key performance indicators, effectiveness indicators and efficiency indicators. They are something I have great belief in, but, unfortunately, sometimes they are useless. The one I have mentioned many times is "dollars per hectare burnt". Why would that be an indicator of anything other than being able to pick the best spot to burn a lot of area really fast, with very little resources? Does it really achieve anything other than being able to tick the box to say that, yes, we achieved our 200 000-hectare target this year? It is not useful. To have that KPI and tell departments that is how we judge whether they do a good job is wrong because they think that is what they are aiming for: "We have to cover a lot of hectares, so, no, we won't do that bush, which really needs attention, because it is within a kilometre of a very fragile asset or near a rural community; instead we will burn this area that is 100 kilometres or more from anywhere else; it was burnt a couple of years ago anyway and it may have rare flora or fauna in it." The department is not thinking about the other parameters. Luckily, I think some pretty smart people work for us and, hopefully, they take those other parameters into account. But when that KPI—that judgement of their value and whether they have achieved their goal—is dollars per hectare burnt, sometimes the pressure from this chamber as well as from the media is: how many hectares were burnt this year and how much money has been spent on it? It comes back to that, so we have to address the issue of KPIs.

Paragraph 4.6 in the report refers to government goals, the main reason we are here. The government is here to set the government's goals; Parliament is here to recognise and, hopefully, support them and achieve some good. Once those government goals are set, what do we really want to achieve? I think the Premier came out with a list of 12 points that he has in mind for what he would like to achieve. We then distributed those ideas to the agencies, and with whatever support we could give them, the agencies needed to come up with the goals for their agency. If agencies know what their goals are—which is not just whether an agency burnt 200 000 hectares this year, but might be whether it has protected our assets, our people, our homes and the natural environment—they can use those goals to set their KPIs. Then they have KPIs that match the real goals and not just fictitious numbers that somebody has pulled out of their head to represent what they think might be the issue we are looking at. They can then get to the point where they present those KPIs in their annual reports and we get to scrutinise them.

Through this period, we asked many questions about agencies' KPIs, the times they reviewed them and when they were last reviewed. The answers we got were many and varied, but often they did not really understand the question, so we will keep working on that. There is room for improvement on the KPIs.

Committee interrupted, pursuant to standing orders.

[Continued on page 3344.]

Sitting suspended from 4.15 to 4.30 pm