



THIRTY-EIGHTH PARLIAMENT

REPORT 15
STANDING COMMITTEE ON ESTIMATES AND
FINANCIAL OPERATIONS
ANNUAL REPORT 2008

Presented by Hon Giz Watson MLC (Chair)

March 2009

STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

Date first appointed:

30 June 2005

Terms of Reference:

The following is an extract from Schedule 1 of the Legislative Council Standing Orders:

“2. Standing Committee on Estimates and Financial Operations

2.1 *An Estimates and Financial Operations Committee* is established.

2.2 The Committee consists of 5 Members, 3 of whom shall be non-government Members.

2.3 The functions of the Committee are to consider and report on -

- (a) the estimates of expenditure laid before the Council each year;
- (b) any matter relating to the financial administration of the State;
- (c) any bill or other matter relating to the foregoing functions referred by the House;
- (d) to consult regularly with the Auditor General and any person holding an office of a like character.”

Members as at the time of this inquiry:

Hon Giz Watson MLC (Chair)

Hon Sheila Mills MLC

Hon Ken Travers MLC (Deputy Chair)

Hon Helen Morton MLC

Hon Brian Ellis MLC

Staff as at the time of this inquiry:

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REPORT OF THE STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

ANNUAL REPORT 2008

1 INTRODUCTION

- 1.1 This report provides an overview of the work of the Standing Committee on Estimates and Financial Operations (**Committee**) conducted during the fourth year of the Thirty-Seventh Parliament and the first year of the Thirty Eighth Parliament, between 1 January 2008 and 31 December 2008 (**report period**).

History and Purpose

- 1.2 On 30 June 2005 the Legislative Council (**Council**) appointed the Committee. The Committee is a standing committee, which means that its existence is not linked to a particular inquiry or to a particular time period and it continues until the Council decides otherwise.
- 1.3 Scrutiny of the estimates of expenditure and the financial operations of government is a major function of the Council. Since the establishment of the modern Legislative Council committee system in 1989, this function has been the responsibility of both standing finance committees (such as the Committee) and *ad hoc* Budget review committees (such as annually constituted estimates committees).
- 1.4 Review of the committee system in 1997 and again in 2005 led to changes in the area of the Council's consideration of the annual estimates of expenditure and the financial operations of Government, the most recent changes being reflected in the appointment of the Committee.
- 1.5 The functions of the Committee are to consider and report on matters relating to the estimates of expenditure laid before the Council each year and the financial administration of the State. The Committee's terms of reference are extremely broad, enabling the Committee to initiate investigations relating to any aspect of the financial administration of the State. This includes inquiry into any matter relating to past, current, proposed and future expenditure by the public sector.
- 1.6 The terms of reference of the Committee are:¹

¹ Schedule 1, Standing Orders of the Legislative Council.

2. *Estimates and Financial Operations Committee*

- 2.1 *An Estimates and Financial Operations Committee is established.*
- 2.2 *The Committee consists of 5 Members, 3 of whom shall be non-Government Members.*
- 2.3 *The functions of the Committee are to consider and report on -*
- (a) the estimates of expenditure laid before the Council each year;*
 - (b) any matter relating to the financial administration of the State;*
 - (c) any Bill or other matter relating to the foregoing functions referred by the House; and*
 - (d) to consult regularly with the Auditor General and any person holding an office of a like character.*

Membership

- 1.7 The Committee comprises five Members of Parliament appointed by the Council.
- 1.8 During the report period the Committee comprised the following Members: Hon Giz Watson MLC (Chair), Hon Ken Travers MLC (Deputy Chair), Hon Sheila Mills MLC, Helen Morton MLC and Hon Brian Ellis MLC.
- 1.9 It is significant to note that the Committee is required by the Standing Orders of the Council to have a non-Government majority.²

Staff

- 1.10 The Committee is supported by the Legislative Council Committee Office. During the report period the Committee was staffed by: Lisa Peterson, Advisory Officer (General); Paul Grant, Clerk Assistant (Committees), Suzanne Veletta, Advisory Officer (General), Lisa Parrella, Committee Clerk, Carolyna Malouf, Committee Clerk and Renae Jewell, Committee Clerk.
- 1.11 The Committee extends its thanks to the staff of the Legislative Council Committee Office for their valuable assistance.

² Western Australia, Legislative Council, *Parliamentary Debates (Hansard)*, 30 June 2005, p3730.

2 ACTIVITIES OF THE COMMITTEE DURING THE REPORT PERIOD

Estimates of Expenditure Review - 2008/09 Budget Estimates

- 2.1 Government revenue goes into the Consolidated Account³, which is the major source of funding for the State public sector.⁴ The 'estimates of expenditure' comprise the Appropriation (Consolidated Account) Bills and the supporting documentation (**Budget Papers**). On an annual basis these are presented to Parliament in order that the Government may access or 'appropriate' money from the Consolidated Account to fund expenditure by the Government over a given financial year.⁵
- 2.2 It is a function of the Committee to consider and report on the estimates of expenditure laid before the Council each year.
- 2.3 Historically in the Legislative Council annual budget estimates hearings were held over three to four days during which Members could ask questions relating to the Budget Papers. This has always provided an opportunity for the involvement of all Members of the Council not just the Members of a particular committee. Noting various criticisms about this process, the Committee has adopted an innovative procedure for the examination of the annual estimates of expenditure whereby the Committee holds estimates hearings throughout the year (**Ongoing Hearings**), as well as holding hearings on one to three consecutive days after the Budget Papers are tabled in the Council (**Annual Hearings**).

Annual Hearings

- 2.4 The Annual Hearings were held on 28 May 2008. The Committee heard from the following agencies:
- Department of Education and Training
 - Country High School Hostels Authority
 - Department of Housing and Works
 - Disability Services Commission
 - Main Roads Western Australia
 - Department for Communities

³ Subsequent to the assent of the *Financial Management Act 2006* on 21 December 2006, the Consolidated Fund is now called the Consolidated Account.

⁴ The major revenue sources for the Western Australian Government include taxes, imposts, fines, rates, duties, royalties and Commonwealth Government grants: section 64, *Constitution Act 1889*, and section 8 of the *Financial Management Act 2006*.

⁵ Section 72, *Constitution Act 1889*.

- Department for Child Protection
- Office of Shared Services
- Department of Environment and Conservation
- Department of Agriculture and Food

2.5 All Members of the Council were notified of the hearings and invited to participate.

2.6 All of the hearings were public and the proceedings were recorded by *Hansard*. Full transcripts of evidence taken at the hearings can be found at the Committee's web page.⁶

2.7 The Committee refers readers to its 14th Report in relation to the 2008/09 annual budget estimates hearings for further information.⁷

Ongoing Hearings

2.8 The Committee conducted Ongoing Hearings in relation to the 2008/09 Budget on 16 June 2008 and 9 December 2008. The Committee heard from the following agencies:

- Department of Legislative Council and Parliamentary Services Department;
- Department of Indigenous Affairs;
- Department of Sport and Recreation and WA Sports Centre Trust;
- Department of Health; and
- Public Transport Authority.

2.9 All Members of the Council were notified of the hearings and invited to participate.

2.10 All of the hearings were public and the proceedings were recorded by *Hansard*. Full transcripts of evidence taken at the hearings can be found at the Committee's web page.⁸

⁶ <http://www.parliament.wa.gov.au/web/newwebparl.nsf/iframewebpages/Committees+++Current> (current at 25 June 2008).

⁷ Western Australia, Legislative Council, Standing Committee on Estimates and Financial Operations, Report 14, *Annual Hearings in Relation to the Budget Estimates 2008/09*, 9 December 2008.

⁸ <http://www.parliament.wa.gov.au/web/newwebparl.nsf/iframewebpages/Committees+++Current> (current at 25 June 2008).

Estimates of Expenditure Review - 2007/08 Budget Estimates*Ongoing Hearings*

- 2.11 The Committee did not hold any budget estimates hearings in relation to the 2007/08 Budget during this report period. The Committee did, however, write to all agencies that appeared before the Committee in 2007 asking a series of questions in relation to the 2007/08 Budget estimates.

Inquiry into the Memorandum of Understanding between Balga Senior High School and Manufacturing Industry Training Services Pty Ltd (The Balga Works Program)

- 2.12 On 28 June 2007 the Council referred an inquiry into the Memorandum of Understanding between Balga Senior High School and Manufacturing Industry Training Services Pty Ltd to the Committee. The Committee tabled its report in relation to the inquiry on 29 May 2008.⁹
- 2.13 Hon Peter Collier MLC was a substitute member for the inquiry for Hon Brian Ellis MLC. Hon Brian Ellis MLC was a participating member for the inquiry.
- 2.14 The Balga Works Program (**BWP**) was a program offering education, accommodation, assistance and support to young people disengaged from mainstream schooling and also to those in the juvenile justice system. The program commenced operating in February 2005 and ceased in October 2006.
- 2.15 The BWP operated for less than two years before it was closed down. The Committee in its inquiry investigated a range of allegations that in this time the program failed to provide the services that were promised to the young people, that the Government failed to provide duty of care to the students, that there were poor working conditions, that management was inadequate, that staff intimidation occurred, and that staff did not receive the proper award rates and conditions and were not paid.
- 2.16 The Committee attempted to ascertain the validity of these allegations and discover the reasons behind the closure of the BWP. The Committee identified a number of issues surrounding the BWP and made a number of recommendations to address these. The Committee in its report highlighted the ongoing need for a program of this type in Western Australia and made recommendations to assist in the establishment of such a program in the future.

Budget of the Office of the Auditor General

- 2.17 The *Auditor General Act 2006* provides that it is a function of the Joint Standing Committee on Audit (**Joint Committee**) to make recommendations to the Treasurer in

⁹ Western Australia, Legislative Council, Report 12, *Balga Works Program*, 29 May 2008.

relation to the budget of the Office of the Auditor General (OAG) for a financial year.¹⁰ (The *Auditor General Act 2006* provides that a Joint Committee be established comprising of an equal number of members appointed by each House.¹¹)

2.18 The Committee noted that the Joint Committee has yet to be established and that it is proposed that Members from the Committee be appointed to the Joint Committee.¹² Thus, in the absence of the Joint Committee and in order to fulfil that function, the Committee resolved to provide the Auditor General with an opportunity to make a submission on the budget of the OAG for the 2008/09 financial year, with a view to making a recommendation to the Legislative Council and/or the Treasurer on the budget of the OAG.

2.19 The Committee tabled its report on 20 February 2008.¹³

“Royalties for Regions” Policy

2.20 The Committee resolved to commence an inquiry into the “Royalties for Regions” policy on Monday, 1 December 2008.

2.21 The terms of reference for the inquiry are:

The Committee is to inquire into and report upon the “Royalty for Regions” policy, including:

- a) to establish a clear understanding of the “Royalty for Regions” policy;
- b) how the policy will operate and be administered;
- c) what the Department of Treasury and Finance has done with respect to any modeling or cost-benefit analysis of the policy;
- d) the implications of the policy, including but not limited to:
 - the possible impacts of the policy on the State’s AAA credit rating;
 - the possible impacts of the policy on the State’s budget; and
 - the potential operational impact of the policy on government agencies.

¹⁰ Section 44, *Auditor General Act 2006*.

¹¹ Section 43, *Auditor General Act 2006*.

¹² Order of the Day No 387, Joint Standing Committee on Audit, 21 March 2007.

¹³ Western Australia, Legislative Council, Standing Committee on Estimates and Financial Operations, Report 11, *Budget of the Office of the Auditor General*, 20 February 2008.

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- e) any other relevant matter, including but not limited to:
- the ability of the government to adjust the policy in response to changing financial circumstances.

2.22 The Committee intends to report on the inquiry to the Legislative Council by Thursday, 14 May 2009.

Public Sector Expenditure

2.23 The Committee resolved to commence an inquiry into Public Sector Expenditure on 3 December 2008.

2.24 The terms of reference for the inquiry are:

The Committee is to inquire into and report on Government measures to audit the operational and financial performance of the Western Australian public sector, and any other means by which efficiencies in public sector expenditure can be gained and all the circumstances surrounding the implementation of a three per cent efficiency dividend including -

- a) the impacts of a three per cent efficiency dividend on the general level of service delivery across all agencies; in particular any impacts on service delivery to regional areas;
- b) consider alternative methods for achieving a three per cent reduction in government expenditure, including:
 - i) the approach of the former Government;
 - ii) whether certain agencies or functions of agencies should be exempt from the efficiency dividend; and
 - iii) whether the rate of the dividend should vary according to agency size or function, and if so specific advice on which agencies or functions should contribute a disproportionate share of savings over the forward estimates.
- c) whether a three per cent efficiency dividend has a disproportionate impact on smaller agencies, including whether or not smaller agencies are disadvantaged by poorer economies of scale or a relative inability to obtain funding for new policy proposals;
- d) what measures agencies are taking to implement a three per cent efficiency dividend, and the effect on their functions, performance and staffing arrangements;

- e) the impact of the current financial crisis on the state's economy and finances;
- f) the sustainability of the rate of growth in general government expenditure detailed in the 2008-09 budget;
- g) the sustainability of the forecast decrease in operating surplus detailed in the 2008-09 budget;
- h) the sustainability of the forecast increase in net debt detailed in the 2008-09 budget; and
- i) the impact of failing to fully implement a three per cent efficiency dividend on the operating surplus and net debt.

Miscellaneous

Iron ore industry

- 2.25 The Committee began preliminary enquiries into the iron ore industry in Western Australia in 2006. The Committee had deferred its consideration of possible inquiry into this matter until the Select Committee of Privilege on a Matter Arising in the Standing Committee on Estimates and Financial Operations (**Select Committee of Privilege**) had reported. The Select Committee of Privilege reported on 13 November 2007.¹⁴
- 2.26 Upon consideration the Committee resolved not to undertake an inquiry into this issue.

Auditor General

- 2.27 The Committee held an informal briefing with the Auditor General on 12 February 2008 on the issue of roll over of unspent funds by agencies.

Department of Treasury and Finance

- 2.28 The Committee held an informal private briefing with the Department of Treasury and Finance (**DTF**) on the issue of roll over of unspent funds by agencies on 2 April 2008.

Review of the presentation of the Budget Statements by the Department of Treasury and Finance

- 2.29 The DTF advised the Committee that they were undertaking a review of the presentation of the budget papers and invited the Committee to make a submission to the review.

2.30 The DTF provided a briefing to the Committee on the review on 10 April 2008 and all Members of the Legislative Council were invited to attend. Other than the Committee Members, only one other Member of the Legislative Council attended.

2.31 The Committee provided preliminary feedback to the DTF on the review of the presentation of the budget papers. The prorogation of the Legislative Council on 7 August 2008 prevented the Committee from providing further input into the review, due to the project timelines.

3 STATISTICS

Reports tabled

3.1 The Committee tabled 4 reports during this report period. These are listed in the table below.

Table 1

Report Title	Tabled Date
Budget of the Office of the Auditor General	20 February 2008
Balga Works Program	29 May 2008
Annual Report 2007	26 June 2008
Annual Hearings in Relation to the Budget Estimates 2008/09	9 December 2008

Special reports tabled

3.2 The Committee tabled 3 special reports during this report period. These are listed in the table below.

Table 2

Report Title	Tabled Date
Special Report Advising of the 2008/09 Budget Estimates Hearings	10 April 2008
Special Report Advising of the inquiry into the Royalty for Regions Policy	2 December 2008
Special Report Advising of the inquiry into Public Sector Expenditure	9 December 2008

¹⁴ Western Australia, Legislative Council, Report, *Select Committee of Privilege on a Matter Arising in the Standing Committee on Estimates and Financial Operations*, 13 November 2007.

Meetings and Hearings

3.3 The number of Committee meetings and hearings held by the Committee during 2007 is noted in the table below.

Table 3

Item	Number
Total number of meetings (including hearings)	42
Total number of hearings	20
Number of Hearings relating to the 2008/09 budget estimates	16

4 PLAN FOR 2009

4.1 In 2009 the Committee intends to:

- complete its consideration of the Budget Estimates for 2008/09;
- consider the Budget Estimates for 2009/10;
- undertake the inquiry into the “Royalties for Regions” policy;
- undertake the inquiry into Public Sector Expenditure; and
- address any other matters that arise which fall within the Committee’s terms of reference.



Hon Giz Watson MLC
Chair

Date: 19 March 2009