

Division 63: Finance, \$715 902 000 —

Mr P. Abetz, Chairman.

Dr M.D. Nahan, Minister for Finance.

Ms A.L. Nolan, Director General.

Ms J.A. McGrath, Executive Director, Building Management and Works.

Mrs S. Black, Executive Director, Shared Services.

Mr R.L. Alderton, Executive Director, Government Procurement.

Mr W.R. Sullivan, Commissioner of State Revenue.

Dr R. Challen, Deputy Director General, Public Utilities Office.

Mr L.M. Carren, Chief Financial Officer.

Ms S. Jones, Executive Director, Corporate Services.

Mr A. Raj, Principal Policy Adviser, Finance, Department of the Premier and Cabinet.

Mrs L. Mitchell, Policy Adviser, Finance, Department of the Premier and Cabinet.

The CHAIRMAN: This estimates committee will be reported by Hansard staff. The daily proof *Hansard* will be published at 9.00 am tomorrow.

It is the intention of the Chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point. The estimates committee's consideration of the estimates will be restricted to discussion of those items for which a vote of money is proposed in the consolidated account. Questions must be clearly related to a page number, item program or amount in the current division. It will greatly assist Hansard if members can give these details in preface to their question.

The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the committee clerk by Friday, 30 August 2013. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office.

[Witnesses introduced.]

The CHAIRMAN: The member for West Swan.

Ms R. SAFFIOTI: I refer to the line item for the master planning strategy for government office accommodation on page 765 of the budget papers. Are there plans, and has money been budgeted, for the new \$15 million headquarters for the new Western Australian parks authority to be built in Bunbury?

Dr M.D. NAHAN: I will pass over to the CEO.

Ms A.L. Nolan: That allocation will be within the Department of Environment Regulation, if it is there. It would not be specifically mentioned in our aspect of the budget papers.

Ms R. SAFFIOTI: Has the department not been advised or had any specific money allocated for this commitment to build the \$15 million headquarters?

Dr M.D. NAHAN: Building Management and Works acts as the contracting client for a range of government departments, and it gets involved only when the contract is let or formulated. A range of recent announcements would be in separate government budget accounts rather than ours.

Ms R. SAFFIOTI: This relates to government accommodation, which the minister is responsible for, so it is a bit different. This was a commitment to have specific government accommodation worth \$15 million in Bunbury. It is a broken commitment if it is not there. I just want to get information on whether any money has been allocated by the government to this project.

Dr M.D. NAHAN: The department has had conversations with them about the accommodation issues. It is not a broken promise. It is a promise that is starting to be implemented. It has not been built into the capital works program for us, so we are having to take it on, but I am sure it will be. It will be allocated to the respective department, but I cannot remember its exact name. There is no broken promise.

Ms R. SAFFIOTI: It has not been funded in that respective department, so we will just take it that no funding has been allocated yet for this project.

Chairman; Ms Rita Saffioti; Dr Mike Nahan; Mr Matt Taylor; Ms Margaret Quirk; Mr Dean Nalder; Mr Tony Krsticevic

Dr M.D. NAHAN: The member can take it wherever she wants. It is not in our capital works for accommodation, but that does not mean it is not happening. A range of issues are being developed that have not come to the contracting agency, BMW, yet.

Mr M.H. TAYLOR: What is the department doing to protect subcontractors?

Dr M.D. NAHAN: This topic has concentrated my mind and the department's. As the member knows, the issue arose with a number of head contractors involved in the Building the Education Revolution program and BMW's work program over the past couple of years. There were about seven bankruptcies that left a large number of subcontractors out of pocket. We commissioned the Small Business Commissioner to do a study into the issue and it was found that about 110 subbies were out of pocket to the tune of \$8 million. We have taken on all the recommendations of the Small Business Commissioner's study; all of them are being implemented. Many of them had been undertaken or put in place by BMW before the report came out, and many are being implemented now, including a major initiative that we are working through called project bank accounts. It is a first for Australia. The initiative was put in place in the United Kingdom and was mooted to be implemented in New South Wales.

The essential problem is that it is very hard for subbies to identify the risk of head contractors becoming insolvent and then respond to it. Often they finish a project and become insolvent later, but they have not completed paying the subbies. In our case, all the money had been passed to the head contractors; it just had not been passed to the subbies by the time the prime contractor went bankrupt. It is a problem that has been identified over a couple of decades. We have put in place a range of incentives to make sure that we are more across the risks of head contractors going bankrupt and that we have better dialogue with subbies to find out about their issues and get feedback. Project bank accounts is simply a mechanism by which project accounts will stay in place for the project, so if the prime contractor goes bankrupt, the money will remain with them rather than being pulled off into the insolvency process. A raft of other initiatives are underway to tighten up our systems to make sure that our information about the financial position of prime contractors is more current, and we do that a number of times during the contracting process; it has been a major focus of the process over the past few months. We have a lot of work to do, but I am confident that we are on top of it.

Ms M.M. QUIRK: Can the minister advise what the position is with the Kiara fire station contract, which I believe occurred after the Small Business Commissioner started looking at the issue?

[7.10 pm]

Ms J.A. McGrath: The builder for the Kiara fire station project was National Buildplan Group. It had a lot of work over east predominantly. It had only two projects in Western Australia—one was the Kiara fire station. We have another contractor onsite. They have taken on all the subcontractors, or the majority of the subcontractors, who were working for National Buildplan at the time it went into administration. The project will be completed in three to four months.

Ms M.M. QUIRK: One subcontractor lost substantially on that; he was only offered one or two days' work after that. Is the minister aware of his position?

Dr M.D. NAHAN: I will not refer to the name; I will pass over to Jennifer to respond.

Ms J.A. McGrath: The subcontractors were offered work to complete the rest of the work onsite. With that subcontractor, there might not have been much more work to do, depending on what their trade was.

Ms M.M. QUIRK: That is exactly right.

Dr M.D. NAHAN: I would like to respond to National Buildplan's bankruptcy. That firm, which was a very large firm in the eastern states, went into insolvency on 18 April this year, after the report had been completed. It was a very successful firm in the eastern states. Because of issues related to the Building the Education Revolution program and other insolvencies, naturally Building Management and Works went out and cross-checked most of its programs to see if this firm had any issues. In fact, in December 2012 BMW undertook an additional financial analysis of the financial strength of National Buildplan, and it passed well. My point is that sometimes one cannot predict, no matter what is done, the risk of insolvency to a contractor. It is very difficult. The state is not in a position to guarantee the pay of all subbies, or guarantee them against the insolvency of subcontractors, but it can put in place mechanisms to ensure that the payments we make to prime contractors are paid through to subbies who complete work. That is what the bank account is trying to do—fix the issue that applied to National Buildplan and the Kiara fire station; that is, if we had a bank account in place, the moneys that BMW had paid into it for Kiara fire station would have remained in that project so that National Buildplan could not take it out and use those funds elsewhere, or be brought into the insolvency of National Buildplan around the nation. We are trying to fix that. The real risk to subbies arises if the money that was paid in for a

Chairman; Ms Rita Saffioti; Dr Mike Nahan; Mr Matt Taylor; Ms Margaret Quirk; Mr Dean Nalder; Mr Tony Krsticevic

project that they contracted and provided services to is taken out and used for other purposes to pay off other creditors of the bankrupt head contractor. We recognise that BMW could improve its assessment of the financial risk. It has accepted this, but I am confident that National Buildplan, in terms of screening and understanding the risk to both the state and to the subbies, did as much as it could.

Ms M.M. QUIRK: Is the minister aware of the total loss to subcontractors from this series of episodes?

Dr M.D. NAHAN: We have a \$5 million ex gratia aggregate payment out there. The member is talking about the whole subbie issue now?

Ms M.M. QUIRK: Yes.

Dr M.D. NAHAN: We have gone to RiskCover—it is running it. I believe it has written to all the subbies that the Small Business Commissioner's report identified as having contacted the commission during the course of the report. It wrote to them all and asked them to make a claim. The Small Business Commissioner identified 176, if my memory is right, but only 110 related to BMW projects; but it wrote to all of them just in case. The reports are coming back. We are trying to expedite that. A good number of subbies who were contacted have responded—not all of them yet. We encourage them to respond as soon as possible. We hope to wrap this up in terms of providing the ex gratia payments as soon as possible.

Ms M.M. QUIRK: Will \$5 million be enough? Has the minister estimated what the total cost will be?

Dr M.D. NAHAN: Right now we have agreed to aggregate \$5 million, plus 50 per cent of the cost. All I can say is it is early days and it is still sufficient, but I cannot answer that until we get all the reports in. I might add that we are ensuring we give everybody enough time to hear about it just in case some of the subbies that were referred to are no longer in business and are not aware or otherwise. We have met with some of the groups and encouraged them to inform their members, colleagues or anybody else that they should send their details in to RiskCover.

Ms R. SAFFIOTI: In relation to that particular building company, the minister outlined two projects. One was Kiara—what was the other project? Are there any other builders or projects in the same situation as Kiara?

Ms J.A. McGrath: In relation to National Buildplan, it has two projects in Western Australia—one was with us, the only one in state government, which was Kiara; and the other one was a private sector job.

Ms R. SAFFIOTI: Since December, have any other builders gone insolvent and/or had issues with subcontractors?

Ms J.A. McGrath: Two additional builders have gone insolvent since that time: Arcon (WA) Pty Ltd went into administration on 21 June; and Morago Nominees trading as Gavin Construction entered administration on 24 June.

Ms R. SAFFIOTI: How many state government projects did those two builders have and what were they?

Ms J.A. McGrath: Gavin Construction, at the time of administration, had two projects with BMW. Practical completion had been achieved on both of those, so it was right at the end of its project. Those projects were Baynton West Primary School and the Karratha and Bentley adolescent mental health units.

Ms R. SAFFIOTI: The other company?

Ms J.A. McGrath: Arcon (WA) Pty Ltd, which was involved in three projects. Again, they all had reached practical completion; some probably nearly 12 months ago. They were just at the end of their defects periods.

Ms R. SAFFIOTI: There were no outstanding payments to the subcontractors in those five projects?

Ms J.A. McGrath: With Arcon, we are not aware of any outstanding payments. In regard to Gavin Construction, we do know that some contractors complained about outstanding issues at the end, after the insolvency, and just prior to the insolvency.

Dr M.D. NAHAN: With the insolvency of Gavin Construction, BMW became aware that it was having troubles. As the member knows, it is a long-established and successful firm. BMW is working very effectively with Gavin Construction to keep it alive and paying its subbies. It got hit with a project up in Karratha, a private sector one I might add, that overwhelmed it. BMW was aware that it was struggling. It worked with Gavin Construction staff to keep it going and made sure it not only completed the project but also informed contractors of its difficulties and made sure payments were made. The management of Gavin Construction was in close contact with BMW to ensure that payments went through as much as possible.

Ms M.M. QUIRK: I refer to a line item about halfway down page 757 under “Spending Changes”, “Sunset Transformation Strategy”. What does that refer to?

[7.20 pm]

Dr M.D. NAHAN: The member knows the place in Dalkeith. It is a very interesting one and I urge everyone to go there and take a look. It is a very old place with a lot of interesting buildings in it. I will let Anne describe what we are trying to do with the place.

Ms A.L. Nolan: The government has approved \$275 000 in additional budget funding for us to develop a transformation strategy. We are developing a Sunset heritage master plan, which will include options for future use including public access to the grounds and the potential for future site development. Included in that funding is the development of a business plan to provide a succinct report on the potential cost and future options regarding management so that we can have secure funding for that, and provide advice on any necessary statutory requirements. The project is very interesting and really captures the imagination in terms of a vision for the future, and we are looking at the range of options. If the member were to drive past she would see a new sign up, and on the Department of Finance website the vision statement for that project reads —

... to transform Sunset over time into a unique Government owned asset for arts, cultural and community use, which has a high level of heritage conservation, public access, amenity and engagement with the river.

That is a high-level objective we are trying to achieve. At the moment we are looking at a master plan and the immediate steps we can take along an evolution towards the development of that wonderful facility.

Ms M.M. QUIRK: I have a further question. Has the minister had representations from Andrew Forrest either in person or by email, correspondence, telephone or SMS about what he considers appropriate plans for that site?

Dr M.D. NAHAN: One of Andrew Forrest's non-for-profit organisations rents one of the buildings and has put some money into it—exactly how much I cannot say. It has a lease with a renewable right on it. The idea of the plan is to have similar non-profit organisations—cultural and arts related for example—to take over. To my knowledge, I have had no conversation or communication with Mr Forrest. Mr Forrest took out that contract before I became a minister and I have had no involvement with it. I have seen his people at the site and there are quite a few. It is quite a vibrant non-profit organisation dealing with poverty called the Australian Children's Trust. However, I have had no communication with him. I am sure some of the Building Management and Works staff might have, but I have not.

Ms M.M. QUIRK: Given that the strategy is still being worked on, who is conducting that master plan?

Ms A.L. Nolan: A committee across government that involves the Heritage Council of WA, the Department of Planning, the Department of the Premier and Cabinet, the Department of Finance and BMW. We have employed Hassell Advisory Services to be our key consultant and it has a number of sub-consultants working towards a plan.

The CHAIRMAN: A further question?

Ms M.M. QUIRK: Has the minister seen the master plan or the plan that Richard Muirhead did on behalf of Mr Forrest?

Dr M.D. NAHAN: No, I have not.

Mr D.C. NALDER: Can the minister tell us how the Shared Services decommissioning program is progressing?

Dr M.D. NAHAN: Thank you. Shared Services has a long history, which is hopefully coming to an end. I will pass over to Stephanie Black who is in charge of achieving that.

Mrs S. Black: I thank the member for the inquiry. The decommissioning program is currently on schedule and operating within budget from both the program office and the global provision that we have in place for agency costs. Of the 59 agencies that were originally rolled into Shared Services, 32 of them in 13 clusters have successfully transitioned to new corporate services arrangements with each other or alone. This has only been possible as a result of the establishment and maintenance of consultative and collaborative relationships between agencies and Shared Services. The placement of all permanent public servants to other roles within the public sector was a major goal of this program and is currently ahead of schedule with approximately 80 per cent of staff committed to being transferred or having already transferred to other agencies. Approximately 90 per cent of the business cases, which allow funding for agencies for the implementation operation of their corporate services, have been approved and these are within budget. Agencies have been asked to rate their experience in transitioning from Shared Services, and the 14 that have responded since they exited Shared Services have assessed that they have been satisfied or highly satisfied with their experience. One of the most pleasing outcomes of the decommissioning program has been interagency collaboration. This has involved sharing

information and experience and has reportedly led to stronger working relationships across the public sector and has achieved some global savings.

Ms R. SAFFIOTI: My question relates to the table on page 770 titled “Details of Administered Transactions”, and the line item under “Expenses” regarding the “First Home Owner Scheme”. I note a reduction in the value of this concession over the forward estimates. For 2012–13—

Dr M.D. NAHAN: Can the member tell me what concession she is referring to?

Ms R. SAFFIOTI: The first home owner grant. In 2012-13, the estimated actual expenditure was \$133.8 million, which goes down to \$108.8 million. Can the minister tell me how many recipients of the first home owner subsidy there were in 2012-13, and how many are expected in 2013-14 under the two new subcategories of existing homes and new homes?

Dr M.D. NAHAN: As the member knows, the budget announced a policy change to the first home owner grant as of 15 September this year with royal assent. We will increase the first home owner grant for new homes from \$7 000 to \$10 000, and reduce it for existing homes from \$7 000 to \$3 000. In the past most home grants have gone to first home owners purchasing existing homes.

Ms R. SAFFIOTI: Does the minister have the percentage of grants that went to existing homes?

Dr M.D. NAHAN: I can calculate it but I do not have—

Ms R. SAFFIOTI: If the minister has the raw number, that is fine.

Dr M.D. NAHAN: About 60 to 70 per cent of the first home owner grants were given out to established homes.

Ms R. SAFFIOTI: Can the minister give me a total number in 2012-13 and how—

Dr M.D. NAHAN: In 2012–13, established homes received 14 140 grants, and new homes received 5 137. The reduction the member referred to is there because although we think there will be an increase in the number of homes—both the absolute and proportionate taken up by new homes—the established homes are likely to continue to dominate, so the total payment from first home buyers, as shown in the table, we expect to decline. This has been done for a number of reasons. The issues in the Western Australian housing market are such that the real issue here is a tightness in the established home market; that is, a price pressure on existing homes and a lower than in the past few years of stock in the market, and under those circumstances a great deal of the first home buyer grant will go to higher prices for existing homes. The real pressure—the member referred to this in her various comments—over the past few years is the lack of new builds or additional capacity. Much of that will take place at the margins of the city but a lot will be infill in apartments for example. We have reorientated the focus of the first home owner grant on new builds, adding capacity rather than helping fund existing capacity.

[7.30 pm]

Ms R. SAFFIOTI: In relation to the figures for 2013–14, what is the expectation of the number of existing homes that will get the concession and the number of new homes that will get the concession?

Dr M.D. NAHAN: That is based on Treasury forecasts that I and the Department of Finance do not have at hand. However, we will take that on notice.

Ms R. SAFFIOTI: As supplementary information?

Dr M.D. NAHAN: Just to make sure it goes through, I will take it on notice; the member can put a question on notice.

Ms R. SAFFIOTI: Sorry; I do not want to be too pedantic about this, but it is in the minister’s section of the budget papers and it is administered by the Department of Finance. Surely the minister could provide us within two weeks with an estimate of what drives the \$108.8 million in the minister’s own budget papers.

Dr M.D. NAHAN: Okay. I am trying to be cooperative. I just want to make sure we get the answer.

Ms R. SAFFIOTI: As supplementary information?

Dr M.D. NAHAN: Yes.

The CHAIRMAN: It is the minister’s discretion whether he chooses to or not. Is the minister happy to provide that as supplementary information?

Dr M.D. NAHAN: Yes. We will provide the estimate underlying the forecast in the budget of the first home owner grants going to existing homes and the number of first home owner grants going to new homes in 2013–14.

[Supplementary Information No B45.]

Mr A. KRSTICEVIC: I refer to the second dot point of the significant issues affecting the agency—that is, Building Management and Works—on page 759 of volume 2 of budget paper No 2. Can the minister outline what has been done to control the cost growth of office accommodation for government agencies and what has been done to improve the budget performance of projects?

Dr M.D. NAHAN: I thank the member for the question. I will pass it over to Jennifer McGrath again.

Ms J.A. McGrath: I will answer the office accommodation question first. In March 2010, cabinet endorsed the principles and objectives of the master planning approach to office accommodation, the aim of which is to manage and control the growth of office accommodation across the whole sector. The master planning strategy was implemented through the consolidation of office accommodation into fewer buildings and the decentralisation of office accommodation from the CBD and the CBD fringe. This also aligns with the Directions 2031 and beyond framework. During 2011–12, we moved 5 000 public servants across 23 agencies—that was equivalent to about 80 000 square metres of office accommodation—and we called this the first phase of the master planning strategy. This focused on the consolidation of agencies in the CBD and the CBD fringe and started the decentralisation of office accommodation in a building in Osborne Park. The first phase of the office accommodation strategy has been calculated as saving \$18 million per annum. Costs were avoided through our negotiating power for consolidating into larger leases and achieving lower rentals, decentralisation into the fringe and into the suburbs, which is calculated at about \$12.4 million per annum, and improvements through reducing the work space density down to 15 square metres per work point. This meant that we avoided taking 7 000 square metres of space, which is equivalent to about \$4.3 million a year. There are other savings through enhancing and sharing information and communications technology systems, calculated at about \$1.4 million a year. The Office of the Auditor General tabled a report this year that confirmed savings of \$18.1 million.

In March 2012, government also endorsed the implementation plan for the period from 2012 to 2018, which looks at about 18 per cent of the portfolio. It looks at 22 agencies over that period. Government endorsed the development of business cases, and those business cases will again look at further consolidation in the CBD and decentralisation, and some consolidation in regional towns as well. Those business cases will be considered by government soon.

Dr M.D. NAHAN: I might add that after labour, the second largest cost generally for departments is accommodation for the general government sector.

Ms R. SAFFIOTI: My question relates to “Significant Issues Impacting the Agency” on page 759. An announcement was made before 30 June this year that the Office of Strategic Projects would move to the Department of Finance. Is that still happening; and, if so, when?

Dr M.D. NAHAN: Yes, it is still happening. We have to change an act—the Public Works Act—to facilitate it. That has to be done before it can officially move over. Of course, the Office of Strategic Projects used to be part of Building Management and Works. It was spread out, I think, under the previous government to focus on large projects. They are in close liaison now in sharing issues, but it will be done. The plan is for the move to still take place, but it can be done only when there is a change to the Public Works Act.

Ms R. SAFFIOTI: When is that legislation expected to be brought into the Parliament?

Dr M.D. NAHAN: We do not have a timetable yet.

The appropriation was recommended.