

PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO PUBLIC SECTOR CONTRACT MANAGEMENT PRACTICES



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 26 JUNE 2019**

SESSION TWO

Members

**Dr A.D. Buti (Chair)
Mr D.C. Nalder (Deputy Chair)
Mr V.A. Catania
Mr S.A. Millman
Mrs L.M. O'Malley**

Hearing commenced at 10.30 am**Mr MICHAEL BUCHAN****State Secretary, Construction and General Division, CFMEU, examined:**

The CHAIRMAN: Thank you very much for appearing today to provide evidence relating to the committee's inquiry into public sector contract management practices. My name is Tony Buti; I am the Chair of the committee and member for Armadale. With me today to my right is Lisa O'Malley, member for Bicton, and to my left, Simon Millman, member for Mount Lawley. Unfortunately, the committee's Deputy Chair, Mr Dean Nalder, member for Bateman, and Mr Vince Catania, member for North West Central, are late apologies due to illness and other issues.

Thank you for your submission to the inquiry. It is a very good document. We would like to publish it after today's hearing. I just wanted to check whether you have any concerns you would like us to take into account before we do so?

Mr Buchan: Sure. Just sort of go through what we have been doing; is that what you are asking?

The CHAIRMAN: No. If we do publish this, do you have any concerns about that?

Mr Buchan: No, no concerns at all.

The CHAIRMAN: I will just say one thing. There is some very good information in the case studies at the back. There is a possibility that we may not publish some of that—we are just concerned about some issues with regards to third parties—but we will let you know when we make that decision.

It is important to understand that any deliberate misleading of this committee may be regarded as a contempt of Parliament. While your evidence is protected by parliamentary privilege, this privilege does not apply to anything that you may say outside of today's proceedings. Do you have any questions about your attendance here today?

Mr Buchan: No.

The CHAIRMAN: We will have a number of questions to ask, based on your submission. Do you have an opening statement that you might like to make?

Mr Buchan: No; more just to give you, I suppose, background and information on the construction sector around procurement and the issues that we deal with on a day-to-day basis, particularly in the tendering model or the procurement model that is used for major projects and minor projects—for all projects—on the basis that the majority of those projects, over 70 per cent, will have been based on price and price only. We see that as a big fault in the system around procurement. We are seeing evidence now around the country of poor quality control within the construction sector, and WA is not isolated from that. We had no better example than that probably of the new Perth Children's Hospital, and what the state was left with in dealing with that project. There will be ongoing issues with the children's hospital for a long time to come. But it is only a touch of the projects that we are seeing now that we have problems with, and these are state-government assets.

The taxpayer assets are out there, whether it be a school that is being constructed, whether it be an office building—it does not matter what it is. We are seeing faults within the construction sector—the selection of contractors, the selection of principal contractors and their subcontractors. There is no better example than, I suppose, the fit-out of the courts in the city here, at one stage—there is a case study on that within this document—where we saw a fit-out by Broad Construction

on that job. We saw it, we raised it and wrote to the Department of Finance at the time about the issues that we had about the quality and the non-payments of subcontractors, and really the response that we got back from all accounts was that they could not interfere with contractual arrangements that have been made. We see similar circumstances with the Forrestfield link project—the Salini project—another project that has been plagued with issues around quality control, with issues around standards of agreements that are used for the workers, over use of labour hire, and so on. Strategic Projects have been in a position at the time where they could not intervene in the contract that they have with Salini and NRW, which has reflected the poor outcomes on that job, particularly around the safe build and the integrity of that project, and the ongoing maintenance that will occur far beyond the time that that project is completed and handed over.

We see, moving forward with that, and learning from all of those issues that have arisen, that there is a way forward, in our eyes. The way forward sort of goes through a procurement model. I suppose, in my area, the construction sector selects selection criteria for principal contractors and subcontractors—so tiering down all the way through to the small subcontractor—that they are worthy to tender state government projects. I suppose the model that has been adopted through Territory government in the ACT with their government procurement code of 2019, that sort of reflects then in the procurement act of the ACT. We see that would be a big step forward in this; one, ensuring that the WA taxpayer gets good infrastructure and proper assets that are built up to a standard, not down to a price. I think it is a step that needs to be taken sooner rather than later.

We have evidence lately that has come up. Probably the most recent one would be the Butler high school development out in Butler. We have seen structural issues on that project, where the principal contractor has gone through several formwork trade contractors to be able to complete some work, which resulted in the collapse of an in situ concrete set of stairs. The outcome of that was that the proper reinforcing bars were not properly secured into the landing level on the top. That is what we see as a quality-control issue and a safety issue that just should not occur on any project, let alone a state government school. They are ongoing. Recently, we have had concerns at the inner-city school coming through where, in this race to the bottom, subcontractors are selected purely on price. We are in a pretty negative margin space within construction here, where we have seen, on that job, the walls and ceilings, the recent rains that we have had have damaged all the walls, or damaged all the plasterboard on that particular project. We believe if that was happening in your own personal home, you would speak to the contractor and ensure that they replace that damaged plasterboard with new plasterboard. But what we see on these jobs—it is an industry problem, but given that state procurement is around 70 per cent of all construction work, the practice that goes on everywhere flows through to all those projects. With that board that was damaged, the integrity of that board has now been compromised. We see they bring heaters on to dry that board out and then just paint over the top of it. It is not a practice that we accept.

[10.40 am]

I think the Building Commission in WA have a lot to answer for, where they are not out there proactively ensuring that buildings are built up to the codes and up to the Australian standards. In fact, it suggests the other, where we have seen that at different times they have brought in third party engineers that will sign off on a job that is below the building code. There were examples of that that have come about.

I suppose, for particularly construction, we have an industry here that is in crisis at the moment with that competitive tendering and the importing of products. We seem to be “WA the dumping ground”; the first port of call for products to come across the waters and land in Perth. We believe

in a full review of the government procurement, as far as pre-qualification to be able to tender on jobs, both at a principal contractor level and a subcontractor level, to ensure that they meet a certain criteria to be able to even tender for those jobs, coming all the way through.

The CHAIRMAN: Mick, we have some questions; we can maybe go to them. On page 3 of your submission, you seem to suggest that WA lacks the focus of other states on total value when contracting. Also, you argue that the WA government has been an “uninformed purchaser”. Can you tell us what you mean by “total value” and “uninformed purchaser”? Can you elaborate on those?

Mr Buchan: I suppose, with that, what we mean is that there was a time when we had a proper Public Works Department in WA, where with major projects or Western Australian projects, the government would make sure that they have a clerk of works or a quality control inspector that oversaw those jobs, whether it be the pouring of a concrete slab, the right light fittings and electrical wiring, and everything being used all the way through. We have a commercial industry that is largely deregulated. With the design and construct model that has come through, we are seeing that the principal contractors take control of all of the quality control and completion of those jobs. There are some builders there, particularly the national ones, that do it better than others, but when you get this competitive tendering position that we are in here, you see that those more, I suppose, reputable or national builders or others are just priced out of the market because they cannot compete. The work does not go in at that tender stage, with the government being the client, to ensure that they are getting what they are initially going to pay for.

Mr S.A. MILLMAN: When you say that the work does not go in at the tendering stage, you mean there is not a public servant who is having a close look at what the structure of the project is going to be?

Mr Buchan: Yes. I suppose you need construction industry-background people to sort of review these jobs during the tender process, and the criteria is not there that has to be met and ticked off before a project is awarded.

Mr S.A. MILLMAN: There is no requirement for an independent body like the Building Commission to interrogate that either is there?

Mr Buchan: No. We have a Building Commission here, but they do not focus on pre-tender work.

Mr S.A. MILLMAN: They are after the event rather than precautionary.

Mrs L.M. O’MALLEY: When you talk about an uninformed purchaser, the opposite of that being an informed or intelligent client, how would you see that shift occurring? What would need to happen? What would need to be different?

Mr Buchan: I would say it would need to be evidence-based. Builders need to put their cards on the table and there needs to be evidence; an evidence base of what they are going to produce at the end of the day. That needs to be reviewed by the government department running that to ensure that it does meet the criteria.

The CHAIRMAN: But you would need to have someone in the public service who has the ability to interpret that evidence; right?

Mr Buchan: Yes.

Mrs L.M. O’MALLEY: That is one of the things that we have come across again and again as we have been doing our investigations, here and in other jurisdictions—the lack of capacity within the public sector. They are lacking the knowledge to ask the right questions. So you can have the builder who

comes and says, “Yes, this is what I’m putting on the table”, but if the public servant does not know if that is the right thing or not, then we have a problem.

Mr Buchan: Yes.

Mrs L.M. O’MALLEY: I guess that would be where I was kind of leaning towards. What sort of recommendations or shifts could you see the public sector making to become more informed, or become, like we say, a more intelligent kind of client?

Mr Buchan: Well, that is engaging with the right people to be able to give you that advice, and purely not just base it on price.

Mrs L.M. O’MALLEY: Yes, that is a good point.

The CHAIRMAN: We have heard often about the value for money. How do you define “value for money”?

Mr Buchan: Value for money is a project that is handed over at completion time within the budget with very minimal defects and rework that has to be completed. Sometimes you need to spend a little bit more to get the better product at the end of the day that comes through. It is really as simple as that. Some live examples at the moment, if you look, there is probably no more live example than KS1, 2 and 3 on Wellington Street. They were prices that, say, the likes of Multiplex and Probuild all tendered, as well as some other builders, between the lot of them. The defects that have come out from those jobs, at the moment, they are still going on. They had to replace all their internal lifts because they decided to substitute your normal Otis or Schindler lifts with a Chinese lift that did not meet the Australian standards at the end of the day, and they had to be replaced. They have had to have all the windows replaced on KS1 because they did not meet the standards. They have had to have all the blade panels—the expansion joints redone, because it was falling out as it goes through. It just goes on with that.

Mr S.A. MILLMAN: Can I get you to look at page 11 of your “Delivering Quality” document, because I think Lisa’s or Tony’s question is on the question of value. You talk about a broader measure of value, and you talk about the Victorian government’s social procurement framework. What you are talking about at the moment in terms of KS1, 2 and 3, in the diagram above, that seems to fall into the “Disputation, delays, cost” section. Would that be right?

Mr Buchan: Yes; also “Poor scope and design”. What we will find, you may see a set of drawings that goes in first for the design phase and they will recommend different types of cladding. Then, when it gets to the time, where they have gone in so cheap, they look to replace some of those products with cheaper products. We know that to have occurred on several jobs in Perth.

The CHAIRMAN: “Value for money”, the reason I was asking that was because I wanted to see your explanation broadening that out, rather than just the dollar sign, like the social value et cetera. What comment do you have? Is the way that the government would assess value for money too narrow?

Mr Buchan: Yes. I think they have to look at the builder and the whole chain of subcontractors that they engage on a certain project, all the way through that scheme, and be able to check it off. There are tools that other states have developed to assist with that. But it goes through everything. We have a problem at the moment within construction that labour hire is used beyond capacity. We have some jobs at the moment where we have 80 or 90 per cent labour hire. Take, for example—this is my best way to explain it—the Fiona Stanley Hospital construction phase. That came in where we had the structural contractors and those contractors there that had direct employment opportunities, and the same people who started that job finished that job. They were there from the start; they were there at the finish. So the concreters, the steel fixers and the concrete placers started that job as a direct employee and they finished that job.

[10.50 am]

Now what we see on many of the government and other jobs is that we have had a shift within the employment practices that come through there, due to this race to the bottom, where industry standard agreements have not cut the weight, they have been priced out of the market, and even companies that have industry agreements have had to replace that with labour hire. The laws have allowed them to be able to do that. So you will have two sets of workers working on one project, one that has continuity of work and a good employer, the others that are just labour hire. So you get a high turnover of workers that come through that job, and you do not get the same build at the end of the day, because, really, they are not giving what they normally would for a permanent, secure employer.

Mr S.A. MILLMAN: In terms of those workers working side by side with different terms and conditions, that is a problem that sits within the commonwealth Workplace Relations Act, does it not?

Mr Buchan: Yes.

Mr S.A. MILLMAN: Can I come back to Lisa's question about being an informed purchaser. At page 10 of your "Delivering Quality" document, just in the last paragraph there before the shaded box it reads —

The Queensland Government has maintained an informed purchaser capacity with a significant standing workforce.

Would you suggest to us that that is a good jurisdiction to look at, for—what were your words, Lisa—the WA state government to become an "intelligent client"?

Mr Buchan: Yes. The Queensland model. Queensland, Victoria and ACT, but the Queensland model seems to be more—they seem to be working well in that.

Mr S.A. MILLMAN: Yes. We have had some evidence this morning. Just again staying with Queensland, you are talking about the race to the bottom. We have not looked this up, because we only just got the evidence this morning, but the Queensland government seems to have an unusually low-bids policy, so when the government gets a bid in from the private sector, if the government agency thinks that it is an unusually low bid, then that sets off red flags for them to go back and say—sort of a question out of the blue, but what would your view be on something like that? What would the union's view be?

Mr Buchan: Yes, I think that is a part of it. Yes, they have something like that. They also have their equivalent of the Building Commission and committee there that is set up with all stakeholders—their advisory committee to the Building Commission. That has all the industry participants on that, and they are out there, doing proactive inspections on government projects, to the point where if they see a deficiency or something going wrong, they will stop the project. That has recently happened.

Mr S.A. MILLMAN: Is that something we lack in WA?

Mr Buchan: Well, the Building Commission does not do that. We do not have that sort of tripartite arrangement.

Mr S.A. MILLMAN: When you say there are industry stakeholders on that committee, does that include the unions?

Mr Buchan: That includes unions, industry and government.

Mrs L.M. O'MALLEY: I think it might be a good time to have a conversation around alliance as well, looking at alliance contracts, looking at the difference between a design and construct model versus an alliance model. Could you give us your thoughts on that, the benefits to alliance contracting, and I guess some of the risks or challenges as well?

Mr Buchan: Yes. I suppose the alliance model is a far better sort of value model. When you have these bids, the engineers and the designers working together, or working for their separate bids but then, at the end, working as one unit in handing over that. That is a good model to come to, to line everything up with, and see that you get a better result.

Mrs L.M. O'MALLEY: I think earlier there was conversation around the fact that they share risk, but they also share reward, so it is more of a carrot rather than a stick kind of thing, as far as what the outcome can be; how it can be a mutually beneficial outcome?

Mr Buchan: Yes.

Mrs L.M. O'MALLEY: Do you see any risks for government in that model?

Mr Buchan: I think, if it is applied as an alliance model, applied in its full capacity, it is a good way forward, but it really has to be applied in its whole full model to be able to get the maximum benefit out of it.

The CHAIRMAN: You mentioned the Metronet project. Have you noticed any other moves the WA government has towards alliance contracting?

Mr Buchan: I have not, no.

Mr S.A. MILLMAN: Can I come back to the Butler high school. Just in terms of the principal contractor going through several formwork contractors, one after the other, do you know if that was a design and construct contract that the Department of Education entered into for the Butler high school?

Mr Buchan: Yes.

Mr S.A. MILLMAN: Under that contracting model, the principal contractor was retained, and it was up to the principal contractor to get their subcontractors. Was the purchaser—the Department of Education—advised that the principal contractor had changed formwork subbies, do you know?

Mr Buchan: I do not. I doubt it very much.

Mr S.A. MILLMAN: In the industry, is it customary for a principal contractor to change subbies as regularly as that?

Mr Buchan: No. Well, the intent is to have a formwork contractor that will see it to the end, but with the competitive nature of this state at the moment, and I suppose a red-flag system that is not in place —

Mr S.A. MILLMAN: That was precisely my next question.

Mr Buchan: Yes—you come up with that. The Department of Education would not know what is happening on the ground on any of that, and I suppose it is not their job to be able to do that. But you would expect that building works management should have all of those red-flag systems in place, and if there is a change in subcontractor on the job, that they are notified with the details and come through.

Mr S.A. MILLMAN: You would be asking why. I cannot remember clearly, but my recollection was that seemed to be a problem on the children's hospital project, with John Holland changing.

Mr Buchan: Yes, it was. It is common on all projects. We have seen record numbers of subcontractors that have gone into administration due to just tendering the job. See, what really happens, particularly in the structural trades, is they will be able to keep their head above water during the early days, because that is when you have high levels of concrete, cubic metres of concrete, and lots of weight—lots of tonnage of steel going into a project. They will be able to make ends meet while that happens, but when you get three-quarters through that job and the gauge of the steel is reduced and the concrete levels are reduced, it is harder for them to make ends meet. They stop paying their superannuation and stop paying their long service leave payments; you know, it gets to a few redundancies that come through and they then have trouble paying the wages and then it all falls over.

Mr S.A. MILLMAN: You mentioned earlier in your introductory comments the figure of 70 per cent in terms of projects. I did not quite catch what you were saying. Was that 70 per cent of construction projects are government procurement at the moment in WA?

Mr Buchan: Yes. Our sources tell us that around 70 per cent of all government projects are based purely on price.

Mr S.A. MILLMAN: Right; and that based purely on price —

Mr Buchan: Yes, cheapest bid wins.

Mr S.A. MILLMAN: Yes, the cheapest bid wins. You said that what is going on in the government flows through to the broader sector, so the government sort of leads the sector in this regard?

Mr Buchan: Yes.

Mr S.A. MILLMAN: In your opinion, does the government have a role to play in setting a good example?

Mr Buchan: Absolutely. That is the difference you see with the likes of, say, the Queensland government where they end up with an industry standard and the government is leading the way on that standard. In Perth, or in Western Australia, there is no industry standard so it just goes lower and lower. We, within the union, have done our best to try and adjust our agreements to maintain an industry standard. What we found was it just kept going lower until it was below the award conditions and rates and we are forever fixing it.

[11.00 am]

The CHAIRMAN: It is kind of related to that, but I want to get back a bit more to the broader notion of value for money. What I am trying to ask, Mick, is that rather than just the absolute dollar sign, what social values do you think are the responsibility of government in contracting and the like—labour standards, diversity of employment, environmental? What role does government play in that and has the government been interested in that at all?

Mr Buchan: I suppose what we see and get a bit frustrated with as well is the local jobs element and good permanent jobs. We have seen a dramatic shift in the last few years of permanent jobs being replaced by labour-hire jobs. That has an impact on the value and the quality that ends up in delivering good procurement models or good hospitals or good schools—good everything. We have seen that shift come through there but we need to have an industry standard and a good, true procurement model would go through that phase on the social values or environmental issues that occur, whether that be how you dispose your waste or hazardous substances or what sort of insulation materials you are using on the job, all the way through the process to ensure that you get that value on a project that comes along.

Mrs L.M. O'MALLEY: I guess that is where I was kind of heading as well: what sort of standards do you build in other than price? I recently came across a company that has been doing some amazing stuff with landfill diversion and taking construction waste and turning it into landscape materials and things like that, but they are quite small scale at the moment. The ability for them to get into the market and into that space is quite challenging. I guess I am leading towards having government as showing leadership on those things. In essence, what are the specific standards that you want to see built in, other than price?

Mr Buchan: We need to see that we are planning for the future as far as apprenticeships and trainees go. I suppose there are so many tentacles that go through, so that crosses over onto the Priority Start program. We see gaps in the Priority Start program where we do not see the apprentice numbers coming through even at the starting point or finishing point. We used to have a position where the principal contractor—these are positions that could be put into a procurement document that at the start of a big project, say, a three-year project that comes through, that there is a commitment from the principal contractor or the awarded contractor that they employ a ratio of apprentices and those apprentices stay on that project with the principal contractor and go through all aspects of their trade, whether it be carpentry, electrical, painting or ceiling fixing. They are employed by the principal contractor and when the form work and the structure goes through, and this used to happen, they would then be on loan or given to the form work contractor. They would do that element. When that process finished, they would then move on to the wall and ceiling contractor. They then move on to the finishing trades contractor and, at the end of the a project, the government has assisted in delivering 50 new carpenter apprentices that have come through and been trained on the job. We do not see that now. We see group training schemes coming on board, and there is a purpose and a place for group training schemes, but it is very hard to place a first or a second year apprenticeship anywhere on construction jobs. The numbers out there are appalling for apprenticeships and trainees. That kind of criteria should be locked into —

Mrs L.M. O'MALLEY: Into the terms or the standard?

Mr Buchan: Into the standards or into a procurement prequalification.

Mrs L.M. O'MALLEY: Yes.

Mr S.A. MILLMAN: With that sort of standard, the submission on delivering quality talks a bit about the MOU—I think the ACT example is the one that you point to—incorporating something like apprenticeship levels. Would you see that as being properly placed within the MOU?

Mr Buchan: Absolutely.

Mr S.A. MILLMAN: In terms of the MOU, one of the questions that we have is that there are prohibitions or penalties if a principal contractor is not compliant. Is the ACT the best example of where an MOU has been put in place?

Mr Buchan: Pretty much with the MOU in the ACT, there is prequalification. You need to apply for a job code certificate and that job code certificate goes through a range of business activities. You need to show evidence that you are up to date with your superannuation and long service leave—all the statutory requirements—your workers' comp certificates, public liability. You need to show —

Mr S.A. MILLMAN: So you need to show that you are obeying the law.

Mr Buchan: Yes, you need to show you are obeying the law. On top of that, there are your environmental policies and your apprentice or your trainee commitment to train.

The CHAIRMAN: That is the wider theme, the wider social value and that sort of stuff.

Mr Buchan: That is in the ACT, so then they will have a portal so the principal contractor may be awarded a job. He will then go through that portal to select his subcontractors.

The CHAIRMAN: In your seventh recommendation, you call on —

... all parties in contract delivery to demonstrate financial capability throughout the life of the project ...

What do you see is the best way government agencies can assure an appropriate line of sight over the financial capabilities of the major contractors?

Mr Buchan: I think a good step would be to get the subcontractor payment legislation sorted out. There has been a long history of principal contractors and subcontractors simply tendering for jobs at a low price to be able to put that on their books so that then they can get some more finance to keep financing their projects as they go through. The result of that is that they end up in a world of pain and insolvent. We are of the view that they need to show their credentials before, whether it be a jobs code certificate or a procurement certificate, to show that you can sustain—the reality is that if you have not got the funds to be able to carry out a job before it starts, proof that you can carry it out until the completion, then that is a high risk and you probably should not be tendering.

Mrs L.M. O'MALLEY: Surely you are speaking to sustainability on a broad scale—the sustainability of that company as well. I have one more question, which goes back to the alliance contract stuff. Again the theme that we are finding is a lack of capacity within the public sector to do their part to deliver best outcome. You are talking about getting the full benefit of an alliance contract when it works at its best. In your opinion, does government have the expertise that is required at this point in time; and, if not, how?

Mr Buchan: My feedback from the alliance model in WA at the moment is that they are calling it the “alliance-lite” model. It is not the full model; it is coming through “on the lite”. A lot of that comes back to the expertise in that to help them deliver that plan or what they are required to put into that tender bid. I think the basis of an alliance model is great. You have two or three or four bids tendering on a job on their skills, their engineering, their design or whatever, and then all that is placed before the government to be able to select which one is the best model and then move with it, but take all the other brains that have been in the room with the other bids along with it to use bits of—it is a good model in that respect.

[11.10 am]

The CHAIRMAN: In your submission, you mentioned that there seemed to be an increased reliance to use the private sector, which you believe leads to worse outcomes for workers. Is there any time or any justification for the government outsourcing to the private sector?

Mr Buchan: What did you say again, Tony?

The CHAIRMAN: You mentioned in your submission that there is an increased reliance on the private sector, which you mentioned leads to worsening outcomes for the workers. Under what circumstances would it be appropriate or beneficial for the government to outsource more to the private sector?

Mr Buchan: With reference to —

The CHAIRMAN: Basically, as a general principle, looking more to the private sector.

Mr Buchan: In the management of projects or —

The CHAIRMAN: Yes. Let me put it another way —

Mr S.A. MILLMAN: You have to ask the question differently.

The CHAIRMAN: Go on then.

Mr S.A. MILLMAN: The government does not have the capacity to build a tertiary children's hospital at the moment. Is the long-term vision of what the CFMEU is articulating the re-establishment of a public works department that does all the construction, or that the private sector should do most of the work but it does it to a standard?

Mr Buchan: Apologies for that. There is no public works department that comes through, and I do not think that we would get back to that level but I think we need to take a serious look at the role of the public works department and ensure that particularly the compliance of the relevant building codes and quality assurance checklists are reputable, whether it be with a third party or an employee of a government department, to ensure that they are getting what they are paying for. That is where the laxity is. There are blockages within the system at the moment. The way I see it is if the government signs into a contract with a principal contractor and a builder and there is a problem on that project, there is very limited scope for the government to intervene. They can ask what is going on, but the builder will just say, "We've got it all under control." There seems to be that gap where they can go and have a look for themselves and pull up stumps or ask for a review to be done on certain areas. That is the gap that is missing. The Forrestfield link is a straight-up example of that where we were raising issues with the PTA for 18 months and they were being blocked by their principal contractor because of the contracts that they have entered into with that contractor to say, "We're building this. We'll give it to you when it's completed." Our claims with that came to fruition with the issues that happened. It does not matter what they are because they are irrelevant, but everything is reactive.

Mr S.A. MILLMAN: As far as you know, is that a design and construct —

Mr Buchan: That is a design and construct project but also with the engineering and everything, they will learn from that.

Mr S.A. MILLMAN: I have one more question. You mentioned something in your opening statement that did not come up in the submission. You were talking about the importation of products and how WA has become a bit of a dumping ground. I am just going to set up a hypothetical situation and get you to comment. In the children's hospital, the principal contractor, John Holland, imported all these water fixtures from China with an elevated lead component to them. What ended up happening is that they were all replaced with PVC components that had actually been manufactured in Welshpool. Is there a role for government at that lower level in terms of assisting principal contractors to say, "You've got good local supplier here in Welshpool that can quite easily build this component part that you need", rather than exposing us to the dumping of these substandard products from overseas? Is that a role that you see the government playing in entering into these contracts with principal contractors or alliance contracts?

Mr Buchan: Sure. Absolutely, 100 per cent. I do not know how you would facilitate that.

Mr S.A. MILLMAN: Even if you had a checklist that said 10 per cent of your building material has to be locally sourced or something like that.

Mrs L.M. O'MALLEY: I think part of that as well, if I remember correctly when you raised it in your opening comments, was around the fact that, again, it is this race to the bottom. When it is all about the price and it is lower. When the contract is signed, it is all agreed to, and then the commercial realities set in that they have come in so low, they cannot actually deliver based on the products that they were initially contemplating, and therefore an inferior product is substituted. Is that where you were going with that comment?

Mr Buchan: If you look at all the cladding issues not just in Perth but around the country, a large percentage of that was due to changing the specifications that were required on the job. You can get fire-rated panelling for \$60 a square metre or you can get the cheap panelling for \$10 a square metre. If your budget is blown, what do you do?

The CHAIRMAN: Part of the practice that we have heard about is the race to the bottom, so the principal contractor wins the tender at X price, which can never really be delivered. They then go back to all the subbies and renegotiate to ensure there is a lower price so that therefore they can make a profit. That is going to affect the product and also the work and labour standards.

Mr Buchan: It goes to this extent—the best way I can explain it is to give some live examples. It has got to the point now where we have got, on some jobs, security guards being used as traffic controllers because they fall under the security guard award, not the building and construction award, and then their instruction coming from the principal contractor to all of the subcontractors is: “If you don’t have a truck that can drive in and out of the building site, you will have to supply your own traffic controller and coordinate that to come in and stop the traffic and come out.” On a \$450 million or \$500 million project, to go to that extent is, one, it increases the road safety risk and it increases the risk for a person being taken away from his job to go and hold a stop-and-go sign because he has to manage traffic control. It just escalates all the way through. That is where the industry is headed in some cases. There are examples of the industry where they are trying to save a dollar here, but it is going to cost them in the long run \$2.

The CHAIRMAN: I have a closing statement that I need to read. Thank you for your evidence before the committee. We will forward a copy of this hearing to you for the correction of transcription errors. Please make these corrections and return the transcript within 10 working days of receipt. If the transcript is not returned within this period, it will be deemed to be correct. New material cannot be introduced via these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on any particular point, please include a supplementary submission for the committee’s consideration when you return your corrected transcript of evidence. Once again, thank you very much.

Hearing concluded at 11.19 am
