

40TH PARLIAMENT



Report 77

STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

2017-18 Budget Cycle - Part 2: Annual Report Hearings

Presented by
Hon Alanna Clohesy MLC (Chair)
April 2019

Standing Committee on Estimates and Financial Operations

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EXECUTIVE SUMMARY

- 1 The Standing Committee on Estimates and Financial Operations (Committee) conducted hearings with eight agencies regarding their 2017-18 Annual Reports in November 2018.
- 2 This year, the theme was key performance indicators (KPIs). The Committee asked 50 agencies questions about the frequency of their KPI reviews, the frequency of their targets' reviews, when their KPIs were last reviewed and whether any new KPIs had been developed given machinery of government changes. Conceptually, the Committee explored 'meaningfulness' of KPIs.
- 3 The Committee explored machinery of government changes on agencies' financial, human resources and administrative systems. Another focus was government trading enterprises' statements of corporate intent.
- 4 The Committee, when reflecting on its internal processes for conducting the annual reports inquiry, noted that its themed approach was successful—particularly at highlighting a lack of focus on the part of two GTEs with respect to their statement of corporate intent responsibility.
- 5 The Committee was satisfied with the conduct of its hearings, the level of attendance and Member participation.
- 6 The Committee concluded that agencies gave satisfactory performance. No formal inquiries resulted from the process. Both Government and non-government Members asked a wide variety of questions and canvassed a significant number of subject matters. Overall, 55 agencies were asked 469 questions.
- 7 The Auditor General gave the eight agencies the Committee heard, clear audit opinions on their financial statements. One agency, the Department of Water and Environmental Regulation, was given a qualified opinion because of significant weaknesses in its general computer controls.
- 8 The Committee extends its appreciation to those Members who participated in the hearings and the assistance given by Ministers and their agencies.
- 9 The 2017-18 budget cycle is now completed and closed.

Findings

The Finding is as it appears in the text at the page number indicated:

FINDING 1

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Synergy exhibits a culturally entrenched ambivalence about its Statement of Corporate Intent responsibility.

1 Introduction

- 1.1 This report concludes the Legislative Council's Estimates and Financial Operations Committee (Committee) two-part consideration of State expenditure and financial administration for the 2017-18 budget cycle.
- 1.2 For Ministers and agencies, the State Budget process operates cyclically from mid-November of the year prior when the Department of Treasury (Treasury) sends a budget process circular to Ministers and agencies for the upcoming year, until estimates hearings the following May and June.¹
- 1.3 For the Parliament, the first part of the 2017-18 budget cycle began with a consideration of the 'estimates of expenditure' laid before the Legislative Council on 7 September 2017.² The second and final part of the cycle is the 2017-18 Annual Reports. Hearings in relation to them were conducted in November 2018.
- 1.4 In the past, the Committee separately reported on hearings it held on the budget estimates and agency annual reports. In the 2017-18 Budget Estimates, the Committee adopted a new practice of linking these two separate processes into a broader examination of the budget cycle. The cycle refers to the life of a budget from its creation to evaluation, typically 16 months.

2 Annual Reports

- 2.1 Annual reports are essentially statements to the Parliament of the manner in which agencies use the resources made available to them.³ They disclose the financial positions of Government agencies and their activities as well as complementing the work of estimates.⁴
- 2.2 Annual reports provide information about a particular agency's achievements and corporate arrangements. They are an important tool in assisting the general public's understanding of agencies' operations as well as ensuring financial and performance accountability to the Parliament. Scrutiny of annual reports is important for the assessment of an agency's performance.⁵
- 2.3 Relevantly, annual reports, in providing an opportunity for agencies to publish their achievements, may inspire public confidence in both a particular agency and more broadly, Government.

¹ Government of Western Australia, Service Priority Review, Final report to the Western Australian Government, October 2017, *Working Together one Public Sector Delivering for WA*, Priority Review, Final report, <https://www.dpc.wa.gov.au/Pages/Search.aspx?k=priority%20service%20review>, 6 December 2017, p 77.

² The estimates of expenditure were reported upon in: Western Australia, Legislative Council, Estimates and Financial Operations Committee, Report 73, *2017-18 Budget Cycle—Part 1: Estimates hearings and related matters*, 8 May 2018.

³ Rosemary Laing (editor), *Odgers' Australian Senate Practice As revised by Harry Evans*, 14th Edition 2016, p 483.

⁴ *Ibid.*, p 513.

⁵ *Ibid.*

Contents of an Annual Report

- 2.4 The *Financial Management Act 2006* (FMA) prescribes the contents of an annual report.⁶ These are:
- financial statements for the financial year
 - key performance indicators (KPIs)⁷
 - a report on the operations of the agency during the financial year
 - information prescribed by the Treasurer's instructions
 - if covered by a resource agreement, a report on the extent to which the agency achieved any objectives described in the resource agreement⁸
 - if a department or statutory authority with an affiliated or related body⁹ a report on the body or any other information required by a written direction given by the Minister.
- 2.5 Treasury publishes model annual reports to assist agencies with the preparation of their annual reports.

Tabling an agency's Annual Report

- 2.6 The annual report and a copy of the Auditor General's opinion on an agency's financial statements and KPIs must be submitted to the relevant Minister.¹⁰ The Minister is then required 'to cause to be laid before each House of Parliament' copies of the annual report and the Auditor General's opinion within 90 days of the end of the relevant financial year. For most agencies, the deadline was 28 September 2018.¹¹
- 2.7 This year saw a significant improvement in 'on-time tabling' compared to 48 agencies last year. Ministers for 30 agencies advised the House that their annual reports could not be tabled within the prescribed period.¹² The Ministers uniformly explained that the last sitting date of the Parliament in September 2018 was 20 September but the Parliament was not scheduled to resume until 9 October 2018. Further, that the alternate tabling provisions in section 83 of the FMA (tabling with the Clerk) were unable to be effectively utilised in the particular circumstance of 2018.¹³ Twenty eight of the 30 reports were tabled on 9 October 2018.¹⁴

⁶ *Financial Management Act 2006*, s 61(1)-(3).

⁷ See also Treasurer's Instruction 904: *Key Performance Indicators* for further information about disclosure of performance information.

⁸ See also Treasurer's Instruction 808: *Resource Agreement* for further information about disclosure against resource agreements.

⁹ Each of these is defined in section 60(1)(a) and (b) of the *Financial Management Act 2006*.

¹⁰ *Financial Management Act 2006*, s 63(2).

¹¹ *Ibid.*, s 64(1). Some agencies, mainly universities and TAFEs, have financial years on a calendar basis. They are required to report by 31 March.

¹² *Financial Management Act 2006*, s 64(2)(a) and means 90 days.

¹³ The Legislative Council was sitting during the prescribed period. *Financial Management Act 2006*, s 83(1) – the alternate tabling with the Clerk facility only applies if the Minister is of the opinion that that the House will not sit during the prescribed period.

¹⁴ Despite earlier Ministerial advice, the Corruption and Crime Commission and the State Library of Western Australia were able to table their annual reports on 20 September 2018.

3 Examining the Annual Reports

The Committee's approach

- 3.1 The Committee conducted its inquiry by:
- emailing a procedure policy to Legislative Council Members on 12 September 2018
 - examining selected Annual Reports
 - opening the Electronic Lodgement System (ELS) for 12 calendar days to enable the submission of a reasonable number of questions prior to hearings to all agencies
 - timely processing of Members' questions submitted to agencies prior to hearings through the ELS
 - advising Members of Parliament via a letter to the Presiding Officers of the Legislative Council and the Legislative Assembly that hearings would be conducted with agencies identified in a timetable
 - holding hearings
 - requesting answers to supplementary questions taken on notice during hearings and submitting additional questions after hearings
 - reopening the ELS for additional questions for seven calendar days from the time the hearings commenced.

Process

- 3.2 To assist the Committee in determining which agencies to examine, the Committee authorised Members to consult with their colleagues. Members were encouraged to submit agencies directly to the Committee with one response. Details of the hearings were placed on the Committee's website (www.parliament.wa.gov.au/est).
- 3.3 The Committee conducted hearings in accordance with its procedure policy and a copy of the policy was made available on the Committee's website. All Members were notified of the hearings and invited to participate.
- 3.4 Eleven hours of public hearings were held with eight agencies.¹⁵ They were recorded by Hansard, tweeted and broadcast over the internet. Transcripts and a video recording of the hearings were posted on the Committee's website. A list of the agencies the Committee heard and a summary of some of the subjects discussed is set out in Appendix 2.
- 3.5 This year, the Committee focussed its effort across two full days, sampling a mix of large and small agencies. Sampling has been described as a scrutiny technique that results in people taking more care.

The things that people take most care of in government are those on which their Minister will have to appear and defend, and when Parliament is involved.

The prospect that Parliament may be looking at the number you have come up with and questioning whether it is the right number is enough to persuade the whole system to get things right or better.¹⁶

¹⁵ The timetable is at Appendix 1.

¹⁶ Sir Stephen Laws, academic member of the Study of Parliament Group, House of Commons, *Procedure Committee oral evidence: Scrutiny of the Government's supply estimates*, HC 774, 4 May 2016, question 33, unnumbered page.

- 3.6 Agencies sampled included:
- one agency that had never been scrutinised (Art Gallery of Western Australia)
 - two government trading enterprises (GTEs) (Synergy and Western Power)
 - one agency servicing the regions—Department of Primary Industries and Regional Development (DPIRD)
 - two repeat agencies (Synergy and Western Power).
 - one agency with high appropriations (Department of Communities)
 - one agency the subject of a recent Auditor General audit (Art Gallery of Western Australia).
- 3.7 In the Committee's view, this sample provided fair coverage and relevantly for one agency, (Art Gallery of Western Australia) supported the work of the Auditor General.¹⁷
- 3.8 The Auditor General is an independent officer of the Parliament and performs a similar function to the Committee. Where the Committee scrutinises the financial operations of government agencies including KPIs, the Auditor General audits agency accounts and KPIs. The Committee maintains a working relationship with the Auditor General (pursuant to its Terms of Reference) through regular consultation.

Questions

- 3.9 The Committee continued its practice of inviting Members to ask questions of all agencies prior to the hearings, regardless of whether that agency subsequently appeared. The following statistical information in relation to questions is extracted from Appendix 3.
- Overall, 55 agencies were asked 469 questions.
 - Five Members and the Committee electronically submitted 356 questions to agencies prior to hearings.
 - During hearings, participating Members asked 71 supplementary questions.
 - After the hearings, four Members and the Committee electronically submitted 42 additional questions.
- 3.10 Answers to the above questions and supplementary information were uploaded to the Committee's website. Agencies with the highest number of questions asked overall were:
- Department of Communities (51) and heard
 - Department of Education (34) and heard
 - Lotteries Commission (22) but not heard
 - Forest Products Commission (21) but not heard.
- 3.11 The Committee is of the view that questions prior to hearings, supplementary questions and additional questions provide the Legislative Council with three opportunities for questioning Ministers and therefore are a significant accountability mechanism. In particular, answers provided in questions prior to hearings has the added advantage of further exploration during hearings.

¹⁷ In particular, follow up questions arising out of the Western Australian Auditor General's Report, Report 9, *Management of the State Art Collection*, 17 May 2018.

Theme

- 3.12 The Committee resolved to adopt a thematic approach to its inquiry. In this reporting period the theme was key performance indicators. KPI scrutiny has been a consistent focus of Committee work over the course of many previous hearings and deliberations.

4 Key performance indicators

- 4.1 Any analysis of KPIs first requires a consideration of their setting within Western Australia's Outcome Based Management (OBM).

Outcome Based Management

- 4.2 OBM is a performance management framework and has been a feature of public sector governance for appropriation-funded agencies since 1998. Budget funded agencies subject to the FMA are required to operate within OBM.
- 4.3 OBM is described in a Treasury publication as the formal mechanism that ensures agencies are:
- reporting their KPIs
 - accountable to the Parliament
 - transparent to the general public
 - achieving Government goals¹⁸
 - delivering Government's desired outcomes across the public sector.¹⁹
- 4.4 Essentially, OBM is a tool for assisting key stakeholders to make resource decisions based on KPI shifts 'over time and within years'.²⁰ The 2017 Service Priority Review which conducted a wide-ranging review into the functions, operations and culture of the Western Australian public sector for driving service delivery, accountability and efficiency reform, described OBM a little differently stating that it:

[r]equires the identification of agency level government desired outcomes, which contribute to one or more of the Government's identified high-level strategic goals.²¹

¹⁸ The 'Whole of Government targets' background paper to the 2017 Service Priority Review states that 'Government goals are not readily found together on any public website'. On 18 January 2019, the Premier said that 'later this year' he would be announcing the 'whole of government targets program' to 'drive cross-agency collaboration and alignment to deliver outcomes for the community that could otherwise not be achieved by agencies working alone'. Mark McGowan MLA, Premier, Letter, 18 January 2010, p 1.

¹⁹ Government of Western Australia, Department of Treasury, *Outcome Based Management, Guidelines for use in the Western Australian Public Sector*, 2017, <https://www.treasury.wa.gov.au/uploadedFiles/Treasury/Publications/Outcome-Based-Management-Guidelines-2017.pdf>. Viewed 7 January 2019, p. 1

²⁰ *Ibid.*, p 12.

²¹ Government of Western Australia, Service Priority Review, Final report to the Western Australian Government, October 2017, *Working Together One Public Sector Delivering for WA*, October 2017, p 77.

- 4.5 Treasury's *Agency Returns OBM Structure Amendment* template allows agencies considering changes to their OBM structure to lodge amendments for the following year's Budget.²² The amendment process is administratively prescriptive but the Service Priority Review finalised in December 2017 may change the OBM framework in light of the comment that Treasury's 'administered framework needs to be overhauled'.²³
- 4.6 Below is the existing OBM framework. It is extracted from one of 18 background papers to the 2017 Service Priority Review.²⁴

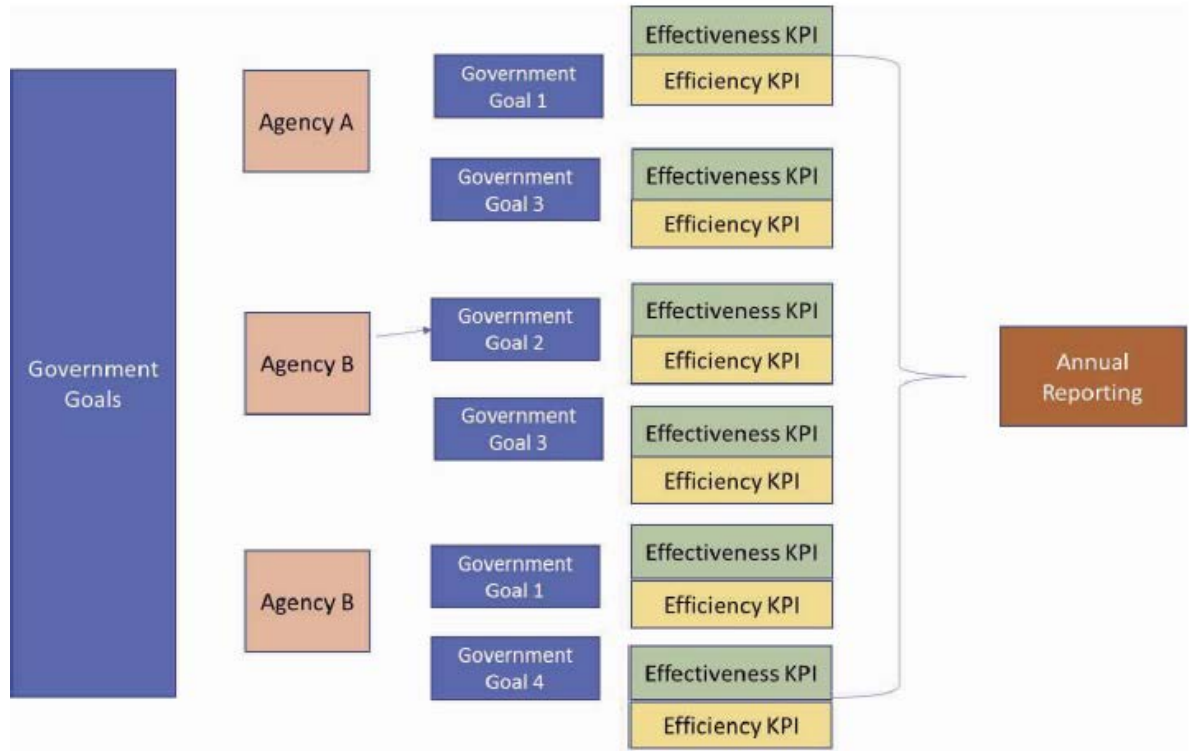


Figure 1. Existing Outcome Based Management framework

Source: Government of Western Australia, Service Priority Review, Whole of Government targets' background paper 18, p 5.

²² Government of Western Australia, Department of Treasury, *Outcome Based Management, Guidelines for use in the Western Australian Public Sector*, 2017, <https://www.treasury.wa.gov.au/uploadedFiles/Treasury/Publications/Outcome-Based-Management-Guidelines-2017.pdf> Viewed 7 January 2019, p 12.

²³ Ibid., p i. Also Government of Western Australia, Service Priority Review, Final report to the Western Australian Government, October 2017, *Working Together One Public Sector Delivering for WA*, October 2017, p 32.

²⁴ The 'Whole of Government targets' background papers to the Service Priority Review states that 'Government goals are not readily found together on any public website'. See <https://www.dpc.wa.gov.au/ProjectsandSpecialEvents/ServicePriorityReview/Pages/Final-Report.aspx>, Paper 18: Whole of Government targets, p 5.

- 4.7 The four Government goals in Figure 1 are interim goals developed for the 2017-18 budget process.²⁵ They are:
- sustainable finances
 - future jobs and skills
 - strong communities
 - better places.
- 4.8 KPIs relate to both an agency's effectiveness (actual outcomes that were achieved) and efficiency (the financial resources used to produce services). KPI reporting ensures an agency is accountable when it spends public money.
- 4.9 KPIs in annual reports (and budget papers) are set by Government and although agencies may have a point of view, the broad parameters are set by Government.²⁶ Treasury's guidelines and instructions require that KPIs established in the OBM:
- are clearly described and provide non-specialist readers with an understanding of technical information²⁷
- must be relevant and useful to stakeholders and readers of annual reports.²⁸
- 4.10 These Treasury statements may be contrasted with the Auditor General's mandate, which is a little more expansive on KPIs. Subsection 15(3)(c) of the *Auditor General Act 2006* requires the Auditor General to give an opinion as to whether KPIs are:
- relevant and appropriate to assist users to assess the agency's performance and fairly represent indicated performance for the period under review.

Meaningfulness

- 4.11 The Committee takes the view that KPIs must be *meaningful* to those who read annual reports, such as Members of Parliament and the Auditor General. 'Meaningfulness' was identified in the 2017 Service Priority Review with the Panel commenting that 'while the intention of OBM is to measure agency and program performance outcomes, the way it currently operates inhibits meaningful evaluation'.²⁹ The Panel said:
- [r]eporting against KPIs is high level and does not always satisfactorily link against individual funded programs.
- KPI reporting does not provide useful details or meaningful transparency around program effectiveness or achievement against goals.³⁰

²⁵ See <https://www.dpc.wa.gov.au/ProjectsandSpecialEvents/ServicePriorityReview/Pages/Final-Report.aspx>, Paper 18: Whole of Government targets, pp 5-6 and Appendix 2.

²⁶ Hon Sue Ellery MLC, Leader of the House, *Transcript of evidence*, 13 November 2018, p 11.

²⁷ Government of Western Australia, Department of Treasury, *Outcome Based Management, Guidelines for use in the Western Australian Public Sector*, 2017, <https://www.treasury.wa.gov.au/uploadedFiles/Treasury/Publications/Outcome-Based-Management-Guidelines-2017.pdf>. Viewed 28 November 2018, p 1

²⁸ Financial Administration Bookcase, Treasurer Instruction 903, 24 November 2015, p 6.

²⁹ Government of Western Australia, Service Priority Review, Final report to the Western Australian Government, October 2017, *Working Together One Public Sector Delivering for WA*, October 2017, p 85.

³⁰ Ibid.

4.12 'Meaningfulness' arose during a hearing with the Art Gallery of Western Australia. Witnesses acknowledged that in growing and preserving the \$305.7 million State art collection comprising 17 842 objects, the reported 'average cost of managing the collection per gallery object' KPI efficiency indicator at \$46.35 is, at first glance, meaningless.³¹ The following exchange reveals the challenge of devising meaningful KPIs.

Hon DIANE EVERS: My question is that in looking at the KPIs and knowing that that number [\$46.35] would fluctuate with the number of items in the collection and you might have just bought an extra 100 items that were lower value or something, does that figure really say much, especially when you look at it and you say your target was over \$57 and it came in at \$46, what does that really tell anyone?

Is it that you did not spend as much this year or you got more pieces in? It seems to me there might be a better KPI for actually determining an indicator of how that has been cared for or conserved.

Dr Carboni: We give an explanation here. A KPI is something that is given to us and so we have really to work —

It is a formula that is applied to the expenditure we have for staff and for utilities in order to look after the collections and then it is simply divided by the number of objects. So, the reason why this year is slightly lower than what we had anticipated is due in part to the fact that we have less staff and so the maths, basically, work this way.

I do not really feel that I have a comment on why this KPI is among the ones we need to work with.

Mr Stewart: If I may comment on that, the challenge, of course, with KPIs, as you say, is finding meaningful ones. This is probably the best we can do in the moment in terms of the inputs, in terms of the dollars and resources that go in. It is a challenge to come up with very good meaningful ones. This is the best we can devise at the moment. We do look at international standards, but it tends to be very qualitative, which is very hard to put in a meaningful, concise way in annual reporting or in budgets.

Hon DIANE EVERS: I understand. I guess that is something to keep working toward. I was trying to find something that actually tells you something useful.³²

4.13 Hon Sue Ellery MLC, the representing Minister, contributed to the discussion stating:

Whenever you are trying to measure something that involves a degree of service, whatever that service might be, it is so much harder than if you are producing the old widget and you are using a number of people to produce that widget. It is hard to come up with those KPIs.

³¹ The explanatory notes state that this amount was determined by dividing the total cost of the cultural heritage management and conservation service by the 17 842 objects. As an efficiency indicator it is supposed to provide a reader with a sense of expenditure.

³² Hon Diane Evers MLC, Member, Dr Stefano Carboni, Director/Chief Executive Officer, Art Gallery of Western Australia and Brian Stewart, Deputy Director, Art Gallery of Western Australia, *Transcript of evidence*, 13 November 2018, pp 6-7.

Nevertheless, for internal purposes the director [of the Art Gallery] might have a point of view about whether there is something more meaningful for them, but I guess I make the overarching remark that this is about an annual report and they are set at a kind of global level.³³

- 4.14 The Art Gallery of Western Australia provided supplementary information on driving a more informative set of KPIs around conservation effort. The Minister advised that the Department of Local Government, Sport and Cultural Industries (DLGSCI) is reviewing its KPIs including 'standardised conservation measures' for its portfolio agencies. Further, that as part of developing a new conservation plan,³⁴ 'AGWA [Art Gallery of Western Australia] is working on an expanded set of conservation KPIs for reporting to management and the Board'.³⁵ The Committee welcomes the Department's initiative in developing new KPIs relating to conservation effort.
- 4.15 Meaningful KPIs also arose in a hearing with the Department of Fire and Emergency Services (DFES). Context was the KPI target for the number of accidental residential fires per 100 000 households, it being an indicator of DFES' fire safety education programs. The target was less than 65 fires with the number recorded at 56.2, it being ten per cent lower than last year.³⁶ However, the Committee noted the absence of a similar target for houses damaged in bushfires.
- 4.16 The following exchange reveals that the KPI does not include structure numbers.

Mr Cronstedt: It does not generally include fires that are the result of bushfires. A bushfire is an incident in and of itself, which may result in damage to structures and property of various shapes and sizes. That occurs from time to time. This target focuses on structure fires—accidental structure fires, not deliberately or arson related—per 100 000 households. It is focused on residential fires within the residence that are accidentally started.

Hon DIANE EVERS: Would you have a similar target for bushfire-related incidents for structures that is ongoing over the past years?

Mr Cronstedt: No, we do not have a target that relates to the question you asked. Clearly, annual reports will describe the damage quantum and impact from, say, the Waroona fire and the like, but there is no particular performance indicator. There is nothing that relates to structures that are impacted by bushfires.

³³ Hon Sue Ellery MLC, representing Hon David Templeman MLA, Minister for Culture and the Arts, *Transcript of evidence*, 13 November 2018, p 11. The Minister repeated this comment in relation to the delivery of social services during the Department of Communities hearing stating: 'It is hard with KPIs when you are measuring the delivery of social services. It is fundamentally different to measuring the production of widgets. Government does its best effort, but it is a difficult thing to measure in any way that is absolutely precise'. Hon Sue Ellery MLC, Minister representing Hon Simone McGurk MLA, Minister for Community Services, *Transcript of evidence*, 14 November 2018, p 5.

³⁴ In May 2018, the Auditor General commented that since 2014-15, the Art Gallery of Western Australia's operating plans have included the development of annual conservation plans however these have not been done'. See Western Australian Auditor General's Report, *Management of the State Art Collection*, Report 9, May 2018, p 12.

³⁵ Hon Tjorn Sibma MLC, Deputy Chair, Answer to question on notice A7 asked at hearing held 13 November 2018, dated 12 December 2018, p 2.

³⁶ Department of Fire and Emergency Services, *Annual Report 2017-18*, p 147.

Hon DIANE EVERS: I think we should be keeping track of it ... Whether it is a target—because I know it is much more difficult to address—but I think we should have a comparable number for how many houses we are losing to bushfires.³⁷

4.17 In supplementary information, the Minister said the KPI 'Proportion of Level 2 and Level 3 bushfires where no structures are lost or significantly damaged'³⁸ covers this scenario:

This indicator measures the number of Level 2 and Level 3 bushfires where no structures (including households and critical infrastructure) are lost or significantly damaged (significantly damaged is 50% or more).

On page 162 of the Annual Report it is reported that 96.08% of Level 2 and Level 3 bushfires had no structures (including households) lost or significantly damaged.

Therefore 3.92% of Level 2 and Level 3 bushfires resulted in structures (including households) being lost or significantly damaged.³⁹

4.18 The supplementary answer above reveals that the KPI:

- reports a 'proportion' of structures lost or significantly damaged in percentage terms, not numbers
- omits the actual number of residential and other structures lost or significantly damaged
- fails to define in footnotes a Level 2 and Level 3 bushfire or explain their difference
- in reporting the 96.08 per cent 'target achieved', disguises the number of residential and other structures lost, thus minimising the severity of Level 2 and 3 bushfires on rural families and the fabric of their communities.

4.19 The Committee is of the view that the KPI the Minister referred to is not meaningful. The number of 'residential structures' lost or significantly damaged by bushfires compared with accidental house fires is in fact, unreported.⁴⁰ In a follow-up to the above supplementary information, the Minister said:

- six residential or other structures were lost or significantly damaged in Level 2 bushfires
- no residential or other structures were lost or significantly damaged in Level 3 bushfires.⁴¹

³⁷ Hon Diane Evers MLC, Member and Malcolm Cronstedt, Deputy Commissioner, Strategy and Emergency Management, DFES, *Transcript of evidence*, 14 November 2018, pp 5-6.

³⁸ The Minister said a Level 2 bushfire incident is more complex either in size, resources, risk or community impact. It may require an interagency response. A Level 3 bushfire incident is protracted, large and resource intensive. Such a fire may affect community assets and/or critical infrastructure. It has the potential for an emergency situation declaration. See: Answer to supplementary questions 1 and 2 answered by Hon Francis Logan MLA, Minister for Emergency Services, 8 February 2019, p 1.

³⁹ Answer to question on notice A3 asked in the hearing by Hon Diane Evers MLC and answered by Hon Francis Logan MLA, Minister for Emergency Services, 10 December 2018, p 2.

⁴⁰ Hon Diane Evers MLC, Member, Answer to question on notice A2 (1)(b) asked at hearing held 14 November 2018, dated 10 December 2018, unnumbered page.

⁴¹ Follow up to supplementary information, questions 1 and 2 answered by Hon Francis Logan MLA, Minister for Emergency Services, 8 February 2019, p 1.

Committee comment

- 4.20 The Committee noted that in the 2017-18 Budget, DFES' net amount appropriated to deliver services from the Appropriation (Recurrent 2017-18) Bill 2017 was \$19 699 000 with an actual of \$24 118 000.⁴² Total income from the State Government in 2017-18 was \$40 426 000 for four services.⁴³ The services are:
- Community awareness, education and information services
 - Compliance and technical advisory services
 - Training and organisational resourcing services
 - Frontline services.
- 4.21 The broad Government goal behind delivering those services was 'strong communities' with the sub-goal of 'safe communities and supported families'. Of the four services, the 'community awareness, education and information service' and 'frontline service' expenses have a nexus with the \$19 699 000 appropriation.
- 4.22 The Minister advised that 'new KPIs are in development'.⁴⁴ Given this, the Committee is of the view that a comparable metric to the number of accidental house fires is desirable and meaningful. A KPI is 'meaningful' when there is a nexus with a service line appropriation, thus ensuring that what is appropriated is consistent with agency objectives or outcomes. In other words, KPIs should match what an agency is funded to undertake.

KPI redevelopment

- 4.23 Treasurer Instruction 903 provides that where a restructure occurs, such as the machinery of government (MoG) changes on 1 July 2017, agencies 'should review their performance management framework'.⁴⁵ This year is the first opportunity for the Committee to confirm compliance with Treasurer Instruction 903 and scrutinise what new KPIs (if any) emerged or developed.
- 4.24 KPI redevelopment was observed during a hearing with the Department of Communities:

Hon TJORN SIBMA: Minister ... the agency's capacity to deliver frontline services, particularly in respect of the various child protection functions. Just so that I can gauge performance across time periods ... [the Annual Report] states that the Department ... has a unique opportunity to fundamentally improve the way in which people receive its services. ... Which specific improvements have been made in respect of child protection services?

Mr Searle: The thing we have been very focused around is how we can link up the various parts of the department to solve the complex challenges that families have. To some extent, in the previous structures of government we treated drug and alcohol abuse, mental health, homelessness, poverty, family and domestic violence and child neglect as though they were independent events. We did not have a coordinated response.

⁴² Department of Fire and Emergency Services, *Annual Report 2017-18*, p 62. The increase is partly attributable to a machinery of government change.

⁴³ Such as \$839 000 from services free of charge and \$14 428 000 from Royalties for Regions.

⁴⁴ Answer to question on notice 5 asked by the Committee and answered by Hon Francis Logan MLA, 9 November 2018, p 4.

⁴⁵ Financial Administration Bookcase, Treasurer Instruction 903, 24 November 2015, p 6. Treasurer Instruction 903 requires reporting against KPIs disclosed in any relevant resource agreement, Statement of Corporate Intent or equivalent public document.

What we are now seeing within the department is that when families have challenges and issues, the bits of the department get together to work out just how they can change the outcome by bringing all the bits together. ...

Mr Searle: That ... 'linking up' to work out how we can bring the bits and pieces together to change the outcomes for families has been the big change that has happened over the last 12 months.

Hon TJORN SIBMA: Those changes would be very significant for the individuals concerned, but it is difficult for me to gauge the qualitative and quantitative uplift in service delivery if I am just to focus on the annual report. Can you measure these things in terms of impartial or observable KPIs?

Hon SUE ELLERY: Perhaps I will make some overarching comment. In the first instance, it is going to take some time to see significant turnaround in those kind of systemic ways that you might start to measure what the impact on one small family actually has in a more broader perspective across all the people served by the parts of this agency.

To a certain extent, within the first 12 or 18 months you might not necessarily see that kind of systemic change. It is about changing the culture. It is about trying to breakdown the silos that existed between the respective social service delivery agencies, if I can call them that, and that will take some time to deliver. But I might ask the director general if he can make any comments about the kind of KPIs that ultimately would reveal whether or not this has been successful in terms of service delivery.

Mr Searle: I think there are a couple of things that we need to do in terms of readdressing our KPIs. I would expect we will see a change in the speed at which children are reunified with their families. I would expect that to move over time. We have a couple of very tangible things at the moment coming out of Kununurra. We have been running, with the help of a number of other agencies, school holiday programs to try to reduce the amount of offending.

We have now got to the stage where instead of having 10 kids each school holidays ending up in Banksia Hill from Kununurra, for the last long school holidays only three kids ended up in Banksia Hill. That is a very tangible, hard measure. Youth crime was down and the kids were well engaged with the program. That was done at no extra cost to government. It was just a better coordination of the services and what they provided during that holiday period. There will be a number of hard bits of evidence to support this over time.⁴⁶

⁴⁶ Hon Tjorn Sibma MLC, Deputy Chair, Hon Sue Ellery MLC, Minister representing Hon David Templeman MLA, Minister for Culture and the Arts, Grahame Searle, Director General, Department of Communities, *Transcript of evidence*, 14 November 2018, pp 1-2.

- 4.25 The Committee understands that within this reporting period, MoG changes and the full integration of human resources (HR), information technology (IT) and administrative systems may have impacted service delivery.⁴⁷ A systemic change in the first 12 or 18 months may not necessarily be observed in child protection KPI Actuals and changing an agency's culture and demolishing silos between those delivering services takes time. Arguably, it may be unreasonable to expect child protection KPI targets to match Actuals in a 12-month reporting period. Longitudinal targets may be more realistic. However, the Committee is of the view that MoG changes and other complexities should not deflect expectations of the new department, especially a department dealing with lives.
- 4.26 Despite the inherent difficulties, the Committee encourages the Department of Communities to continue readdressing its short, medium and long term KPIs in order to be held accountable for the \$1.68 billion it was appropriated to deliver 22 different types of services.⁴⁸

Frequency of KPI review

- 4.27 The Auditor General recommended that on amalgamation, entities expedite the merging of systems and development of their OBM structures and KPIs.⁴⁹
- 4.28 Prior to hearings, the Committee asked 50 agencies five questions (departments and statutory authorities, including GTEs), about the frequency of their KPI reviews.
- 4.29 Collating the answers revealed that the vast majority of agencies review their KPIs annually as part of the State budget process with the following exceptions:
- the Lotteries Commission reviews its KPIs on an ad hoc basis in response to changing business conditions and requirements
 - the Public Transport Authority monitors on a daily, weekly and monthly basis in terms of system performance. Otherwise every quarter if KPIs warrant modification
 - the Western Australian Electoral Commission reviews biannually
 - the Western Australian Land Information Authority, on an (arguably vague) 'ongoing' basis
 - the Department of Treasury every three to four years
 - the Office of the Auditor General every two to four years
 - DLGSCI is absent a 'formal schedule' for reviewing KPIs, preferring to review on an 'as needs basis or as a result of significant business change'⁵⁰
 - the Department of Planning, Lands and Heritage is currently undertaking its first review and proposes to review 'every three years or otherwise' as required
 - DFES 'as required'
 - the Department of Jobs, Tourism, Science and Innovation 'as required' for Tourism

⁴⁷ Grahame Searle, Director General, Department of Communities, *Transcript of evidence*, 14 November 2018, p 3 admitted to a 'raft of things that we need to do to complete the integration ... so we are trying to manage this as an incremental process'.

⁴⁸ The services are listed in State Budget 2017-18, Budget Paper No. 2, Volume 1, p 241.

⁴⁹ Western Australian Auditor General's Report, *Audit Results Report - Annual 2017-18 Financial Audits of State Government Entities*, Report 7, 8 November 2018, p 23.

⁵⁰ Answer to questions on notice 2(a) and (b) by Hon David Templeman MLA, Minister for Local Government; Heritage; Culture and the Arts, 23 October 2018, p 1.

- the Department of Training and Workforce Development ‘as required in response to functional reviews and structural changes’
- the five ports authorities have disparate reviews as the following table reveals:

Table 1. *Five ports authorities’ frequency of KPI review*

	Kimberley	Mid-West	Pilbara	Southern	Fremantle
KPI review	annually	monthly	monthly	quarterly	quarterly

Source: Answers to questions on notice

Frequency of KPI targets review

- 4.30 The vast majority of agencies review their KPI targets annually with the following exceptions:
- the Department of Education updates its targets on the latest two years’ actual results at the time of each State Budget
 - the Lotteries Commission reviews its targets ‘constantly’ in response to changing market and business conditions
 - the Western Australian Electoral Commission reviews targets biannually
 - the Office of the Auditor General reviews ‘at least once every three years’
 - three of the five ports authorities review targets annually. The Southern Ports Authority reviews ‘annually or as required’ whilst the Kimberley Ports Authority reviews quarterly.

Last review of KPIs

- 4.31 The vast majority of agencies have either reviewed their KPIs in the past 12-month period or are currently under review with the following exceptions:
- the Chemistry Centre (WA) last reviewed in 2009
 - the Department of Education and Education Services in 2014
 - the Department of Jobs, Tourism, Science and Innovation in 2017 absent Tourism WA which was last reviewed in December 2014
 - the Department of Treasury in April 2015
 - although the Lotteries Commission reviews on an ad hoc basis, its last review was in August and September of 2017 as part of developing a 2018-2023 Strategic Plan
 - Metropolitan Redevelopment Authority in January 2012
 - Racing and Wagering Western Australia review monthly at Board meetings.

New KPIs

- 4.32 Twenty-one of the 50 agencies questioned had no new KPIs. Nineteen of the 50 agencies had new, amended or removed KPIs this year resulting from amalgamations or transfers with the following exceptions:
- the Department of Education inherited indicators from the agencies that formed the new department
 - DFES’ new KPIs are currently in development

- the Department of Planning, Lands and Heritage adopted 'relevant' KPIs from the former Department of Aboriginal Affairs, Department of Lands, Department of Planning, and the State Heritage Office.
- Department of Water and Environmental Regulation (DWER)—no new KPIs since amalgamation and has not yet conducted a consolidated review of its combined KPIs following amalgamation of the former Department of Water with the Department of Environment Regulation and Office of the Environmental Protection Authority. Given that the new department reviews both its KPIs and KPI targets annually as part of the budget process, the Committee expects this to be completed by the time of the next budget.
- DLGSCI had no new KPIs arising from its partial review of them in late 2017. The new Department is 'currently reviewing its KPIs'.⁵¹

Provision of documents showing agencies' reviews of KPIs

4.33 Nineteen of the 50 agencies with new or amended KPIs provided documentation of their KPI reviews. However, DLGSCI was unable to provide documentation as its review was only partially completed.

Conclusions on agencies' answers to its KPI questions

4.34 The Committee is satisfied with the answers to the five questions it asked in relation to KPIs and finds that the majority of agencies are compliant with their review and reporting timeframes. The Committee looks forward to the continuing review and update of agency KPIs, in particular DFES, DWER and DLGSCI completing their reviews for the 2018-19 annual reporting period ahead.

5 Consideration of related matters

Credit card surcharges

Background

- 5.1 In 2017, the Joint Standing Committee on Delegated Legislation advised the Committee that there may be issues arising from agency practices regarding the application of credit or debit card surcharges.
- 5.2 The Reserve Bank of Australia applies a standard, the 'Reserve Bank of Australia Standard No. 3—Scheme rules relating to merchant pricing for credit, debit and prepaid card transactions' (Standard). This Standard allows individualised surcharges depending on the type of card. The Standard also sets out the maximum rate to be applied in the event that the merchant charges a single 'blended' rate for cards in general, rather than a rate for each card.
- 5.3 As part of the examination of the 2018-19 Budget Estimates, the Committee asked departments about their practice of applying credit or debit card surcharges. In September 2018, the Committee reported in Budget Estimates that Government departments allow credit and debit cards payment but do not apply surcharges to those transactions.⁵² This report follows up that earlier work with respect to GTEs and port authorities.

⁵¹ Answer to questions on notice 2(a) and (b) by Hon David Templeman MLA, Minister for Local Government; Heritage; Culture and the Arts, 23 October 2018, p 1.

⁵² Western Australia, Legislative Council, Estimates and Financial Operations Committee, Report 76, *2018-19 Budget Cycle - Part 1: Estimates hearings and related matters*, September 2018, p 10.

Examination

5.4 The Committee asked the following questions:

1. Do you allow a person to pay for goods and services with credit or debit cards?
2. If so, when a person pays a fee or fine by credit or debit card?
 - (a) What surcharge do you apply to process that card payment?
 - (b) Do you impose the same surcharge irrespective of which type card is used?
 - (c) Is that surcharge authorised by a legislative Instrument, for example, by regulations?
 - (d) What steps have you taken to ensure compliance with Reserve Bank of Australia Standard No. 3 2016 titled 'Scheme rules relating to merchant pricing for credit, debit and prepaid card transactions'?
 - (e) As per the Standard, is your surcharge no greater than the average cost of acceptance of the lowest cost system, not an average of all cost systems?

5.5 The purpose of this line of questioning was to ascertain GTE compliance with the Standard by questioning whether, pursuant to the Standard, the surcharge was no greater than the average cost of acceptance of the lowest cost system, not an average of all cost systems. Collating the answers revealed the following:

- four GTEs do not allow persons to pay for goods and services by credit or debit cards
- fifteen GTEs allowed such payment but no surcharge was applied
- five GTEs are expressly empowered by a legislative instrument to impose a surcharge and do so
- for two agencies, the questions were not applicable
- all GTEs answered that their surcharge is not greater than the cost of the lowest cost system, not an average of all cost systems. The Mid West Ports Authority claimed its surcharge is 0.02 per cent lower than the lowest cost system
- Synergy claimed the Commonwealth Bank of Australia send through a blended rate applicable to all card types. This rate is used as the surcharge as no cards charge the lower rate
- Western Power also claimed its surcharge is lower than the cost of the lowest cost system.

5.6 The Committee's analysis of the collated responses reveals that the surcharge, when applied, ranged between 0.32 per cent and one per cent. Unsurprisingly, those power and water corporations enjoying an expressly authorised power to surcharge, charged either 0.481 per cent, 0.59 per cent, 0.6 per cent or 0.69 per cent.

5.7 All five ports authorities allowed credit and debit card payments. They gave disparate answers as the following table reveals.

Table 2. Five ports authorities' credit and debit card surcharges

	Kimberley	Mid West	Pilbara	Southern	Fremantle
Surcharge or not	Yes	Yes	Yes but not applied	Yes but not applied	Yes but not applied
Surcharge Amount	Mastercard: 0.19 cents plus 0.44 per cent. Visa: 0.19 cents plus 0.432 per cent.	One per cent on credit cards. Nil on debit cards.	None	None	None

Source: Answers to questions on notice

Committee comment on surcharge practices

5.8 Answers to the six questions the Committee asked reveal that where the surcharge is applied, it is either at or below the appropriate rate and therefore complies with the Standard.

Machinery of Government changes on agencies' financial, human resource and administrative systems

5.9 MoG changes were announced on 27 April 2017, effective 1 July 2017. The Committee asked MoG affected agencies how they were faring with integrating their financial, HR and administrative systems. The genesis for the question was the Auditor General's observation in November 2018 that:

[p]rogress with amalgamating systems of various constituent entities is slow, with most departments continuing to operate on several financial, human resource and administrative systems. This is impacting the realisation of cost savings that can be achieved by rationalising systems.⁵³

5.10 This topic also garnered media interest after the hearings.⁵⁴

Answers during hearings

5.11 Collating the responses from hearings reveals the following:

Department of Education

- The Department is an amalgam of the former Department of Education with the Department of Education Services. The School Curriculum and Standards Authority remains as a statutory authority but its staff was transferred into the Department.⁵⁵
- The former Department of Education Services was already on the department's payroll, using the same finance system.

⁵³ Western Australian Auditor General's Report, *Audit Results Report – Annual 2017-18 Financial Audits of State Government Entities*, Report 7, November 2018, p 23.

⁵⁴ Paul Murray, 'Cogs of change turning slowly', *The West Australian*, 28 November 2018.

⁵⁵ Via a Disposition Order pursuant to section 22 of the *Public Sector Management Act 1994*. See Department of Education, *Annual Report 2017-18*, p 5.

- There is one finance and HR system.

Department of Water and Environmental Regulation

- The Department is an amalgam of three agencies—the former Department of Environment Regulation, Office of the Environmental Protection Authority and Department of Water.
- It was completely operating on one domain at 1 July 2017.
- The former Office of the Environmental Protection Authority's outsourced IT and server-related systems were brought in-house.

Department of Primary Industries and Regional Development

- The Department is an amalgam of three former departments—Agriculture and Food, Fisheries and Regional Development.
- Twenty-five per cent of staff have been integrated with completion expected mid-2019.
- Knitting together three sets of different policies and procedures is expected by November 2020.
- 'Core platforms' are expected during the course of 2019.
- A common payroll system is anticipated in the second part of 2019.
- Finance, HR, payroll and the broad IT system with their multiple layers and elements will be a progressive migration, taking the longest (unstated) time to complete.

Department of Communities

- The Department is an amalgam of several existing agencies and their components, including (1) the former Department for Child Protection and Family Support, (2) Department of Housing, (3) the Housing Authority, (4) Disability Services Commission, (5) the communities' component of the Department of Local Government and (6) Communities' Regional Services Reform Unit, (7) the regional coordination and engagement component of the former Department of Aboriginal Affairs.
- It had four finance and payroll systems, four HR systems and three record management systems, now reduced to three finance and payroll systems. The target is 2020 for 'one of everything' systems.
- HR systems and record-keeping systems integration is expected by the start of 2020.
- Moving to Fremantle in March 2020.
- Changing multiple networks, IT systems are being incrementally managed.
- Rationalising office space and re-locating people into the same building is ongoing especially in some country towns with four separate offices and different expiring lease dates.
- The implementation plan to deliver a fully integrated unified department is expected by 2020.
- Rollout around the regions. Kimberley has started. Pilbara, Goldfields and Great Southern is targeted for between March and July 2019. The remainder of the regions by December 2019.

Answers after hearings

5.12 After hearings the Committee asked another six agencies:

- (a) Which financial, human resource and administrative systems are currently being used by the Department?
- (b) Is there a plan to rationalise the number of those systems currently being used by the Department
 - (i) If yes to (b), can you provide that plan?
 - (ii) if no, to (b), why is there no plan?

5.13 Collating the responses reveals the following:

Department of Local Government, Sport and Cultural Industries

- The Department is an amalgam of the former (1) Department of Culture and the Arts, (2) Department of Sport and Recreation, (3) Department of Racing, Gaming and Liquor, (4) the Office of Multicultural Interests, (5) local government functions of the Department of Local Government and Communities, and (6) the Aboriginal History Unit of the Department of Aboriginal Affairs.
- Financial, HR and Office systems are now rationalised into a single solution.

Department of Mines, Industry Regulation and Safety

- The Department is an amalgam of the former Department of Mines and Petroleum and most of the Department of Commerce.
- HR systems were combined in July 2017.
- Reviews of IT systems range from six months commencing December 2018 out to the second quarter of 2019.⁵⁶

Department of Justice

- The Department is a merger of the former Department of the Attorney General and the Department of Corrective services.
- Several corporate systems are integrated.
- Records management and HR systems are 'well underway' but not integrated. Various projects are phased out to June 2019.

Department of Planning, Lands and Heritage

- The Department is an amalgam of former departments of Planning and Lands, the Office of State Heritage, and the land and heritage functions of the former Department of Aboriginal Affairs.
- Finance and HR systems are now integrated.⁵⁷

⁵⁶ A six-month review of the existing Objective Electronic Records Management System started December 2018. Currently implementing a Standard Operating Environment System with completion by first quarter of 2019. Currently implementing a standard print and email environment with completion by first quarter of 2019. Currently implementing a standard IT service management system with completion by second quarter of 2019. Implementing the transitioning of Wide Area Network and gateway services with completion by second quarter of 2019.

⁵⁷ Department of Planning, Lands and Heritage, *Annual Report 2017-18*, p 77.

- The 'plan for the rationalisation of office systems relating to ministerial workflow add-on is currently under review'.

Department of Biodiversity, Conservation and Attractions

- The Department is an amalgam of the former (1) Department of Parks and Wildlife, (2) the Botanic Gardens and Parks Authority, (3) Rottneest Island Authority, and (4) the Zoological Parks Authority.
- Its HR system was rationalised on 29 June 2018.
- Various administrative systems are scheduled between August 2018 to June 2020.

Department of Jobs, Tourism, Science and Innovation

- The Department is an amalgam of the former Department of State Development with extensive new functions from across other parts of Government.⁵⁸
- Consolidation of HR and Finance is incomplete.
- An external review has been undertaken to inform decision making on HR and Finance.
- An approach to document management will occur in 2019-2020.

Conclusions

- 5.14 The above evidence reveals three departments—DLGSCI, DWER and Education—are the only departments with fully integrated financial, HR and administrative systems.
- 5.15 Four other departments will not have their systems fully integrated until 2020. They are Communities, DPIRD, Jobs, Tourism, Science and Innovation; and Biodiversity, Conservation and Attractions.

Government trading enterprise performance

- 5.16 The Committee examined the annual reports of two GTEs—Synergy and Western Power in order to assess:
- performance against each Statement of Corporate Intent (SCI)
 - response to governance issues raised in the 'Special Inquiry into Government Programs and Projects' (Langoulant Inquiry).
- 5.17 The Committee also reflected on the timeliness of SCIs tabled in the Parliament. These matters were pursued in hearings.

⁵⁸ These were: (1) the Western Australian Tourism Commission. (2) The Office of Science from the Department of the Premier and Cabinet. (3) Three additional overseas trade offices from the Department of the Premier and Cabinet (in addition to five offices from the former Department of State Development). (4) The industry promotion and innovations functions from the former Department of Commerce. (5) International education from the former Department of Education Services. (6) The innovation program from the Office of the Chief Information Commissioner (the program was renamed and repurposed to the 'New Industries Fund'). The former Department of State Development's agribusiness unit was transferred out to the Department of Primary Industries and Regional Development.

General

- 5.18 The State of Western Australia has 27 GTEs. They are statutory authorities with a commercial or quasi commercial focus. They are regulated by the Economic Regulation Authority and enjoy protection against those two major threats that are essential for encouraging sound management in private sector corporations—takeover and bankruptcy.⁵⁹
- 5.19 In the 1990s, the Western Australian Government corporatised entities with commercial functions. The aim was to introduce private sector discipline into GTEs so as to improve efficiency and accountability. However, this has not worked as planned.⁶⁰
- 5.20 In a 2017 submission to the Langoulant Inquiry, Treasury said that operating at arm’s length, a key feature of 1990s corporatisation reforms, meant GTEs were not subject to the same scrutiny as public sector agencies.
- 5.21 Treasury admitted that an arm’s length relationship is important for ensuring transparency direction of policy to GTEs but:
- It has failed to properly align the objectives and performance of GTEs with the objectives and expectations of Government.⁶¹
- 5.22 The Committee therefore welcomed the 10 September 2018 announcement of the Government’s GTE reform program to strengthen GTE governance and accountability and the related inquiry.⁶²

Statements of corporate intent

- 5.23 Of the 27 GTEs, 21 are either required⁶³ or expected to prepare an SCI. They are important accountability documents that set out performance targets and other measures (the equivalent of KPIs) for the relevant financial year. The responsible Minister tables the SCIs in the Parliament.
- 5.24 The *Electricity Corporations Act 2005* (Act) sets out the following framework for the SCIs of electricity corporations:
- GTE electricity corporations are required to provide a draft SCI to their Minister that covers the 12-month period ahead. The Minister has to then ‘ensure each SCI addresses matters of importance to the Treasurer in order to facilitate timely concurrence’ with the Act.⁶⁴ The SCI must be approved by the Minister and the Treasurer.

⁵⁹ Submission from Treasury to the Government of Western Australia, Special Inquiry into Government Programs and Projects in Volume 1, *Potential Governance Reforms for Government Trading Enterprises*, September 2017.

⁶⁰ Special Inquirer Langoulant said ‘private sector discipline is not achieved by simply introducing a profit objective and limited number of statutory director responsibilities’. See Government of Western Australia, Special Inquiry into Government Programs and Projects, Final Report, Volume 1, p 209.

⁶¹ Submission from Treasury to the Government of Western Australia, Special Inquiry into Government Programs and Projects in Volume 1, *Potential Governance Reforms for Government Trading Enterprises*, September 2017.

⁶² Hon Mark McGowan MLA, Premier and Hon Ben Wyatt MLA, Treasurer, *GTE Reform Program to strengthen governance and accountability*, Media statement, Government of Western Australia, Perth, 10 September 2018.

⁶³ By their own enactment or subsidiary legislation.

⁶⁴ Western Australian Auditor General’s Report, *Audit Results Report-Annual 2017-18 Financial Audits of State Government Entities*, Report 7, 8 November 2018, p 29.

- Section 103(1) of the Act provides that when the board of a corporation and the Minister have reached agreement on an SCI, it becomes the SCI 'for the relevant financial year or the remainder of the year as the case may be'. Under section 103(2) the Minister must, within 14 days after agreeing to that SCI, table it in each House of Parliament or deal with it under section 134—that is, table it with the Clerk when the House is not sitting.
- Section 99(3) of the Act specifies 11 subject matters for inclusion in an electricity corporation's SCI. Subject matters include performance targets and other measures; objectives, functions, undertakings, dividend and accounting policies.

5.25 Special Inquirer Langoulant found a 'mixed view among the trading enterprise executives and board members on the usefulness of these documents'⁶⁵ noting:

SCIs to be bland documents with limited information for the public. The Statements do not cover past performance and seem to be more in the nature of marketing documents.⁶⁶

5.26 During the Langoulant Inquiry, Under Treasurer Barnes said most of the GTEs view SCIs as a 'compliance exercise only'.⁶⁷

Late tabling of statements of corporate intent

5.27 The Auditor General said:

Tabling requirements vary slightly between entities but generally SCIs are either required or expected to be tabled before the commencement of the financial year or early in the financial year to which they relate.⁶⁸

5.28 For the past 19 years, the Auditor General has reported on the continual practice of annual SCIs being tabled after the beginning of the financial year to which they relate and outside the legislated timeframe.⁶⁹ In this reporting period the Auditor General said:

As at 31 October 2018, one SCI [for 2018-19] is yet to be tabled and 3 for 2017-18 remain outstanding and therefore not available for scrutiny by the Parliament.⁷⁰

5.29 The Committee agrees with the former Auditor General's comment in 2016 that timely tabling of SCIs not only improves accountability but also the 'Parliament's scrutiny of entities' budgets and planned achievements'.⁷¹ The Committee expects the Government's GTE reform initiative noted at paragraph 5.22 will address administrative processes and practices around SCI preparation so as to enhance 'on time' SCI tabling.

⁶⁵ Government of Western Australia, Special Inquiry into Government Programs and Projects, Final Report, Volume 1, p 121.

⁶⁶ Ibid., p 120.

⁶⁷ Ibid., p 121.

⁶⁸ Western Australian Auditor General's Report, *Audit Results Report-Annual 2017-18 Financial Audits of State Government Entities*, Report 7, 8 November 2018, p 29.

⁶⁹ Ibid., p 27.

⁷⁰ Ibid., p 6. The three SCIs not tabled were for Landcorp, Racing and Wagering Western Australia, and the Western Australian Treasury Corporation.

⁷¹ Western Australian Auditor General's Report, *Audit Results Report, Annual 2015-16 Financial Audits*, Report 24, November 2016, p 25. This recommendation was repeated in the Western Australian Auditor General's Report, *Audit Results Report, Annual 2016-17 Financial Audits*, Report 21, November 2017, p 25.

Synergy

Performance in 2017-18

- 5.30 The Committee focused on Synergy's KPI forecasts and targets listed in its 2017-18 SCI.⁷² These performance measures relate to forecasts of financial performance, targets of operational performance, customers and employees.
- 5.31 During the previous 2016-17 annual report hearing, Synergy advised:
- We actually do not do comparatives against SCI targets in the annual report.
- Unfortunately, the annual report is not for a comparison against planned performance; it is a comparison against a previous year's performance. That is why, for instance, in the annual report we do not report our performance against targets that have been set. We do that to the board and we do that to the Minister and to Parliament through different mechanisms.⁷³ But in regard to the annual report, we do not report against targets that have been set for the business.⁷⁴
- 5.32 It is unclear if the practice of not reporting performance against set targets conflicts with the mandatory contents requirements of annual reports in section 108 of the *Electricity Corporations Act 2005*.⁷⁵ Nevertheless, Synergy attempted to provide an assessment against its SCI in the 2017-18 Annual Report.
- 5.33 Unfortunately, KPI targets identified in the 2017-18 Annual Report did not match those presented in the 2017-18 SCI. They mistakenly related to the 2016-17 SCI instead.⁷⁶ Those KPIs are:
- Earnings before interest, taxes depreciation and amortisation margin where the 2017-18 SCI shows '7.2%' but the 2018 Annual Report states '6.25%'.
 - Net after tax profit margin where the 2017-18 SCI shows 'negative 2.8%' but the 2018 Annual Report states 'negative 0.17%'.
 - Return on Assets where the 2017-18 SCI shows 'negative 3.5%' but the 2018 Annual Report states 'negative 0.10%'.

⁷² Synergy has five performance measures and obligations: KPIs, dividend policy, accounting policies and governance standards, Ministerial reporting and community service obligations.

⁷³ Such as quarterly reports against financial performance and operational KPIs 'that have been set and are actually established and compared against the SCI': Karl Matacz, Chief Financial Officer, Synergy, *Transcript of evidence*, 14 February 2018, p 14.

⁷⁴ Karl Matacz, Chief Financial Officer, Synergy, *Transcript of evidence*, 14 February 2018, pp 13-14. The specific matter in the previous reporting period was the chief executive officer's report regarding a recorded after-tax loss of more than \$12.5 million. Synergy did not have a copy of its SCI at the hearing.

⁷⁵ Part of section 108 of the *Electricity Corporations Act 2005* states:

- (1) The annual report in respect of a corporation or a subsidiary must —
- (a) contain such information as is required to be included in the report by the Minister to enable an informed assessment to be made of the operations of the corporation or the subsidiary; and
 - (b) include a comparison of the performance of the corporation or the subsidiary with any relevant statement of corporate intent; ...
 - (e) include particulars of the impact on the financial position, profits and losses and prospects of the corporation or the subsidiary of any modifications to —
 - (i) the statement of corporate intent; ... that were given during the relevant financial year.

⁷⁶ Five KPIs do not match those in the 2017-18 SCI.

- Return on Capital Employed where the 2017-2018 SCI shows 'negative 6.7%' but the Annual Report states 'negative 0.20%'.
- Net promoter score (a customer loyalty metric) where the 2017-18 SCI shows 'plus 69.5' but the Annual Report states 'plus 60'.

5.34 The Minister acknowledged Synergy's error stating:

Synergy has confirmed there is an error in the listed KPIs targets in the 2017-18 Annual Report as tabled and is looking into how and why the error occurred.

Synergy has also confirmed the reported actuals are correct.

Synergy has advised that the error will be remedied as suggested by the committee with an addendum to the Annual Report and I expect to table that early in the 2019 parliamentary sittings.⁷⁷

5.35 Synergy's addendum was tabled on 19 March 2019 but only in the Legislative Assembly.⁷⁸ The addendum is an erratum providing numbers from the 2017-18 SCI. However, the addendum provided no explanation as to how or why the mistake occurred.

5.36 The data indicates Synergy performed better than expected in its 2017-18 SCI for many indicators. It performed worse than expected in the following KPIs:

- environmental incidents (target: zero; result: two)
- grade of service (target: greater than 80 per cent; result: 75.3 per cent)
- safety – recordable injury frequency rate (target: 1.9; result: 4.97).

Late tabling of Statements of Corporate Intent

5.37 Synergy's 2017-18 SCI was tabled on 10 April 2018. The Committee pursued late tabling in the following exchange:

Hon TJORN SIBMA: I will just make this observation—statements of corporate intent appear to me to be probably more honoured in the breach than in the observance of actually being tabled in a timely way. I think the most recent statement of corporate intent was not tabled until around March or April this year, which is towards the end of the reporting period. Can I get an insight as to what reasons there might have been for that—what I look at as a very late tabling date?

....

Mr Waters: Other than agreeing, I would have to say that tabling KPIs in March of the year in which they are relevant is late. As to the specifics in this instance, I could not go into any detail. I would be happy to investigate that and provide further advice but, at this stage, as you said it is a complex process. It involves multiple parts of government and Synergy. I would have to look into it and provide more advice.⁷⁹

⁷⁷ Hon Bill Johnston MLA, Minister for Mines and Petroleum; Energy; Industrial Relations, Letter, 14 January 2019, p 1.

⁷⁸ At the time of writing this report, the Addendum had not been tabled in the Legislative Council. The Committee expects it to be tabled in due course.

⁷⁹ Hon Tjorn Sibma MLC, Deputy Chair and Jason Waters, Chief Executive Officer, Synergy, *Transcript of evidence*, 13 November 2018, pp 2-3.

5.38 Synergy's response was scant and vague:

The 2017/18 Statement of Corporate Intent (SCI) was the subject of some amendments to ensure alignment on key performance indicator information.

The 2018/19 SCI was tabled on 14 August 2018, and Synergy is on track to deliver a timely SCI for 2019/20.⁸⁰

5.39 The Committee finds the above explanation is unsatisfactory, with insufficient detail to explain the significant delay in having the 2017-18 SCI tabled.

5.40 Late tabling of its SCI for this reporting period was not Synergy's first time. In the Auditor General's *Annual 2015-16 Financial Audits Report*, Synergy (and Western Power) SCIs for 2016-17 'were the first SCIs to be tabled since 2012-13'.⁸¹ Prior year 2015-16 SCIs were both tabled in October 2016 'some 3 months after the end of the 2015-16 financial year'.⁸²

5.41 Synergy's late tabling is endemic:

- for the 2016-17 period on 29 September 2016 (deemed tabled with the Clerk when the Parliament was not sitting).
- for the 2017-18 period on 10 April 2018.
- for the 2018-19 period on 24 July 2018 (deemed tabled with the Clerk when the Parliament was not sitting).

The Langoulant Inquiry

5.42 The Committee noted an absence of reference and reflection in Synergy's 2017-18 Annual Report with respect to the Langoulant Inquiry's observation that the SCIs of Synergy (and Western Power) 'provided little insight into the plans and intentions of either entity'.⁸³ This is disturbing given that GTEs:

are not subject to the same standards for procurement, project management, transparency, reporting, budget preparation or record-keeping as the rest of government.⁸⁴

5.43 In the case of Synergy, Special Inquirer Langoulant examined its involvement in three projects between 2006 and 2017. A key focus was to determine whether ten sampled consulting contracts, its billing system and Muja power station projects had sound procurement practices and offered value for money outcomes. The examination 'did not encounter positive signs in all of these areas for the projects'.⁸⁵ For this reason, the absence of reflection in Synergy's Annual Report is both surprising and disappointing given the

⁸⁰ Answer to question on notice B1 asked by Hon Tjorn Sibma MLC, Deputy Chair and answered by Hon Bill Johnston MLA, Minister for Mines and Petroleum; Energy; Industrial Relations, 10 January, p 1. The 2018-19 SCI was in fact deemed tabled with the Clerk of the Parliament on 24 July 2018.

⁸¹ Western Australian Auditor General's report, *Audit Results Report Annual 2015-16 Financial Audits*, Report 24, November 2016, p 23.

⁸² Ibid.

⁸³ Government of Western Australia, *Special Inquiry into Government Programs and Projects, Final Report, Volume 1*, p 16.

⁸⁴ Ibid.

⁸⁵ Government of Western Australia, *Special Inquiry into Government Programs and Projects, Final Report, Volume 2*, pp 7-8.

Special Inquirer's comment that 'past and present Board Members and management' were accepting of his findings 'on the need for improvement'.⁸⁶

- 5.44 The Committee is of the view that the absence of reference or reflection to the Langoulant Inquiry in its 2017-18 Annual Report is symptomatic of Synergy's culturally entrenched ambivalence regarding its accountability to the Parliament. This is revealed in the following exchange:

Hon TJORN SIBMA: If there is a theme consistently held by this suite of hearings, it is a focus on agency KPIs, and as they relate to government trading enterprises, also the relationship between those KPIs reported in annual reports and statements of corporate intent tabled in the Parliament.

There is a degree of disputation and conjecture around the usability of both the KPIs and the statements of corporate intent, so I might invite, through the Minister, some commentary from Synergy concerning the observation made by John Langoulant in his report earlier this year. Effectively, the quote is along the lines that the statements of corporate intent of Synergy and Western Power provided little insight into the plans and intentions of either agency. I am just interested to know what Synergy's response to that observation might be—whether it is fair or it is not—and the reasons for a discordant view, if that is the case.

...

Mr Waters: I guess in regard to the specifics of the Langoulant report, without having, I guess, the benefit of it in front of me or the specific referral to Synergy, it is hard for me to make specific comments.

What I guess I would say as a general reflection in regards to the KPIs published and therefore contained within the SCI and those more relevant to the business is that I think there is a broad range of KPIs there—12 or so in total.

I guess what I would say in general is that if you were to look at the critical aspects of managing a relatively large and complex business like Synergy, a set of KPIs that picks up a range of factors, such as financial performance, environmental performance, customer performance and employee safety, I would actually say would generally constitute a very good and accurate set of KPIs that I would have felt, given that the targets are relevant and able to be understood, should be able to actually provide a reasonable level of insight into the performance of the business.

From that perspective, I would say that, what is here, I have a view would generally work.⁸⁷

Hon TJORN SIBMA: The interpretation I derive from that answer is that, notwithstanding Mr Langoulant's observations about statements of corporate intent specifically, that was not cause for Synergy to re-evaluate its target setting nor to actually change in any substantial way the KPIs that it set for itself and would report against. Is that a fair interpretation?

⁸⁶ Government of Western Australia, Special Inquiry into Government Programs and Projects, Final Report, Volume 2, p 8.

⁸⁷ Hon Tjorn Sibma MLC, Deputy Chair and Jason Waters, Chief Executive Officer, Synergy, *Transcript of evidence*, 13 November 2018, pp 1-2.

Mr Waters: At this stage, we have not; we have stuck with the standard set that we have contained within SCIs over a period of time.⁸⁸

Summary

5.45 Synergy:

- in its annual report, mistakenly provided incorrect information on its 2017-18 SCI KPI targets, making an assessment of how it performed against those targets difficult
- failed to table its 2017-18 SCI prior to the start of that financial year
- has a history of tabling its SCIs late
- in its annual report, failed to reflect on governance issues raised in the Langouant Inquiry
- gave brief and unhelpful answers to questions on these above matters.

Conclusions

5.46 The Committee is of the view that Synergy's persistent late tabling of its SCI displays a certain disregard:

- for its accountability to the Parliament
- for the commercial health of enterprises owned by Government.

5.47 Further, Synergy does not appear to have undertaken any institutional self-reflection between the two reporting periods. This is despite Synergy's awareness of the Committee's interest in SCIs and the Auditor General's frequent reporting of late SCIs.

FINDING 1

Synergy exhibits a culturally entrenched ambivalence about its Statement of Corporate Intent responsibility.

Western Power

Performance in 2017-18

5.48 Western Power's 2017-18 SCI contains nine performance measures and targets. These are total recordable injury frequency rate, public impact, reportable environmental incidents, service standards met, customer supply availability, net promoter score, capital expenditure, dividend to Government and employee engagement.

5.49 These measures are evaluated against the targets and results as agreed with the Minister for Energy, with the concurrence of the Treasurer pursuant to Part 5, Division 2 of the *Electricity Corporations Act 2005*.

5.50 Western Power met all but two targets identified in its 2017-18 SCI.⁸⁹ The unmet targets were:

- service standards met (target: 17; actual: 14)
- net promoter score (target: ≥ -7 ; actual: -8).

⁸⁸ Hon Tjorn Sibma MLC, Deputy Chair and Jason Waters, Chief Executive Officer, Synergy, *Transcript of evidence*, 13 November 2018, p 2.

⁸⁹ Western Power, *2017-18 Annual Report*, September 2018, p 16.

Late tabling of Statements of Corporate Intent

5.51 Western Power tabled its 2017-18 SCI on 28 November 2017. Its 2018-19 SCI was deemed tabled with the Clerk on 20 July 2018. Late tabling for this reporting period was not the first time. In the Auditor General's *Annual 2015-16 Financial Audits Report*, Western Power's SCI for 2016-17 was tabled on 25 August 2016 and was the 'first SCI to be tabled since 2012-13'.⁹⁰ Its prior year 2015-16 SCI was tabled in October 2016 'some 3 months after the end of the 2015-16 financial year'.⁹¹

The Langoulant Inquiry

5.52 As noted at paragraph 5.42, the Langoulant Inquiry observed that Western Power's SCI, like Synergy's, also provided 'little insight into the plans and intentions of either entity'.⁹² Western Power had a similar story to Synergy with respect to its consulting contracts, the Woodlands transmission line and Project Vista. However, unlike Synergy, Western Power referred to the Langoulant Inquiry in its Annual Report. The Board acknowledged the Inquiry's findings and has 'commenced implementing the Inquiry's recommendations'⁹³ as the following exchange reveals:

Hon DIANE EVERS: The other question I have is: in the Langoulant report there was a pretty strong comment, saying that the statement of corporate intent for Synergy and Western Power provided little insight into the plans and intentions of either entity. Can you say if you have put anything in place following that report and in light of that criticism to address the concerns?

Mr Chalkley: We certainly have internally good business practice in terms of your long-term plan, your five-year plan and then how that rolls into your budget. I think we are working with government to understand what goes in a statement of corporate intent and a SDP [Strategic Development Plan]. We will get to a place where they sort of actually align. I think that is the key one for me.⁹⁴

Summary

5.53 Western Power:

- in its annual report, provided sufficient information for assessing performance against the 2017-18 SCI
- had not tabled its 2017-18 SCI prior to the start of that financial year
- has a history of tabling its SCIs late
- in its annual report, appropriately reflected on governance issues raised during the Langoulant Inquiry
- disclosed misunderstanding about the contents of an SCI.

⁹⁰ Western Australian Auditor General's report, *Audit Results Report Annual 2015-16 Financial Audits*, Report 24, November 2016, p 23.

⁹¹ Ibid.

⁹² Government of Western Australia, *Special Inquiry into Government Programs and Projects, Final Report, Volume 1*, p 16.

⁹³ Western Power, *2017-18 Annual Report*, p 5.

⁹⁴ Hon Diane Evers MLC, Member and Guy Chalkley, Chief Executive Officer, Western Power, *Transcript of evidence*, 13 November 2018, pp 9-10.

Conclusion

- 5.54 The Committee is surprised that Western Power misunderstands the contents of an SCI but acknowledges its plan to consult further with Government on the matter.

6 Completing the budget cycle

- 6.1 Budget Papers foreshadow *expectations* for a given year whereas annual reports show what *actually* occurred over that year.⁹⁵ Parliamentary scrutiny is assisted when agencies outline what they achieved in a given year, relative to the expectations set out in the Budget Papers.
- 6.2 Consistent with the Committee's 'budget cycle' approach in reports to the Parliament, annual reports should complete and close the budget year by reflecting on the estimates or matters raised in the original budget. Some explanation of financial statements is provided in annual reports but arguably, this is not prescriptive enough of what was actually spent.
- 6.3 Prior to hearings and as a new initiative, the Committee sought additional information from Government departments on what was spent on individual services and capital projects. The Committee sought additional information from Treasury about consolidated account spending.

Actual spending on recurrent and capital projects

- 6.4 Annual reports show total spending on services (total cost of services) and capital investment (purchases of non-financial assets). They provide a further breakdown of spending on services into types of spending (for example, salaries, accommodation) or broader service categories (such as 'community awareness, education and information services').
- 6.5 Annual reports do not replicate the level of detail in Budget Papers. Annual reports do not show spending on individual programs listed in spending changes tables or projects listed in the Asset Investment Program (AIP).
- 6.6 The Committee asked departments the following two-part question:
- For each matter that had an impact in 2017-18, how much was spent on:
- (a) each spending change identified in the 2017-18 Budget and the 2018-19 Budget?
 - (b) each capital project listed in the 2018-19 Budget Asset Investment Program?⁹⁶

⁹⁵ Budget Papers are constructed differently to Annual Reports. For a useful description of how Budget Papers are constructed see the evidence of Michael Barnes, Under Treasurer, Department of Treasury, during the 2018-19 Budget Estimates hearings, *Transcript of evidence*, 19 June 2018, pp 9-10.

⁹⁶ Information from two budgets spending changes tables was requested because the 2017-18 Budget is the relevant Budget for this reporting period and the 2018-19 Budget updated the 2017-18 Budget.

Recurrent spending in spending changes tables

- 6.7 Part (a) of the Committee's question sought information on *actual* spending for previously identified projects. Not all departments were able to provide complete information. For example:
- The Department of Communities said its table of information excluded 'budget reductions, (that is, no actual spending occurred; items that had no spending within the year in question; and those items that were unable to be ascertained in the time period involved').⁹⁷
 - the Department of Education said 'items listed in the spending changes table represent approved movements in the Department of Education's expenditure limit and do not necessarily reflect expenditure that can be directly attributable to a specific project/expense line items or indicate the total funding allocated for an item'.⁹⁸
 - the Department of Health said its spending changes table only shows 'incremental budget changes and are not representative of the total budget for each item'.⁹⁹
- 6.8 The Committee noted disparate presentation of information in tables and table formatting. For example, although all provided tables, some departments totalled their actual expenditure such as DPIRD whilst others, such as DWER, omitted this level of detail but provided variances. Some had separate financial year columns whilst other incorporated both into the one column. Different nomenclature and formatting methods made comparative analysis of the data from a 'whole of department' perspective challenging and not undertaken this year. However, effective analysis could be facilitated by a future, standardised table of the information.

Capital spending in the Asset Investment Program

- 6.9 Part (b) of the Committee's question sought information on actual spending for projects listed in AIP tables, which Treasury does not require to be reported in annual reports. Arguably, this is a deficiency in Treasury's current Model Annual Reports publications.
- 6.10 All departments usefully presented AIPs tables. There were not the complexities of presentation and formatting that accompanied information in the spending on programs described in paragraph 6.8. Of those departments that were heard, some included the total cost of their AIP (for example, DFES and Department of Communities) whereas others (Department of Education and DWER) excluded this total. Some provided variances but others omitted them.

⁹⁷ Answer to question prior to hearings 1(a) asked by the Committee and answered by Hon Simone McGurk MLA, Minister for Child Protection; Women's Interests; Prevention of Family and Domestic Violence; Community Services, 12 November 2018, p 1.

⁹⁸ Answer to question prior to hearings 1(a) asked by the Committee and answered by Hon Sue Ellery MLC, Minister for Education, 31 October 2018, p 1.

⁹⁹ Answer to question prior to hearings 1(a) asked by the Committee and answered by Hon Roger Cook MLA, Minister for Health, 30 October 2018, p 1.

Consolidated account spending

- 6.11 On 9 October 2018, the Treasurer tabled the 2017-18 Annual Report on State Finances. It provides financial information at a 'whole of government' level for what actually occurred in 2017-18. It details major variations between the financial forecasts contained in the original 2017-18 State Budget released on 7 September 2017 and the final outcomes recorded for the year ending 30 June 2018. Total spending from the Consolidated Account was \$24.1 billion.¹⁰⁰
- 6.12 The Committee asked Treasury the following question:
- We refer to page 237 of the 2017-18 Annual Report on State Finances and ask can you provide a breakdown of Consolidated Account spending by recipient for:
- (a) the Appropriation Act (No. 1)
 - (b) the Appropriation Act (No. 2)
 - (c) expenditure under the Treasurer's Advance
 - (d) each statute?
- 6.13 This question sought information on spending from the Consolidated Account by type and agency. This level of detail is provided in Chapter 1 of Budget Paper No. 2. The rationale for this line of questioning was to compare material in the 2018-19 Consolidated Account Expenditure Estimates with Actuals in order to determine what was actually spent, thereby completing and closing the budget cycle.

Table 3. Consolidated Account spending in 2017-18

	2017-18 Budget	2017-18 Estimated Actual	2017-18 Actual	Variance (Budget to Actual)
	\$b	\$b	\$b	\$b
Appropriation (Recurrent 2017-18) Act 2017	19.839	19.397	19.367	-0.472
Appropriation (Capital 2017-18) Act 2017	1.902	1.693	1.633	-0.269
Treasurer's Advance	-	0.097	0.082	0.082
Authorised by other statutes	3.080	2.956	2.926	-0.154
TOTAL	24.821	24.143	24.008	-0.813

Sources: 2017-18 Budget Paper No. 2, 2018-19 Budget Paper No. 2 and the 2017-18 Annual Report on State Finances.

- 6.14 Approximately one third (\$258 million) of the \$813 million difference between budget and actual may be accounted for in modifications to the Voluntary Targeted Separation Scheme. The \$300 million estimated spend was reduced to \$42 million in the 2018-19 Budget with spending spread over the forward estimates out to 2021-22.¹⁰¹

¹⁰⁰ Government of Western Australia, *2017-18 Annual Report on State Finances*, September 2018, p 237.

¹⁰¹ See 2018-19 Budget Statements Volume 1, No. 2, p 5. Also \$59.85 million less for the Water Corporation and \$64.4 million less for Royalties for Regions.

7 Auditor General opinions on agencies

- 7.1 The Auditor General is required to issue an opinion to the responsible Minister for each agency audited on their financial statements, KPIs and the 'controls exercised by an agency'.¹⁰² The opinion relates to:
- an agency's financial statements and, depending on each agency's enabling legislation, may also relate to controls and KPIs¹⁰³
 - whether agencies' KPIs are 'relevant and appropriate'.
- 7.2 A clear audit opinion indicates satisfactory financial controls, that the financial statements:
- are materially complete, accurate, comply with relevant legislation and applicable accounting standards
 - fairly represent performance during the year and the financial position at year end.¹⁰⁴
- 7.3 The opinion forms part of the annual report and a copy of the opinion must be given to the Minister.¹⁰⁵ The Auditor General issued 146 clear opinions by 31 October 2018 and qualified opinions to six entities for reasons of inaccuracies or deficiencies in their financial statements or KPIs or due to control weaknesses.¹⁰⁶ The Committee heard one of the six (DWER).
- 7.4 The Auditor General reported that DWER had 'significant weaknesses in general computer controls which could result in inappropriate and unauthorised access to the Department's financial system'.¹⁰⁷ Of this, DWER reassured the Committee that:
- [T]here is no evidence to suggest that it happened, which is fantastic.
- We did take immediate action upon finding out that this had occurred, and in fact we have gone a long way to addressing the concerns that the Auditor General has found.¹⁰⁸
- 7.5 The Auditor General reported on six agencies' KPIs that the Committee heard. Their KPIs were 'relevant and appropriate'. Performance measures and targets in two other agencies' SCIs that the Committee heard (Synergy and Western Power) are not subject to auditor opinion. The Auditor General audits only their financial reports and each was found to give a 'true and fair view' of their financial position and each entity complied with Australian accounting standards and the *Corporations Regulations 2001 (Cth)*.

¹⁰² *Auditor General Act 2006*, s 15. Section 15(4) states that '**controls** exercised by an agency means the policies and procedures that have been established for the governance and management of the agency by those charged with that governance and management and other staff of the agency.' [Emphasis added]

¹⁰³ Western Australian Auditor General's Report, *Audit Results Report – Annual 2017-18 Financial Audits of State Government Entities*, Report 7, November 2018, p 11.

¹⁰⁴ *Ibid.*, p 5.

¹⁰⁵ *Financial Management Act 2006*, s 64(1)(b).

¹⁰⁶ Western Australian Auditor General's Report, *Audit Results Report – Annual 2017-18 Financial Audits of State Government Entities*, Report 7, 8 November 2018, p 5.

¹⁰⁷ *Ibid.*, p 11.

¹⁰⁸ Mike Rowe, Director General, Department of Water and Environmental Regulation, *Transcript of evidence*, 12 November 2018, p 11.

- 7.6 Repeating comments made last year, the Auditor General reported a matter of significance (which did not warrant a qualified opinion) for DPIRD in relation to the Western Australian Agricultural Authority.¹⁰⁹

8 Conclusions

- 8.1 Agencies' annual reports are vital for assessing performance and more systemically, good governance (or otherwise) of the State. They are a valuable addition to the suite of accountability and transparency documents.
- 8.2 The Committee was satisfied with the conduct of its hearings, the level of attendance and Member participation. Both Government and non-government Members asked a variety of questions. A significant number of subject matters were canvassed in the course of the proceedings and are summarised in Appendix 2.
- 8.3 The Committee, when reflecting on its internal processes for conducting the annual reports inquiry, noted that its themed approach was successful, particularly at highlighting a lack of focus on the part of two GTEs with respect to their SCI responsibility.
- 8.4 The Committee extends its appreciation to those Members, Ministers, Parliamentary Secretaries and agency staff who participated in the 2017-18 budget cycle proceedings.
- 8.5 The 2017-18 budget cycle is now completed and closed.



Hon Alanna Clohesy MLC
Chair

¹⁰⁹ In the Department of Primary Industry and Regional Development's *Annual Report 2018*, the Auditor General said 'the Western Australian Agriculture Authority (WAAA) was established by the *Biosecurity and Agriculture Management Act 2007* (BAM Act) as a body corporate that is governed by the Minister for Agriculture and Food. Although WAAA has financial transactions and assets and liabilities, the BAM Act does not require it to report these separately. However, for financial accountability purposes, the BAM Act requires WAAA's activities to be regarded as services under the control of the Department. Consequently, the Department has included WAAA's income, expenses assets and liabilities in its financial statements as though they relate to the Department. The Department does not separately account for these transactions or disclose them in its financial statements. My opinion is not modified in respect of this matter'. See p 45. Also see Western Australian Auditor General's Report, *Audit Results Report – Annual 2017-18 Financial Audits of State Government Entities*, Report 7, 8 November 2018, p 12.

APPENDIX 1

TIMETABLE OF HEARINGS

DATE	TIME	DEPARTMENT/AGENCY	MINISTER / PARLIAMENTARY SECRETARY
Tuesday 13 November 2018	10.15am – 11.15am (1hr)	Art Gallery of Western Australia	Minister Representing the Minister for Culture and the Arts, Hon Sue Ellery MLC
	11.15am – 12.15pm (1hr)	Synergy	Minister Representing the Minister for Energy, Hon Stephen Dawson MLC
	Lunch		
	1.15pm – 2.15pm (1hr)	Western Power	Minister Representing the Minister for Energy, Hon Stephen Dawson MLC
	2.15pm – 3.15pm (1hr)	Department of Water and Environment Regulation	Minister for Environment, Hon Stephen Dawson MLC; Minister Representing the Minister for Water, Hon Alannah MacTiernan MLC
	Afternoon Tea		
	3.30pm – 5.00pm (1.5hrs)	Department of Primary Industries and Regional Development	Minister for Regional Development; Agriculture and Food, Hon Alannah MacTiernan MLC

DATE	TIME	DEPARTMENT/AGENCY	MINISTER / PARLIAMENTARY SECRETARY
Wednesday 14 November 2018	10.15am – 11.45am (1.5hrs)	Department of Fire and Emergency Services	Minister Representing the Minister for Emergency Services, Hon Stephen Dawson MLC
	Lunch		
	12.45pm – 2.45pm (2hrs)	Department of Education	Minister for Education, Hon Sue Ellery MLC
	Afternoon Tea		
	3.00pm – 5.00pm (2hrs)	Department of Communities (Child Protection and Family Support)	Minister Representing the Minister for Child Protection; Prevention of Family and Domestic Violence, Hon Sue Ellery MLC
	END OF HEARINGS		

APPENDIX 2

SUMMARY OF HEARINGS

13 November 2018: Art Gallery of Western Australia

- Reduction of five staff through the Voluntary Targeted Separation Scheme (VTSS) requiring internal reorganisation, especially in the collection management department (two of the five staff).
- The strategic plan's core is to acquire firstly Western Australian artists. Secondly other Australian jurisdictions' artists. Thirdly, international art which is more expensive than national and local art.
- Long bipartisan policy that the gallery will support local artists.
- There are 17 842 objects in the collection. Of 81 purchased art works, 29 were indigenous. Of 35 donated art works, 19 were Indigenous.
- 1.16 per cent of the collection identified as in need of major treatment (structural work taking more than three days) and 4.74 per cent need minor treatment (surface cleaning or framing).
- Three of 49.6 FTEs are conservators with no losses from the VTSS.
- Five per cent display of the collection each year is an international standard.
- The Auditor General's Report on the *Management of the State Art Collection* in May 2018 conclusion that the Art Gallery of Western Australia 'struggles to balance its responsibilities to grow and preserve the \$305 million art collection'.
- New storage facility required with 5 000 square metres meeting the collection's needs till 2030. Anticipating 10 000 square metres to 2050.
- A business case for a new storage facility is in progress (one gallery on the second floor was halved to provide additional storage).
- Women in senior positions: Eight of 40.
- Revaluation of the collection in 2018 but not 2017 but the 100 most valued works are valued every year.
- The challenge of finding meaningful KPIs. Use of international standards which are qualitative and difficult to put in a meaningful, concise way in annual reporting or in budgets.
- Online visitation increased more than 20 per cent.
- Revenue and sponsorship generating activities.

13 November 2018: Synergy

- Usability and usefulness of KPIs and SCIs.
- Very late tabling of SCI and the disregard for appropriate reporting dates.
- Over 1 000 residential solar panel systems and predicted growth.
- The transition to renewable energy as a core part of the global electricity sector.
- Solar panels provision a niche area—relatively small, positive and critical part of business. Some complaints from other providers but no plans to grow into a massive business.
- The off-peak (11pm to 4am) electric vehicle tariff for approximately 40 vehicles.
- Two environmental incidents this reporting year.
- Synergy’s environmental management system updated.
- Achievement of a profit after tax of \$24.3 million up from a \$12.6 million loss in 2016–17 due to focus on internal cost control, maximising efficiency of procurement arrangements and closure of Muja AB.
- Retail sales in 2017–18 were 5.6 per cent lower than in the previous year.
- The \$16.4 million decommissioning cost and demolition program for Muja AB.
- As a GTE, justifying discretionary spending of \$913 183 on nine community engagement projects: Xmas Lights Trail, Swan Festival of Lights sponsorship and Victoria Park Festival.
- Joint venture partnership with Bright Energy.
- Emissions reduction by nearly a million tonnes due to closure of Muja AB in the previous year and the uptake of rooftop solar at about 160 megawatts for the year.
- Expected decline in carbon footprint from more renewable energy like the Greenough River solar farm stage 2, the Badgingarra wind farm (private sector development), Warradarge by 2020.
- Large-scale renewable energy target obligations by 2020.
- Unfavourable weather conditions in relation to financial performance.
- Muja CD and maintenance events. Age-related wear and tear, as well as duty-related wear and tear at, for example, the new Cockburn plant.

13 November 2018: Department of Water and Environmental Regulation

- Priority of growth areas that have a water supply planning strategy and the 94 per cent target KPI against a 75 per cent actual.
- Handing over the southern forests irrigation scheme to DPIRD but retaining responsibility for detailed planning around water availability and modelling.
- Briefings to the Southern Forests Irrigation Co-operative itself and the Warren–Donnelly advisory committee as well as a series of targeted workshops with stakeholders.
- Evaluation of allocation plans and the requirements for measurement of licensed allocations.
- New regulations requiring those with a licence above 500 000 kilolitres to ensure they are metered with installation at their own cost.
- Metering obligation is for good water resource management outcomes and ensuring compliance with their allocation, not fees.
- KPI efficiency indicators are determined by apportioning the full cost of the business across the suite of indicators. There are cost elements associated with all the KPIs that do not directly relate to the delivery of a service, but an obligation to find a home for expenditure across the nine services.
- Mining and public water supply fees are based on estimates of costs associated with previous years' work, but closely aligned to the cost of the business itself.
- Cost recovery and processes for assessing water licence applications.
- The Auditor General's qualified opinion on computing controls.
- Costs savings from rationalising financial, HR and administrative systems.
- The almost doubling of EPA assessments average of approximately 138 assessments a year in the period from 2013–14 to 2016–17 then up to 224 assessments last financial year and their complexity.
- Rollout of fixed air quality monitoring stations in 13 State wide locations.
- Waste diversion from landfill and waste-to-energy proposals.
- Container deposit scheme and 'cash for cans' scheme for increasing recycling rates.
- The completed review of the *Waste Avoidance and Resource Recovery Act 2007* in 2015.
- Timeframes for contaminated sites investigations with 1446 'required' out of 3784. There are 557 low risk, 'possibly contaminated' sites.

- Per- and poly-fluoroalkyl substances (PFAS) contaminant and housing as a Level 4 PFAS in the *Contaminated Sites Act 2003*.
- The Environmental Protection Amendment Regulations' classification of uncontaminated fill.

13 November 2018: Department of Primary Industries and Regional Development

- Ministerial acknowledgment that amalgamation in the agency is a 'work in progress' with considerable work required to rebuild capabilities.
- People integration is at approximately 25 per cent and completion mid-2019.
- Systems and platform completion anticipated to take 'a good two years' to knit three sets of different policies and procedures.
- In second half of 2019, progress to be made with core platforms: finance, HR, payroll and IT with some budget set aside for a capital systems implementation. Finance, HR and payroll to take the longest to complete.
- Cost for a HR management information system is approximately \$500 000 for an 'off the shelf' system with some configuration.
- Update on tomato potato psyllid. How a plan for freedom from the *Candidatus Liberibacter solanacearum* (CLso) bacteria was accepted by all jurisdictions except South Australia.
- Declared pest notices under the *Biosecurity and Agriculture Management Act 2007*.
- Department's focus is on 'very threatening' psyllid, marmorated stink bug, citrus canker and Q-fly incursion, not narrow-leaf cotton bush or arum lilies.
- Research into regenerative agriculture. Regeneration of soil and vegetation in the pastoral regions. Nutrition studies for the food grown in these soils.
- Plans for comparing continuous cropping with different rotations, different combinations of cereal, grain and grain legume crops with cereal and pasture rotations systems that involve grazing. Comparing organic versus inorganic inputs.
- KPI changes in the 2018–19 Budget.
- Variances in the summary of consolidated appropriations close to \$30 million.
- The cross-subsidy between regional development and agriculture but reviewed broadly in the Langouant Inquiry.
- Royalties for Regions reform and an absent measure of legacy costs.
- \$137 million as income from Royalties for Regions and the Southern Forests Food Council project.

14 November 2018: Department of Fire and Emergency Services

- The sponsorship arrangement for the rescue helicopter service when it concludes 30 June 2019.
- The use of state-of-the-art CSV vehicles to support of operations.
- The significant increase in repairs and maintenance of commercial facilities.
- The emergency services levy in 2018-19 will raise \$38 million hypothecated to the Rural Fire Division and the volunteer marine and rescue services.
- The number of accidental residential fires per 100 000 households is a metric of residential fires within a residence that are accidentally started, not those caused by bushfire.
- Engagement with the 26 000 volunteers and recruiting for 10 volunteer support managers.
- Service delivery agreement with the Commonwealth to provide a range of municipal and state services to Cocos (Keeling) and Christmas Islands is cost recovered.
- Housing the Rural Fire Division and the Bushfire Centre of Excellence at the same location.
- Separation of the Rural Fire Division from the operations division.
- Staffing numbers of the Rural Fire Division.
- Volunteer Fire and Rescue Services to receive \$400 000 and the Association of Volunteer Bush Fire Brigades \$149 000 as 'affiliated' bodies.
- Establishment of a Bushfire Centre of Excellence allocated \$18 million.
- Trends in arson reduction, separated by bushfire and structures as a potential KPI.
- Volunteer fuel card scheme extended to 2020–21.
- Subsumed Office of Emergency Management with DFES and the greater capacity to liaise with local governments' production and maintenance of local emergency management plans.
- Automatic vehicle location tracking systems is available in all vehicles and 400 portable appliances.
- Donations of appliances to a brigade and bequests.

14 November 2018: Department of Education

- The \$238 million deficit in the statement of comprehensive income is a non-cash item unrelated to performance and a technicality around the accounting entry attributed to MoG changes.
- Post amalgamation and how the Department is faring with its one finance and HR system.
- The Department's plan to meet the unmet key efficiency indicators.
- WA as one of the better performing states in terms of improvement in NAPLAN scores meeting national minimum standards for literacy and numeracy but writing problematic with speculation due to more time spent on screens and with technology.
- Gonski 2.0 recommendation that education systems look at progressions, rather than standards.
- The Kimberley Schools project.
- The Auditor General's comment that some entities are still in the process of determining the appropriate OBM structure and KPIs with no plan to change either.
- Review of the recommendations of the Royal Commission into Institutional Responses to Child Sexual Abuse.
- Marketing Perth internationally as an education destination and the recent released of an international education strategy (StudyPerth).
- Developing a centre for excellence in literacy and numeracy.
- Decline in student numbers in regional residential colleges.
- Exemptions to the VTSS.
- Permanent employment when reviewing contractual arrangements for education assistants, cleaners and gardeners.
- Review of the student-centred funding model, now completed.
- The \$12 million equity adjustment to reduce the funding rate for schools with student enrolments above 1 200.
- Update of the live issue of negotiations with the Commonwealth on school funding, specifically for students with a disability.
- Developing a new plan to address violence in schools.
- Evaluation of student attendance and attendance advisory panels.
- Responsible parenting agreements as a tool to improve student attendance.

- Science, technology, engineering and mathematics (STEM) education, STEM strategy and professional development funding for 1 200 additional teachers.
- Security incidents and wilful damage to schools mitigated by fencing.
- Male perpetrators identified during Operation Fledermaus attending schools in Karratha and Roebourne.
- Risk assessment management plans for school-age sex offender students.
- Undertaken compliance check processes for ensuring 50 000 employees had a valid working with children check card or an application in process.
- The Educare commitment for outside school hours care services onsite.
- Revision of budget repair savings and current savings of \$39.66 million.
- Budget repair reversal and Moora Residential College.
- Landsdale Farm School and Fairbridge WA camp schools.
- Students with complex behavioural needs. The Department and the Child and Mental Health Service working collaboratively.
- The School of Special Educational Needs and its 12 685 students.
- Speech pathologist FTEs at language development centres.
- The National Disability Insurance Scheme rollout and how therapists in schools will be a significant change.

14 November 2018: Department of Communities (Child Protection and Family Support)

- MoG outcomes.
- Breaking down former silos between respective social service delivery agencies and what impartial or observable KPIs might in time reveal as successful service delivery.
- Remnant MoG incremental changes for full unification and integration of the 18-month old department by 2020.
- Impossibility of estimating the cost of full integration but absorbed within existing resources.
- The KPI efficiency indicator of average cost per homelessness client and its five or six per cent increase over the target.
- Gender distribution of family and domestic violence incidents with and without children in WA.

- Poor presentation of services for male on male domestic violence victims on the Department's website.
- Culturally appropriate services for domestic violence victims.
- The issuing of three negative notices to the Department of Health (but not received by Health) and other reporting anomalies between the Department and the Department of Education explained by the same question being answered from different perspectives.
- Operation Fledermaus with the changing number of alleged victims as the investigations continued into 50 victims where the perpetrator was charged with 42 alleged victims still under the age of 18.
- Standard of care assessments for carers revealing that approximately 80 per cent of cases were not completed within the designated time frame.
- Target 120 policy progress and how it fundamentally attempts to change the way Government will engage with young people on the verge of the criminal justice system.
- Review of the *Children and Community Services Act 2004*.
- Progress on the development of a 10-year strategy to reduce family and domestic violence.
- The eight week review of support services for grand-carers commenced September 2018.
- KPIs for the Aboriginal Wungening Moort in-home support services with 98 families accepted for service.
- National royal commissions and Western Australia's likely role in responding to the Royal Commission into Institutional Response to Child Sexual Abuse and how the Department will resource 104 of 310 recommendations in seven areas including child-safe standards, harmful sexual behaviours and screening adults working with or caring for children.
- Reduced capacity of child placement days at the six bed, 21 days stay at the Kath French Secure Care Centre due to renovations.
- The more than 5000 children under the care of the Chief Executive Officer and projections.
- Of the 76 945 contacts made to Child Protection, 967 children entered care.
- Staff carrying more than 15 cases with an additional 60.4 FTE to address State-wide demand starting 1 January 2019.
- Working with Children Checks and 1030 negative notices.
- Development of the WA women's strategy and whether it will address pay equity.

- The Early Education and Care sector meeting only 68 per cent of seven quality areas in the 2012 National Quality Standard.
- Absence of Foetal Alcohol Spectrum Disorder information in the Annual Report.
- Absence of MoG in the Annual Report regarding the shift of youth justice into the Department of Communities.

APPENDIX 3

DATA ON QUESTIONS ASKED

Agency	Questions prior to hearing	Supplementary information	Additional questions
Animal Resources Authority	5	N/A	0
Art Gallery of Western Australia	0	8	4
Bunbury Water Corporation	5	N/A	0
Busselton Water Corporation	5	N/A	0
Chemistry Centre (WA)	5	N/A	0
Department of Biodiversity, Conservation and Attractions	10	N/A	1
Department of Communities	16	22	13
Department of Education	20	14	0
Department of Finance	5	N/A	0
Department of Fire and Emergency Services	5	9	0
Department of Health	11	N/A	4
Department of Jobs, Tourism, Science and Innovation	5	N/A	4
Department of Justice	5	N/A	1
Department of Local Government, Sport and Cultural Industries	5	N/A	1
Department of Mines, Industry Regulation and Safety	5	N/A	1
Department of Planning, Lands and Heritage	5	N/A	4
Department of Primary Industries and Regional Development	14	4	0
Department of the Premier and Cabinet	5	N/A	0
Department of the Registrar, Western Australian Industrial Relations Commission	5	N/A	0
Department of Training and Workforce Development	8	N/A	0
Department of Transport	5	N/A	0
Department of Treasury	6	N/A	0

Agency	Questions prior to hearing	Supplementary information	Additional questions
Department of Water and Environmental Regulation	8	4	1
Electricity Generation and Retail Corporation (Synergy)	5	7	2
Electricity Networks Corporation (Western Power)	5	3	0
Forest Products Commission	18	N/A	3
Fremantle Port Authority	5	N/A	0
Gold Corporation	5	N/A	0
Housing Authority	5	N/A	0
Insurance Commission of Western Australia	6	N/A	0
Keystart Housing Scheme Trust	5	N/A	0
Kimberley Ports Authority	5	N/A	0
Lotteries Commission	22	N/A	0
Mental Health Commission	5	N/A	2
Metropolitan Cemeteries Board	5	N/A	0
Metropolitan Redevelopment Authority	5	N/A	0
Mid West Ports Authority	5	N/A	0
Office of the Auditor General	5	N/A	0
Office of the Director of Public Prosecutions	5	N/A	0
Office of the Inspector of Custodial Services	5	N/A	0
Pilbara Ports Authority	5	N/A	0
Public Sector Commission	13	N/A	0
Public Transport Authority of Western Australia	5	N/A	0
Racing and Wagering Western Australia	5	N/A	0
Regional Power Corporation (Horizon Power)	5	N/A	0
Rottneest Island Authority	5	N/A	0
School Curriculum and Standards Authority	3	N/A	0
Southern Ports Authority	5	N/A	0

Agency	Questions prior to hearing	Supplementary information	Additional questions
Water Corporation	5	N/A	1
Western Australia Police Force	5	N/A	0
Western Australian Electoral Commission	5	N/A	0
Western Australian Land Authority	5	N/A	0
Western Australian Land Information Authority	5	N/A	0
Western Australian Treasury Corporation	5	N/A	0
WorkCover Western Australia Authority	1	N/A	0
Total	356	71	42



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:

'3. Estimates and Financial Operations Committee

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

3.2 The Committee consists of 5 Members, 3 of whom shall be non-Government Members.

3.3 The functions of the Committee are to –

(a) consider and report on -

(i) the estimates of expenditure laid before the Council each year;

(ii) any matter relating to the financial administration of the State; and

(iii) any Bill or other matter relating to the foregoing functions referred by the Council;

and

(b) consult regularly with the Auditor General.'



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