

**STANDING COMMITTEE ON ESTIMATES AND
FINANCIAL OPERATIONS**

PROVISION OF INFORMATION TO PARLIAMENT

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 30 MARCH 2015**

SESSION TWO

Members

**Hon Ken Travers (Chair)
Hon Peter Katsambanis (Deputy Chair)
Hon Martin Aldridge
Hon Alanna Clohesy
Hon Rick Mazza**

Hearing commenced at 11.09 am**Mr PAUL PRICE****General Manager, MSS Security, examined:**

The CHAIR: On behalf of the committee, I would like to welcome you to today's hearing. You would have signed a document entitled "Information for Witnesses". Have you read and understood that document?

Mr Price: I have.

The CHAIR: These proceedings are being recorded by Hansard and a transcript of your evidence will be provided to you. It would assist the committee and Hansard if you could quote for the record the full title of any document you refer to during the course of this hearing. Please be aware of the microphones and try to talk into them, ensure that you do not cover them with papers or make noises near them. I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in closed session before providing the answer. Once you have given it, the committee cannot go into closed session. If the committee grants your request, any public and media in attendance will be excluded from the hearing. Please note that until such time as the transcript of your public evidence is finalised, it should not be made public, although this committee puts an uncorrected version of *Hansard* on our website a day or two after the hearing. I advise you that the publication or disclosure of the uncorrected transcript of evidence may constitute a contempt of Parliament and may mean the material published or disclosed is not subject to parliamentary privilege.

To give you a bit of background, we are obviously conducting an inquiry into sections 81 and 82 of the Financial Management Act, which is around the circumstances in which information is disclosed to Parliament. There is a requirement under section 82 for a minister to consider whether it is reasonable and appropriate for that information to be released. The reason the committee has asked you to come before us today relates to your contract with the PTA. This committee requested a copy of that contract be tabled. At the time of that request, the committee was asked to keep the hourly rates confidential, and also pages 28 to 30, which were the special conditions of the agreement. I guess one of the issues we are trying to look at as a committee is to understand the circumstances and the reasons for keeping information confidential. Obviously one of the claims is the impact on businesses. We are keen to hear from you as a company what impacts there could or could not be if that information was made public and also the process, whether or not the department contacted you and what they discussed with you at the time. That is to give you a bit of background to what we are looking at. It is not a trial or anything like that; it is trying to understand what the impacts are and make necessary recommendations as to whether or not the processes are currently working but also to have a better understanding about when information is withheld, whether there is a legitimate reason for it or not in terms of its impact on the private sector.

I would invite you to make an opening statement, if you wish, otherwise we will go straight to committee questions.

Mr Price: I am happy to go straight to questions.

Hon ALANNA CLOHESY: I want to go through the history, if you like, of this particular one, to give you some insight into what was requested of government and what government's response was. Then I would like to talk about the process. While Hon Ken Travers is looking for some detail, basically what happened was that the Parliament requested, or this committee requested, a copy of the contract between your company and government in relation to the provision of accredited rail

services and that request was not met on claims of confidentiality in relation to what was contained in the contract. I am interested in two things: the process that was gone through from your perspective about how government approached you about what could or could not be made public in your contract. We will start with that one and then deal with the substantive one about why things should be confidential.

Mr Price: PTA contacted us. Pat Italiano, who is my direct contact at PTA, advises that the question had been asked and did we have any major objections to that being released. Our issue is always this being an hourly rate contract, not a lump sum figure, and the officers are paid under an enterprise agreement which is clearly available to all and sundry on the net, exactly what their hourly rate is. It is very easy for our competitors to look at the EA, look at the hourly rated contract that this is, and clearly work out exactly what our margins are, our profitability. When it comes up for tender again, or where they are competing against us, they have got a pretty good indication of exactly how much we charge and the profitability that we go for on major contracts. It gives a clear indication. I think I have answered both questions there to a certain degree. Pat asked us the question. We said yes, we would like to keep that confidential. From there, they responded to the question.

The CHAIR: I think you are aware of most of the history, from that answer. At the time that the answer was provided, the total value of the contract was provided, and I guess one of the issues that I am interested in is if the total value of the contract is provided, would not your competitors, knowing what the estimated hourly rates of the contracts were et cetera, be able to calculate that differential that you are talking about anyway?

Mr Price: No, not really because —

The CHAIR: Because they have access to the same EBA, so they can work out the number of hours, what your direct costs are, then if you know the total cost, work out what your operational cost margin is.

Mr Price: In this circumstance, no. In a fixed fee contract that we have with many other clients, there is a fixed monthly fee for the service based on a permanent roster. In this case our hours fluctuate significantly, hence it is an hourly rate contract. It depends on how many hours the PTA request us to do as to how many hours we bill them for at the end of the month. I think we bill them fortnightly in actual fact. The service fluctuates between 100 officers to 120 officers. We get the requirements from the PTA and we fulfil those requirements. We work to the P-workers, which are the rosters, if you like, from PTA. We might be required this week to fill four or five of their people who are on leave or they have vacancies. That is the variability of the contract. It varies significantly each month; there can be a \$100 000 variance.

The CHAIR: As part of the original tender process, there would have been an estimate of the number of hours that you are required to fulfil.

Mr Price: I was not here when it was let, so I cannot answer that question.

The CHAIR: Obviously the more hours, various overhead costs would change, I would imagine, in terms of your operational costs. You get an estimate of what the PTA expects to employ over the life. The total estimated value of the contract, which was \$316 million over the 10 years, that is then a calculation, I would imagine, of the hourly rates, your charging fees, by the estimated hours, with a CPI factor indexed into it. That is how the PTA would have worked out that total estimated value of the contract. It would be based on the same figures that they used to provide to you as a potential tenderer that would have been provided to any other potential tenderer of the estimated total number of hours over that 10-year period. Whilst it might be hard for me to work that out, for somebody else in the industry, and I suspect you probably do it all the time as you see contracts come up—try to work out, if your competitors get it, what they are charging so that you can then make your decisions next time accordingly.

[11.20 am]

Mr Price: We definitely do. I have to be careful here because I was not part of the tender process. That was before I arrived back here in November 2013. Because it is that number over the 10-year period of the contract, there is an estimate obviously from everyone's point of view. My understanding, and I could be wrong because I have not looked at this in great detail, is that I think they gave us a projected roster—the hours—and it was purely an hourly rated thing, and then they use their own calculations to estimate, “Well, okay, it is 100, not 120, officers. We are going to look at 100 on average and calculate it up.” I do not believe we went to that degree. It is a long time since I have looked at the specifics of that costing of the contract.

We do. The education tender, for instance, that was let late last year for the services of the education department for security, we all looked at that very, very closely because it was significantly lower than the incumbent had and it was significantly lower than we expected it to be so we had some grave concerns about that. We worked it out as best we could and I am sure everybody else did the same sort of thing with us. The contract has exact hourly rates in it. That is the difference. You can surmise. The education department tender was a good example. I think it was \$3.2 million off the top of my head for the first 12 months. There was a set roster there with numbers of hours and two guards in each vehicle et cetera, so you calculate the hours, divide the total hours by the \$3.2 million and you get an hourly rate. From there, you can deduce what sort of profit margin was on the contract. The PTA contract, having specific hourly rates in it per shift for a day rate, night rate, Saturday, Sunday et cetera, it is very, very easy to say that the hourly rate of an officer is \$20, for instance, and the on-costs are around 32 per cent. Wilson is my biggest competitor. They have the same on-costs as we do. It is easy. Paul is going in at three, four, five per cent profit. That is the difference between this contract and a bulk lump sum fee.

The CHAIR: Even if it was made known that next time your competitor has to sit there and say, “How much lower do we come in next time in terms of our profit margin”, from a state perspective, can you see that it would be in our interests to make that information public to get your competitors to bring the price down against you? I understand that from a company's point of view, it is worth keeping it confidential and there will always be a point where companies such as yours will say, “We're just not going to do the business if the rate gets too low.” Even if your competitor knew, I cannot imagine it would stop you bidding next time. Would it stop you bidding if you knew that the rates were going to be made public?

Mr Price: Yes, it would. Again, I use the education department tender because that is fresh in my mind. We put a bid in for that. We have never been successful. I have been in and out of the security industry right across Australia now for 20 years. We had a red-hot go at the education tender. We went in at very low margins to try to win it and we were unsuccessful by about \$800 000 a year. The issue there is that the company that won the tender has taken a commercial decision to do that, and that is below cost in my estimation. I have done a lot of work on it. I am bound by applying legislation. Our company is very, very firm in that regard that we do not subcontract, we do not use sole traders. We pay the award. In the case of the PTA, we have an enterprise agreement. In most cases, we have 1 000 officers across Western Australia, we pay under the legislated award for people and it is a very low margin industry. The service industry is single digit profitability. I know that if Wilsons—I use Wilsons again—tender something, depending on how sharp our pencil is, as you said before, and that is good for the government and good for the people, going below cost and therefore cutting corners is not good for the people, not good for the government and very, very bad for the worker. I am on the executive committee of the Security Agents Institute of Western Australia. One of our key things is ensuring the industry plays by the rules. If you want to go in at zero, by all means go ahead. I do not know why you would do that but below zero tells me that you are going to cut corners somewhere along the way, and it is dangerous.

The CHAIR: That is the thing. My understanding is that in most contracts, like the PTA one, it should be part of the tender process, that you have got proper employment practices and processes. You are saying that to win those other sort of tenders, companies would have to be effectively trying to arbitrarily create an employment arrangement that undercuts the award rate to be able to get a profit.

Mr Price: I cannot say what they did. G4S won it; that is on the public record. They may have chosen to take a loss to gain a foothold in Western Australia. I do not know what they did or how they did that. My issue with that is sustainability and the right thing to do. I cannot win that tender. I will not tender for it. There have been three or four education department tenders in regional Western Australia in the last couple of weeks—Broome today, I think it was. I will not bother tendering for it because there is no point.

The CHAIR: That is because there is clearly someone in the market who is currently offering a rate, whether it is for market share or because they intend to change employment practices. You are right; we cannot speculate on what that would be. That is the reason you are not tendering, because you do not expect to be able to win those contracts because the rate is so low?

Mr Price: No. I do not bother tendering it because the people in power are taking those prices and that is my concern. I have raised this with the Ombudsman through ASIAL, which we are major players in in the industry. I have grave concerns about people doing that and I have grave concerns with people in power accepting the lowest bid. I know because of the SAI that we were lower than the incumbent and the incumbent knew the roster perfectly. Rough estimates they are \$4.5 million per annum. We went in at \$4.2 million or \$4.3 million and they won it at \$3.2 million or \$3.4 million per year. I do not have a problem with anyone going in at whatever price, as long as they abide by the rules. What concerns me is the people who are making the decision are not doing their due diligence to my mind and accepting the price because it is low. That is short-sighted in my mind.

The CHAIR: In most government tenders, I would not disagree with you. Price is only one element of a tender in terms of value for money for taxpayers. If you go in at too low a price, they then come back and want a contract variation halfway through the contract. I think that is the worst possible one for people like yourself—someone gets it on a low price and then eventually says, “To keep doing the work”, although in your industry it is probably easy enough to go to another tender at that time. But in some tenders where you bring equipment or something else, you get the government over a barrel and then you say, “The work stops tomorrow if you do not increase your rate.” I agree with you on that. Also, the general principles of any assessment of the tenders should be about whether it is sustainable. Is someone able to genuinely deliver at that price? You could make an assessment, as you say, that they have come in at a price where they are prepared to cut any profit just to get effectively a foothold or market share, as long as it is covering its costs, that they can then build off that and they see it as a prized contract. There are certain government contracts in which people do tend to quote low for them because they see them as a prize government contract in terms of the status of holding that contract.

[11.30 am]

Mr Price: It is the PTA contract; it is the biggest security contract in Western Australia for the government, that I am aware of. I would be pretty sure if I knew that there was one bigger, because I would be going for it. We have had a really long relationship. I retired from the Army here in 1996 and I was the contract manager for the PTA for the special constables. That was back in 1996. It has been a prize contract ever since then and every major company has—it has changed in its iterations throughout the years and I have been over east and back again and here I am dealing with Pat again, who I used to deal with in 1996. Everybody wants that contract, hence if everyone knew exactly what our hourly rate was, and they had that, they would be able to make that commercial decision to undercut us next time it comes out. They would have a pretty good indication. Yes, it would be

good for the state but given the very, very low margins, whoever won it below us would be struggling to make a profit of any description.

Hon RICK MAZZA: Besides being undercut at the tender process, what other commercial disadvantages can you see if things are made public? Is there anything else, or is it just the tender being undercut. Are there other issues that could give rise to a problem for you guys?

Mr Price: It gives an indication to every tender. It is not only when the PTA comes to tender again; it is like the education department tender. If this information had been out in the public—what our hourly rates were for a major tender—my competitors would have been able to deduce from that, “Okay, if Paul’s willing to go in at three per cent profit for this, that’s what he’ll do for education, so we’ll go in at two.”

Hon RICK MAZZA: They will know what your profit margin is.

Mr Price: A really good indication of what it is, yes.

Hon RICK MAZZA: When you first negotiated the contract with the PTA, were you around when that contract was negotiated?

Mr Price: No. I have done some investigation this morning and spoken to our legal counsel who did negotiate the contract and got some information from him and I have had a read of a file in my office, so I have got some background knowledge.

Hon RICK MAZZA: Obviously, you know the contract. Is the confidentiality clause you have in the contract with the PTA a similar clause you would have with a private business that you were doing work for?

Mr Price: Just about every contract they have has some sort of confidentiality clause. We never speak to the media. We never speak to anybody about our contracts with our clients or what we do for those clients.

Hon RICK MAZZA: The confidentiality clause you have with the PTA is pretty much a standard clause you have with any entity you are going to offer services to?

Mr Price: Correct.

Hon ALANNA CLOHESY: Have you worked interstate managing contracts with government?

Mr Price: Yes, I have.

Hon ALANNA CLOHESY: Have you worked in New South Wales?

Mr Price: Yes, I have. I have worked pretty well everywhere.

Hon ALANNA CLOHESY: Are you aware that in New South Wales there is the Government Information (Public Access) Act 2009?

Mr Price: No; I am not.

Hon ALANNA CLOHESY: Which, in part, depending on the division of which your contract comes, specifies that information on government contracts must be made public.

Mr Price: No, I am not aware of it. I do understand that—I am on TenderLink and all those sorts of things that promulgate who wins what tenders and at what price. I am very keen to look at that, so I am aware that it does happen, but that is all.

Hon ALANNA CLOHESY: It is not only TenderLink, and not only the contractor and the tender price. Depending on the division you are in, it could be the whole contract online.

The UK government has similar provisions; in fact, all its contracts with government agencies are public, to my knowledge. How do you think those companies doing business with those governments would operate in regard to confidentiality?

Mr Price: When you put it back to these circumstances, I would not care if our entire contract was online for everyone to see bar the simple rates page. Now that I have had a little think about it, our biggest issue with all contracts—we negotiate our contracts from the tender process becoming the preferred supplier to the actual contract being awarded—is that most of the negotiations take four to six weeks. Most of the negotiations are around liability and insurance clauses. Everyone wants us to take the liability and we want to try to push back. If the PTA contract in its entirety, bar rates, was online, people would understand what our company position is regarding liability and then they can make decisions based on what they would do if they were the preferred supplier. Would they offer up better conditions than us? There is that, there are the rates. They are about the only things I can think of off the top of my head that I would not like to see online.

The CHAIR: When we originally asked for the contract as well as the rates, the special conditions of the contract, we were asked to keep that confidential. Are you saying that that is not the case anymore; you do not see any problem with releasing that?

Mr Price: I always have a problem with releasing rates. Schedule 3—I am not exactly sure what it is—the contract is in Sydney, I purposely did not read it this morning; I thought, “Well that will just confuse me.” I am assuming schedule 3 contains some sort of conditions that the PTA or we would want to keep confidential for whatever reason at the time. It was a long time ago that we were asked the questions. Apart from the specific things such as rates and liabilities, where we ended up—where we negotiated a point—they are the sorts of issues you would like to keep confidential. The rest of it is fairly standard. If you look at Wilson, our major competitor, they have the contract with the PTA to do the security on the buses. I would guess, without seeing their contract, that 99 per cent of it would be exactly the same. There will be the rates table and some conditions they have and some liability things that would be different, depending on where we ended up, but 99 per cent of it would be exactly the same, as most government contracts are.

The CHAIR: I have asked that you be provided with a copy because, obviously, it is not confidential to you. I thought I would ask by number rather than even mentioning the heading but you can use that to remind yourself of it. Item 1—I cannot see any reason why that would be a problem making that sort of information public.

Mr Price: No; it would not be.

The CHAIR: I can imagine item 2 might be an issue.

Mr Price: Yes.

The CHAIR: Although I suspect in the original contract tender there would have been clauses along those lines mentioned as part of the final contract.

Mr Price: Most of the tenders for government contracts have the entire contract in draft in the tender process. We respond with our tender submission, including any deviations from that contract that we are requesting. That is that four weeks of negotiating.

The CHAIR: The rates will be the issue.

Mr Price: Point 2, and point 4 in its entirety are the sorts of things I was talking about, where we potentially deviated from the documentation to start with, through to the negotiation period and we obviously do not want anyone else to know what those things are because that would enable them to say, “Okay, MSS—Paul—is willing to go to this point. If we offer something better than that, they can have a commercial edge on us next time.”

The CHAIR: But 1 and 3 would be pretty much standard?

Mr Price: Yes; they are standard things; they are not an issue.

[11.40 am]

The CHAIR: Even that was not narrowed down to that. I would have thought that a request—it will be a matter we will take up with the PTA. Thank you for that.

Just going back, when the original question was asked by this committee, as well as the total estimated total value of the contract, which was made public at the time of the release of the contract, also one of the questions was how much of the estimated value is to employ contract security staff, due to the number of transit officers being less than their approved FTE level. The PTA gave that figure, but again did not ask for it to be kept confidential. Again, I would imagine that at the time of the original contract tender you would have been given an estimate of how many revenue protection officers would be required. Effectively they are the replacement of the transit officers. Surely someone knowing the length of the contract and applying the relative CPI figures, which are known because that part of the contract has been made public, would be able to back calculate it out to pretty close to what your hourly rate would be anyway. If this was a Wilson's contract, and they got it, you would be able to sit down, knowing that information, and work out the hourly rate. I still cannot see how you could not get back to it. Because you know what the estimated hours of employment would be as part of the original tender contract, if you get the final figure and you know what the EBA rates are, you could calculate that out. I still cannot see how you could not do that, sitting in your position, if it was a competitor's contract, and I would suspect that your competitors have probably done that already on this contract so that they consider other contracts that come up, or in five years' time, that they might be willing to tender.

Mr Price: I think the difference is that the rate per hour, which is in that schedule, is exact, and you can work out one hour at afternoon rate. That can be very precise. Where it is a lump-sum figure, you have got to estimate what it is. I think the hourly rate brings it back to almost an exact science, whereas lump-sum figures, which everybody promulgates for most contracts, as we see from TenderLink and so forth, because you have tendered on the service, and you are right that the security industry is purely manpower, so it is 168 hours a week, by 24 guards. You can work out what the award is, and you could work out the total value, and you can get a really accurate number, within cents per hour, of what I have done, and therefore what profit, because we are talking very low margins, whereas if it is a \$100 000 or \$200 000 or, in this case significant hundreds of thousands of dollars per month, it does not do it quite as well. Yes, they could spend a lot of time on it and work it out and be reasonably accurate. They already know that it is a low percentage margin, and as I said, I do that, we all do that, that is our job, but it does not give it to them easy, and it does not give it to them to the point where they know right down to a couple of cents what the difference is.

The CHAIR: It would give them a reasonable idea, and, in a sense, the other thing about this contract is that it does not come up until—2017 is the initial date, but it can be extended out to 2023. I would imagine that by 2023 people would be making a whole new range of assessments, even yourselves, about the tender, depending on what the circumstances are at that particular point in time.

Mr Price: That is right, yes.

The CHAIR: Again, I am a loss to see how releasing that detail today will impact on 2017 or 2023.

Mr Price: That was my point before, that it will not affect this contract, but the education department tender came out some time last year, that would have given them a very clear indication of how low I am willing to go, and what terms and conditions I am willing to accept to get the job. Being a government job, being in the millions of dollars per annum, it is very, very similar. You would say, "Well okay, MSS is willing to go to this point with both price and responsibilities and liabilities; we can therefore undercut them by accepting a little bit more liability and tweaking our price." We win and lose contracts by less than a per cent, and that is where it comes in, if you are estimating over a 10-year life cycle of three per cent per annum and all those calculations, you can say, "Okay Paul's contracting at between six and 10 per cent for this one", whereas if you got

the hourly rate you could say, “Paul’s contracting”—I am making this up as I go—“between seven and eight per cent. Okay, I’ll go in at six.” That is the difference between an hourly rate versus a lump sum.

The CHAIR: We understand that you are not giving your corporate data, and that they are only figures for the purposes of the conversation. You are not trying to mislead the committee, and I think everyone on the committee understands that. Are there any other questions from members?

Hon ALANNA CLOHESY: Just in general terms, if, for example, the New South Wales regime was in place in Western Australia—and you have explained very clearly the impact on your capacity to contract at that price, if the rates were made public—would that not be the same for all of your competitors then, if contracts were made public, which included pricing schedules, or hourly rates or whatever? Would that not then have the same impact on all of your competitors and you, if everybody knew what the information was from previous tenders?

Mr Price: Yes it would; obviously, it would have to, if every government tender was promulgated and broken down to whatever level of pricing. It would give a clear indication to all of us, but I would think it would be detrimental long-term, because of those issues that I raised, where people are willing to go below cost, or to circumvent by using contractors, by using sole traders. It is rife in the eastern states. I have worked in New South Wales, in the security industry and the coach industry; I have worked in South Australia for the across-government contract, and that is about a \$120 million contract for facility management of every government building in South Australia, so I was the operations manager for that in a previous life. I worked in the cleaning industry for a number of years, and I was with Spotless, so right across Australia and New Zealand. I have seen a lot of unscrupulous activity in the service industry. In my role here, not only as a general manager, but also in the Security Agents Institute of Western Australia, we are trying to stamp that out, because the only person that loses is the security officer, and that is what frustrates me significantly. By giving all that information, you are going to use that information, and you are not going to go higher. You are not going to say, “Well Paul won it at 40 bucks an hour, so I’ll go 41.” You are going to go 39. The only long-term loser, in my mind, is the operator out in the field.

The CHAIR: That raises one last area of questions for me. I think what you have raised are genuine concerns that I would personally share with you about government contracts. In a contract like the PTA contract, how would you be able to comply with the terms of the contract and still be subcontracting, and then still meet the federal government test about the day-to-day management of those people? There are tests about what is legitimate contracting and what is not under the commonwealth government legislation, for tax and other purposes. I cannot see how you could actually meet your obligations under the contract and still subcontract out that work anyway. In a sense, it should be picked up at the assessment point by the agency doing the assessment, if that is made clear as part of the tender by the person tendering, or down the track, that they are not in compliance with their contract. I would have thought that with revenue protection officers you need to be able to have fairly strong direction as to what they would do on a day-to-day basis. You would then be in breach of contract laws federally, would you not?

[11.50 am]

Mr Price: Absolutely. Hence why I have gone to the Ombudsman in my capacity, because that is all I can do, when I see things that, to me, are not kosher. In my previous life I worked for a friend who asked me to go and work for a company in New South Wales. I was in between jobs and I was there for two to three weeks. It was not possible to do what we were doing and make a dollar, so something had to be wrong. I had employees coming to me saying, “Paul, this is the fourth superannuation company the company has moved me to in the last two years and I cannot find my money.” Those people went to jail, eventually. I left very, very quickly because of that. There are other means: people misrepresent themselves by saying their payroll is only X dollars to reduce their payroll tax, workers’ compensation, et cetera—all unscrupulous activity. The number one

thing that happens in our industry, unfortunately, and has happened in the past—there are documented cases, especially in the eastern states—where it is cash in hand, and brown-bagging on a Friday night, and paying people cash. The vast majority of my employees are foreign language speaking, new Australians. Sometimes they do not understand their entitlements, so people who are unscrupulous take advantage of them.

Hon RICK MAZZA: That could happen now though, could it not? Everybody is about maximising their profit margins, so if someone was unscrupulous, whether their rates were disclosed or not disclosed, they could minimise costs by undertaking those actions that you are talking about. That could happen right now without making changes to the disclosure.

Mr Price: Yes, they could, but if you drive the price below what is reasonable then, in my mind—this is my personal opinion after 20 years of being in this industry—if there is a fair and reasonable profit to be made, I do not know anyone that does not share that profitability with everybody, and so forth. Where your type, in some cases below cost, something has got to give and the last thing that usually gives is profitability for the people that own the company. G4S is a good, reputable company as I have made mention of before. I am not suggesting for a second they are doing something wrong. They have taken a business decision to do that with that contract. What I am talking about is there are companies that will take advantage and use it and do things that are not right. To me, governments should be above and beyond reproach when tendering any of their services. That means that if the award is, in this case, \$19.82 an hour for a level 2 security officer with a 30 per cent shift penalty, to 50 per cent and so forth, government should be able to work out that cost, put reasonable operating costs on top of that—roughly 30 per cent, give or take a couple of per cent—and make reasonable profit on that and say, “Okay, that service cannot be let at less than \$27 an hour”, for instance. If they let it at \$26, in my mind, that is irresponsible. That is the sort of thing I am getting at. And it happens; it clearly happens in the industry—the service industry, not just the security industry.

The CHAIR: My point is that you can go one step further in all of that. They then cannot comply with the rest of the contract. If the way they do it is by changing employment relationships, for instance, their ability in many cases to comply with the initial other clauses of the contract would be very difficult indeed, if not impossible.

Mr Price: To do it legally, yes. But I would say they bend the rules. Some of the contracts are not specific enough to say that you must not subcontract. They will actually allow subcontracting in many cases. Very rarely have I seen a contract that mentions sole traders, so if it does not mention it, I am allowed to do it. That is how they operate.

The CHAIR: That becomes an issue about how contracts are written by government and also how the assessment process goes through.

Mr Price: Absolutely. That is what I wrote the Ombudsman about. It is about sustainability and reasonableness, in my mind. I can tell you a story from last time I was here, many years ago. Parliament House was secured by a company that was not paying all the wages. That was many, many, many years ago—I am showing my age now. That ended up a serious issue.

The CHAIR: I think when members of Parliament found out about that, we started to raise questions as well. There were quite a few of us in the Parliament and when we realised what had happened, we felt that that was inappropriate.

Hon RICK MAZZA: Your industry is obviously a very competitive industry and where you have private clients, where it is competitive, that same scenario that you described could play out with private clients as well as government.

Mr Price: It does play out with private clients, regularly. We win and lose contracts based on that competitive nature. Everyone says to you price is not the issue; I tell you now, price is the issue.

Hon RICK MAZZA: It is, absolutely.

Mr Price: Everything else falls into second place. You can overlook anything if the price is right. Unfortunately, the decision-makers, not only in government but in the private sector as well, we are all under extreme pressure to meet budgets, reduce costs and do more for less. I am under pressure to do more and win work, and so forth. We are all under the same pressures. It is all about the company and its willingness—that is why I work for MSS—to abide by the rules and only play by those rules and be fair to its employees. Sometimes that gets lost. I do not want to portray the industry as being all bad. There are a few rogue providers in every industry, in every corner of the world. I am not trying to suggest it is rife; it is just that these are the things that we need to consider when we are releasing information.

The CHAIR: Going back, I think it is similar to the cleaning industry, and I think you have worked in that. I remember when school contracts were contracted out. A lot of companies suddenly came into the market and undercut the existing operators. They were not actually complying with the contract, but it takes quite a while before governments can invoke all of the necessary measures to say, “You are not actually cleaning the school. You are either not paying people the right wages, or you are not cleaning the schools to the standard you are required to.” In the meantime, they have made a nice little profit until they get the contract taken off them.

Mr Price: As we are all under pressure and there are less government employees, and there are less, who guards the guard while the guard guards you, sort of situations, it is exactly that. There are less people in government to go out and conduct true and proper audits on providers. We welcome audits. We are audited by the police under the licensing act. I am the master of the agent’s licence—I hold that licence, and everybody that works for me must be licenced. We insure, and we are compliant, and they audit us and so on. I am a registered RTO—the same deal applies. I have been audited to ensure that we are doing what we say we are doing. As there are less of those people around, it takes longer for people to realise that something may not be quite right. There are some very clever people out there and they can financially be very astute. It takes years for that to come to the surface. Hence, everyone has missed out since then.

The CHAIR: We might bring it to a conclusion, but I was going to say, if you do not have success with the Ombudsman, some of the issues you have raised I think would be of interest to the committee and if you feel you want to share some of the information you sent to the Ombudsman with the committee as part of our ongoing scrutiny role of government expenditure —

Mr Price: I would be happy to do that.

The CHAIR: Certainly, I would be interested. I do not know about other committee members.

Hon ALANNA CLOHESY: Yes, definitely.

Hon RICK MAZZA: Yes.

The CHAIR: I think that is part of our role. It has to be about taxpayers’ value for money, but that has to be done in a way that does not have long-term ramifications. I think you have to look at the long-term not just the short-term benefits for taxpayers. I will bring the hearing to a close.

Thank you for your evidence before the committee today. The transcript of this hearing will be forwarded to you for correction of minor errors. Any such corrections must be made and the transcript returned within 10 days from the date of the letter attached to the transcript. If the transcript is not returned within this period, it is deemed to be correct. New material cannot be added via these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on particular points, please include a supplementary submission for the committee’s consideration when you return your corrected transcript of evidence. If there is a transcription error, correct that by all means, but if you wanted to add anything, just do it by way of a separate covering letter. Again, you can certainly request if there is anything you wanted to provide that it be kept confidential. You can request that it be taken as

private evidence as well. If there is anything that you think about after you have finished here, feel free to pass that on through written correspondence to the committee.

Mr Price: If I was to send that email that I sent to the Ombudsman though to Michael, that would be the right place, would it? I have your account—thanks very much.

The CHAIR: That would be good. Again, thank you very much for your time today. We appreciate it.

Hearing concluded at 12 noon
