PUBLIC ACCOUNTS COMMITTEE

PUBLIC HEARING WITH THE DIRECTOR GENERAL OF HEALTH ON 2 DECEMBER 2009

Report No. 6
in the 38th Parliament

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Public Accounts Committee

Public Hearing with the Director General of Health on 2 December 2009

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PUBLIC HEARING WITH THE DIRECTOR GENERAL OF HEALTH ON 2 DECEMBER 2009

Report No. 6

Presented by:
John Kobelke, MLA
Laid on the Table of the Legislative Assembly
on 11 March 2010

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COMMITTEE'S FUNCTIONS AND POWERS

The Public Accounts Committee inquires into and reports to the Legislative Assembly on any proposal, matter or thing it considers necessary, connected with the receipt and expenditure of public moneys, including moneys allocated under the annual Appropriation bills and Loan Fund. Standing Order 286 of the Legislative Assembly states that:

The Committee may —

1 Examine the financial affairs and accounts of government agencies of the State which includes any statutory board, commission, authority, committee, or trust established or appointed pursuant to any rule, regulation, by-law, order, order in Council, proclamation, ministerial direction or any other like means.

2 Inquire into and report to the Assembly on any question which —

(a) it deems necessary to investigate;

(b) (Deleted V. & P. p. 225, 18 June 2008);

(c) is referred to it by a Minister; or

(d) is referred to it by the Auditor General.

3 Consider any papers on public expenditure presented to the Assembly and such of the expenditure as it sees fit to examine.

4 Consider whether the objectives of public expenditure are being achieved, or may be achieved more economically.

5 The Committee will investigate any matter which is referred to it by resolution of the Legislative Assembly.

CHAIRMAN'S FOREWORD

The Public Accounts Committee devotes considerable time and research to its oversight responsibilities with respect to the receipt and expenditure of public moneys.

As part of this oversight role the Committee reviews and reports to Parliament on the work carried out by the Auditor General in scrutinising the performance and accountability of public sector agencies.

In 2009 the Public Accounts Committee resolved to follow up the Auditor General's Report No. 13, *Audit Results Report 2008–09 Assurance Audits* in which a qualified opinion was entered against the Metropolitan Public Hospitals for accessing $24.9 million of restricted funds to meet operational needs.

The Committee held a public hearing on 2 December 2009 at which the then Director General of the Department of Health, Dr Peter Flett, responded to Committee questions and undertook to answer seven questions on notice. The responses to the questions on notice were forwarded to the Committee on 21 December 2009.

The Committee has decided that it is in the public interest to table the transcript of the hearing and the answers to the questions on notice. They appear as Appendices to this Report and are also available electronically on the Parliament's website.

HON. JOHN KOBELKE, MLA
CHAIRMAN

CHAPTER 1 INTRODUCTION

1.1 Background

The role of the Public Accounts Committee of the Western Australian Parliament is to hold the Government to account for the 'receipt and expenditure of public moneys'—overseeing not only that the 'objectives of public expenditure are being achieved' but whether they 'may be achieved more economically'.[1] Assisting the Committee in this role is the Auditor General, an independent officer of the Parliament, empowered by the *Auditor General Act 2006* to scrutinise 'the public sector to ensure there is proper accountability of taxpayers' resources and that the resources are not wasted—rather, that they are used efficiently and effectively to benefit all Western Australians'.[2]

The Office of the Auditor General in fulfilling its 'mission' to 'serve the public interest by providing Parliament with independent and impartial information regarding public sector accountability and performance',[3] conducts a variety of audits of public sector agencies. *Assurance Audits* examine agencies' annual financial statements and performance indicators and the adequacy of controls in satisfying legislative provisions.[4] *Compliance Examinations* assess agencies' compliance with legislative provisions, public sector policies, their own internal policies, and accepted good practice.[5] *Performance Examinations* evaluate whether agencies are meeting their objectives and using their resources economically and efficiently to deliver desired outcomes.[6]

On occasion, the Auditor General will conduct a follow-up or follow-on investigation of agencies which have previously been the subject of a Performance or Compliance Examination. The Office of the Auditor General, however, is not authorised to direct or enforce agencies to implement recommendations arising from its audits. Further, the Auditor General holds to the view that to maintain independence:

> the Auditor General cannot, and should not, be seen as the implementer of such change. This remains the responsibility of agency management, Executive Government and ultimately Parliament.[7]

On 15 May 2003, the Public Accounts Committee of the 36th Parliament tabled Report No. 3, *The 2001–2002 Annual Report of the Office of the Auditor General: A Performance Review*.[8] This

[1] *Standing Orders of the Legislative Assembly of the Parliament of Western Australia*, Nos 285 and 286 (4), pp. 112–13.

[2] Office of the Auditor General for Western Australia, *Annual Report 2008*, p. 2.

[3] *Ibid*, p. 1.

[4] Office of the Auditor General for Western Australia, *Audit Practice Statement*, December 2007, pp. 2 and 4.

[5] *Ibid*, p. 6.

[6] *Ibid*, p. 6.

[7] *Ibid*. p. 3.

Report expressed 'serious concern' that 'the potential benefits of the Auditor General's work are not currently being maximised' because 'neither the Auditor General nor the Public Accounts Committee has a formal method of monitoring the progress of agencies in implementing recommendations'.[9] The Report made a number of recommendations to strengthen the role of the Auditor General and the Public Accounts Committee in securing public sector accountability—the principal one being that:

> An agency subject to Performance Examinations will be required to report to the Public Accounts Committee within 12 months of the Auditor General's Report being tabled in Parliament as to what action it has taken to implement the Auditor General's recommendations.[10]

The then Auditor General expressed support for the Committee's initiative, stating that it could 'only improve the effectiveness' of the audit process, and further recommended that the reporting requirement should extend to Compliance Examinations—a suggestion subsequently adopted by the Committee.[11] It was not proposed at the time by either the Committee or the Auditor General that the Assurance Audits Report tabled annually by the Auditor General be reviewed, and these reports have not been included in the review process.

The Public Accounts Committee of the 36th Parliament established a process to follow up the progress of public sector agencies in implementing the Auditor General's recommendations in Performance and Compliance Examination Reports, and the Public Accounts Committees of the 37th and 38th parliaments resolved to continue this practice. To facilitate and streamline the agency reporting process the Committee, in consultation with the Office of the Auditor General, developed and issued *Guidelines for Agencies Preparing a Response to the Committee of a Report of the Auditor General* in 2009. Since 2006 four reviews of the Reports of the Auditor General have been tabled.

1.2 Extension of Review Process by Public Accounts Committee

On 11 November 2009 the Auditor General tabled Report No. 13, *Audit Results Report 2008–09 Assurance Audits* in which three agencies—the Metropolitan Public Hospitals, the Western Australian Sports Centre Trust and the Local Health Authorities Analytical Committee—received qualified opinions. The qualified opinion with respect to the Metropolitan Public Hospitals related to this agency accessing $24.9 million of restricted funds to meet operational needs, demonstrating that:

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[8] Office of the Auditor General for Western Australia, *Audit Results Report 2008–09 Assurance Audits*, Report No. 13 – November 2009.

[9] Public Accounts Committee, *The 2001–2002 Annual Report of the Office of the Auditor General: A Performance Review*, Report No. 3, Parliament of Western Australia, Perth, 15 May 2003, p. 6.

[10] *Ibid*, Recommendation 5, p. xvi.

[11] Office of the Auditor General for Western Australia, *Auditor General's Response to Public Accounts Committee Report Number 3 The 2001–2002 Annual Report of the Office of the Auditor General: A Performance Review*, p. 2.

> Controls over these restricted funds, which include specific purpose grants money, were inadequate for ensuring that they were spent only for their approved purpose.[12]

This accessing of restricted funds was subsequently criticised by the Auditor General as being 'very unusual and entirely inappropriate'.[13] The Auditor General further observed:

> The concern is that agencies are given an allocation by the Parliament which they are required to live within and they [Metropolitan Public Hospitals] have stepped outside of the budgetary process because they could not meet their operational expenses.[14]

The Committee resolved on 18 November 2009 to extend its review of the Auditor General's Reports to include the 2009 Audit Results Report. The Committee wrote to the Western Australian Sports Centre Trust and the Local Health Authorities Analytical Committee requesting information as to measures taken by these agencies to address the concerns identified by the Auditor General. The Committee was satisfied with the information provided by both agencies and resolved to conclude its follow up.

Given the seriousness of the qualified opinion relating to the Metropolitan Public Hospitals, the Committee determined to hold a public hearing to examine further the issues surrounding the agency's accessing of restricted funds. On 2 December 2009 the then Director General of the Department of Health, Dr Peter Flett, accompanied by Mr Danny Cloghan, the then Acting Executive Director, Corporate and Finance, Department of Health, attended a public hearing at which Dr Flett answered a range of questions regarding the issues identified by the Auditor General. A further seven questions on notice were submitted to Dr Flett who provided a written response on 21 December 2009.

In the interest of furthering public sector transparency and accountability, the Public Accounts Committee considers that the information provided by Dr Flett should be available in the public domain. Accordingly, the transcript of the hearing and the answers to the questions on notice appear as Appendices to this Report. Both documents are also available electronically on the Parliament's website.

[12] *Audit Results Report 2008–09 Assurance Audits*, p. 10.

[13] Quotation from, Robert Taylor, "$25m raid on medical fund 'wrong': Auditor", *The West Australian*, 12 November 2009, p. 1.

[14] *Ibid*.

APPENDIX ONE

SUBMISSIONS RECEIVED

List of submissions received for the inquiry.

Date	Name	Position	Organisation
21 December 2009	Dr Peter Flett	Director General	Department of Health

APPENDIX TWO

HEARINGS

List of hearings for the inquiry.

Date	Name	Position	Organisation
2 December 2009	Dr Peter Flett	Director General	Department of Health
2 December 2009	Mr Danny Cloghan	Acting Executive Director, Corporate and Finance	Department of Health

APPENDIX THREE

TRANSCRIPT OF EVIDENCE BY THE DEPARTMENT OF HEALTH

2 DECEMBER 2009

PUBLIC ACCOUNTS COMMITTEE

TRANSCRIPT OF EVIDENCE TAKEN
AT PERTH
WEDNESDAY, 2 DECEMBER 2009

Members

Mr J.C. Kobelke (Chairman)
Mr J.M. Francis (Deputy Chairman)
Mr A. Krsticevic
Ms R. Saffioti
Mr C.J. Tallentire

Hearing commenced at 10.06 am

FLETT, DR PETER
Director General, Department of Health,
189 Royal Street,
East Perth 6004, examined:

CLOGHAN, MR DANNY
Acting Executive Director, Corporate and Finance, Department of Health,
189 Royal Street,
East Perth 6004, examined:

The CHAIRMAN: I formally thank Dr Flett and Mr Cloghan for appearing before the committee today. As you are well aware, we have some standard procedures that I need to go through. This committee hearing is a sitting of Parliament and warrants the same respect that proceedings in the house itself demand. Even though you are not required to give evidence on oath, any deliberate misleading of the committee may be regarded as a contempt of Parliament. Have you completed the "Details of Witness" form?

Dr Flett: Yes, I have.

Mr Cloghan: Yes.

The CHAIRMAN: Do you understand the notes at the bottom of the form?

The Witnesses: Yes.

The CHAIRMAN: Did you receive and read an information for witnesses briefing sheet regarding giving evidence before parliamentary committees?

The Witnesses: Yes.

The CHAIRMAN: Do you have any questions relating to your appearance before the committee today?

The Witnesses: No.

The CHAIRMAN: We have received your submission, which was in the form of answering some questions that we put to you. Do you wish to make any comments on that or vary it in any way?

Dr Flett: I do not wish to make any comments on it, but with the committee's indulgence I would like to make an opening statement, which will consist of stepping through the process that led to the final circumstance of receiving a qualified audit opinion from the Office of the Auditor General, if the committee will accept that.

The CHAIRMAN: That would be most appropriate, Dr Flett.

Dr Flett: Thank you. The qualified audit initially arose as a result of Health finishing up with a net operating deficit of $33.8 million at the end of financial year 2007-08. To meet this deficit Health effectively exhausted its discretionary cash balances. Coming into 2008-09, we had used all cash balances to address the deficit of 2007-08.

At the time of the 2008-09 midyear review Health advised government that it was unlikely to be able to constrain expenditure; then, at the end of March 2009, a submission was put to EERC requesting supplementation funding of $230 million. On 1 April EERC met in response to the request for $230 million supplementation. It then passed $160 million back to Health; the components were $50 million of flowthrough commonwealth funding and $110 million

supplementation. The effect of that was a gap of $70 million between what had been requested—$230 million—and what was granted. At that stage that caused me some concern.

In June we went back to EERC with a further request for an additional $70 million. On 10 June, EERC responded and refused the request for an extra $70 million. There was a supplementary question with that request, which was: given the shortage of funds, would we be able to use the commonwealth funds that we were carrying? We were directed by EERC that we could not use those funds if we ran short.

The CHAIRMAN: Do you mind if I seek clarification? Was that at the meeting of 10 June?

Dr Flett: That was the EERC meeting of 10 June.

The CHAIRMAN: You requested the use of commonwealth funds and were told no?

Dr Flett: Yes. That was of great concern to me, because I was quite confident of the accuracy of that $70 million requirement going through. Perhaps I could add that at the moment Health costs $13 million every 24 hours to run. The $70 million gap represents about five days of running Health.

Around about 20 June I became very concerned—or about 22 June I think it was; it was a Monday—and I consulted with my then chief financial officer about the choices that we had been presented with. The first choice was that I could stop payment of salaries, and I contemplated stopping payment to senior staff; however, when looking into it, it was going to be both unworkable and inappropriate to do such a thing, and it would not really make up the figures that we required.

[10.15 am]

I could delay credit payments. However, there are Treasury directives around timeliness of payment of creditors. There are two groups of creditors that Health has. There are the large creditors on whom we rely for supply of all equipment and so forth. To stop payment to them would mean that they would immediately stop the supply, which would be an untenable circumstance for Health to be in. With the small creditor payments, of course many of them rely entirely on income from Health, and they would have gone out of business if we had stopped that payment. I could have used the commonwealth funds, but we were directed not to use that.

So the only alternative I had was to look at whatever other funds were available, and the only other funds available are what are called special purpose account funds, or SPA funds. These are funds that are held by the hospitals—by doctors within hospitals. The funds are for research or are payment for work done when working with large suppliers. There is a multitude of sources of these funds. I asked for advice on whether I could use these funds, and the advice I got was a little grey; there was a degree of uncertainty. So for the next six days I had daily meetings with my chief financial officer, and we managed the process from day to day until 30 June. It became obvious that I would have to use SPA funds. I did this with a lot of personal concern. There were a lot of reasons for that, one being that I have worked as a consultant in the past, and therefore I have been on the other side of the SPA funds, and I realise the importance they hold for consultants and so forth with regard to research et cetera. So I was uncomfortable with making that decision, but I had little choice. We also continued to manage the creditors as well as we could, to minimise exposure there as well. So as of 30 June, we had used $24.9 million of restricted SPA funds. These funds were paid back on 2 July. That is really the sequence of events that led up to this. As I have said, it was done with a lot of reluctance, but I was in a position, I felt, where I had little choice.

The CHAIRMAN: Thank you for laying out those matters in your introductory remarks, Dr Flett. I want to come back to the issue of the management of creditors, which you have alluded to, and I and other members may then wish to try to open up some of the issues that you have raised and get clearer on them. I assume that at the end of each financial year, there is a certain number of bills waiting that perhaps get paid one day later and slip into the next year. Can you give us any quantum as to whether between 30 June 2009 and 1 July 2009 that sort of pushing into the next year was

bigger in this current year than it has been in the past? Was part of that just a delay by a couple of days, which would not necessarily have stopped supply by your major suppliers or have had a major effect? Was it partly managed by doing that?

Dr Flett: It was partly managed by doing that, although we were very careful about that. We at no stage put ourselves in any circumstances where supply was slowed or stopped—not at all.

The CHAIRMAN: Can you quantify how much of your $70 million was covered by that deferment of a few days of payment?

Dr Flett: I cannot give you that detail today, but I am happy to take that question on notice and respond.

The CHAIRMAN: If you would, please. Coming to the $70 million, can you actually break down how much of that came from the SPA, how much was from restricted funds and how much was from unrestricted funds?

Dr Flett: Yes, I can. The amount from restricted funds was $24.9 million, and the unrestricted amount was $22.3 million, for a total of $47.2 million out of the SPA. We were able to make up the remainder of the $70 million—the gap that remained—within Health. So, in other words, we made up the difference between the $47.2 million and the $70 million through inflows of revenue, because revenue continued to roll in at the same time. That is why we were trying so hard to manage that. Each day, I would want to know what revenue had come in in the last 24 hours to minimise any exposure that we had.

The CHAIRMAN: You said earlier that you had basically used up your cash surpluses because of what had happened in previous years —

Dr Flett: Yes.

The CHAIRMAN: But you do not count that as cash surpluses if that money is available?

Dr Flett: Well, there was uncertainty as to the amount that was to come in. We have had cash surpluses in the past and we were able to easily address such matters. In this case, we were uncertain from day to day about the amounts coming in.

The CHAIRMAN: Some other members may have questions on those cash surpluses.

Ms R. SAFFIOTI: I want to go back to the point that you made earlier in your submission that you had exhausted your discretionary cash balance at the end of 2007-08. I have gone through the financial statements of the Department of Health, metro hospitals, country hospitals and country health. Can you let us know what was the cash balance at the end of 2007-08—I have it at over $60 million—and what was the cash balance at the end of 2008-09; that is, what was the run down of the cash balance between 30 June 2008 and 30 June 2009?

Dr Flett: I do not have that detail of figures in front of me. I am very happy to supply that for the committee.

Ms R. SAFFIOTI: Just following up on that, when you say that you had exhausted all your discretionary cash balance, can we assume that there was a zero cash balance as at 30 June; or, if it was not zero, what was the approximate amount—$50 million or $100 million?

Dr Flett: As we understand it—as I have been told—there were no cash reserves after 30 June 2007-08.

Ms R. SAFFIOTI: So no cash reserves?

Dr Flett: No.

Ms R. SAFFIOTI: How about as at 30 June 2009?

Dr Flett: Those are the circumstances that we found. We did not have cash reserves at that point in time. We were living from day to day on what would possibly come in as revenue stream—when I

say "revenue", I am talking about private billings for patients and so forth to offset this—rather than having some cash reserves that could address that deficit, as we did in 2007-08. That was the problem we were in.

Ms R. SAFFIOTI: Can you provide as supplementary information what the cash reserves were at the end of 2007-08 and what the cash reserves are now for 2008-09?

Dr Flett: Yes.

Ms R. SAFFIOTI: For the entire health system.

Dr Flett: It is all consolidated.

Ms R. SAFFIOTI: Yes. I gave gone through the annual report. It is my understanding—you may want to clarify this—that you have the Department of Health, you have metropolitan hospitals and you have country health; and those three align to the entire health system?

Dr Flett: Yes, that is quite correct, and Royal Street. But all those figures, although they sit out there, they are all consolidated into a single figure. Yes, we can do that.

Mr A. KRSTICEVIC: I want to ask you some questions leading up to where we find ourselves in terms of the current $230 million deficit, obviously in the first instance, and then further down the track. I want to get some comments from you about the quality of the financial controls that were in place when you took over as Director General of Health some 18 months ago.

[10.25 am]

Dr Flett: When I came into it, the circumstances were that we had been in deficit at the end of each financial year for the 10 previous years. In the past we have been able to find cash reserves to cover that deficit on that day—on 30 June—but certain amounts would then flow into the next year. When I came into the job, I found that there was an ongoing deficit circumstance for Health, for which I cannot give the committee the exact figure.

At that stage, communications between the area health services and the central Health finance division were such that the finance departments of the areas would give a financial report each month to the Health finance division; that was it. There was no involvement by the chief executives in that they did not report a financial statement, give a breakdown of their performance for the month or anything like that. I found this interesting, and quite different to what I understood, coming from the private sector, about how responsible individuals are held accountable for their performance month on month.

We have since changed that, and now the individuals responsible for each area are required to report on their performance monthly, and they report on FTEs. The reason for that—the FTE figures and so forth—is that FTEs constitute about 70 per cent of our costs. They report on that and they report on expenditure and expenditure against activity for the month. There has been a total change in the format of financial reporting from how it was when I first came in.

It has taken many months to institute this change. I have found that the Department of Health and the public service generally are very big organisations that take a long time to change the way they do things. We have a long way to go, I would add, but we are changing the direction for accountability of financial management within Health

Mr A. KRSTICEVIC: What you are telling us is that there were no month-by-month controls on the spending or financial accountability of each of the departmental heads?

Dr Flett: There were controls in the sense that they had budgets that they worked to, but there was no clear accountability back to the financial management point—the chief financial officer and the DG et cetera—for the chief executives of the area health services—being the country, north and south—which make up the bulk of the work; that is what I am saying. Now we have introduced

accountability, responsibility, and a requirement to explain, if there is a variance to budget, what are they going to do about it and how.

Mr A. KRSTICEVIC: I am assuming that no DGs over the past 10 years would have known the financial position of the health system until closer to the end of the financial year, when they knew they did not have any money left.

Dr Flett: Yes.

Mr A. KRSTICEVIC: It sounds a bit as though you are saying that nobody at the top level really knew what was going on below them and that they were not really managing the system.

Dr Flett: I honestly do not know how much other DGs got involved, but I know that I am involved at a different level than others were involved in the past. In relation to how much they knew or did not know; I am unable to make a comment on that.

Mr A. KRSTICEVIC: Do you think that the system was being managed as best as it could be when you walked in? Obviously you are saying that, financially, it probably was not.

Dr Flett: When I walked in, the way it had been managed in the past was different to what I expected and considered appropriate to my way of thinking, coming from the private sector. I was very conscious—I have only been in this system for a short period—of not being a career public servant. I do not understand a lot of the terminology that is used, and I see, in fairly simple terms, a necessity to approach a big job with the attitude that we have to sort it out and get things right, and I have approached it in that way. There are probably shortcomings as far as I am concerned, as well, in my ignorance of the way in which, in the public service, one often cannot go from A to B; one has to go via C and D to get to B. I have tended to go from A to B and just get on with it.

Mr A. KRSTICEVIC: You mentioned that the department had been in deficit for the past 10 years. Can you provide to us the figures of the deficit reached in past 10 years, and how much money was requested from the EERC, or any other top-up funds that were requested?

Dr Flett: Yes; I have some figures here, but I think it would be best to take that question on notice, and we would be happy to provide an answer in a clear manner.

Mr A. KRSTICEVIC: Can you also provide information about any additional allocations that were made during the year on top of the original budget?

Dr Flett: Sure; that happens every year, yes.

Mr C.J. TALLENTIRE: It seems that the discretionary cash balance got whittled away, and that we got to the end of 2008-09 and found that there was no extra cash.

Dr Flett: Yes.

Mr C.J. TALLENTIRE: What were the unbudgeted amounts for items that led to the whittling away of that discretionary cash balance?

Dr Flett: My understanding of this is that it is carried forward and it varies almost monthly, but there is generally a background figure of some millions of dollars. At the end of 2007-08, as I said, we had a deficit of $33 million-odd, and discretionary cash was found to cover all that. Normally, not all of that cash would have been used and it would flow through into the following financial year. We started with nothing. There is then —

Ms R. SAFFIOTI: Sorry, Dr Flett: started with?

Dr Flett: Sorry; as far as extra discretionary cash is concerned, we started with nothing because we had used it all in 2007-08.

Ms R. SAFFIOTI: But we do not have that figure. The figure I was asking for was for discretionary cash.

Dr Flett: Yes.

Ms R. SAFFIOTI: Sorry, you are saying you started with nothing, but we do not have the figure.

Dr Flett: I am advised that we had used it all to meet that deficit of 2007-08. We had this, if you like, discretionary cash, and we had used it all for that period of time. That is really, effectively—money in the bank is what we are talking about.

Ms R. SAFFIOTI: Yes, I know, but I am just saying that if we do not know what the figure was, how can you say, "We used it all"?

Dr Flett: My colleague here has pointed out that maybe I misinterpreted your question. Are you asking me how we arrived at this $230 million deficit?

Mr C.J. TALLENTIRE: I am, but I am trying to approach it by saying that normally we have had this discretionary cash balance, and I get the impression that you are saying that you cannot point to a specific unbudgeted item that used it up when we got to the end of 2008-09; you are saying it was just sort of used to even things out.

Dr Flett: It is actually cash in the bank that we have. I mean, we have a budget and we are working to a budget, but cash is injected into the system all the time to meet, obviously, bills and all this as they come in. At the end of a financial year, our cash status is often positive, compared with where we are sitting with the budget. That is what we are talking about when I refer to this discretionary money in the bank. When we move into 2008-09 from 2007-08, what money we had in bank from the end of 2007-08 did not exist at the beginning of 2008-09. Obviously this cash comes in, and then we use that cash throughout 2008-09 to meet bills and commitments as we go throughout the year. But there was no surplus or extra. There was no free extra cash at any one point in time. We were just meeting our commitments as we went from day to day, if you like.

[10.35 am]

Ms R. SAFFIOTI: I want to ask a question about the efficiency dividend for 2008-09. The estimate was that you were to save $60 million in 2008-09. The deficit ended up being $70 million for that financial year. Would it be correct to say that you did not achieve an efficiency dividend in 2008-09?

Dr Flett: What happened is with that efficiency dividend—that $60 million—it was actually money that was taken out of our budget, as you know, during 2008-09. Of the $60 million, we did not meet that. We met around, if memory serves me correctly, $24 million of the $60 million.

Ms R. SAFFIOTI: So in March, when you went to Treasury to initially ask for $230 million, would I be right in saying that Treasury would have said at that time that you have to meet your efficiency dividend? Did that occur?

Dr Flett: I cannot recall that that specific statement occurred, but it was recognised that we were in the circumstance of having to meet it, and we had made a statement that at that point we were not on target to meet it to the full amount.

Ms R. SAFFIOTI: I have some experience in the budget process, and I know how Treasury works. So, back on 10 June, when you went to Treasury and said that you were running out of money, did Treasury again say that you have an efficiency dividend target of $60 million and you should be meeting that?

Dr Flett: No. They did not use those terms. But they actually said that they believed that we should be able to meet this shortfall, based on their assessment of our financial status at that point.

Ms R. SAFFIOTI: If it were not for the efficiency dividend, your deficit would have been $70 million at the end of 2008-09?

Dr Flett: If you actually look at it in that way, if we had not had $60 million taken out of our budget, then, all things being equal, it would have been perhaps a $10 million difference, not the $70 million.

Ms R. SAFFIOTI: So, if there had been a $10 million difference, you probably would not have needed to have accessed the restricted funds?

Dr Flett: That may well have been the case.

The CHAIRMAN: I want to come back to that. You indicated, Dr Flett, that at that review in March, you forecast the deficit to be $230 million?

Dr Flett: Yes.

The CHAIRMAN: It looks as though, when you got to the end of June, that you were fairly accurate on those figures. Was there any major change between March and the end of June in terms of that assessment of your overall financial position?

Dr Flett: No. That is why we were able to get to that point. To be honest, I think we all hoped that there would be an improvement, perhaps in revenue and so forth, and that that final position would not be found; and obviously Treasury believed that would be the case. So, yes, it happened to be that we finished up pretty well on target with what was predicted.

The CHAIRMAN: In March, yes. The point I am trying to get at here is that if you made your estimates in March as to where you were going to end up, and you had confidence—and it looks as though you actually did end up where you predicted —

Dr Flett: Correct.

The CHAIRMAN:— and Treasury hopefully had some confidence that you were doing it correctly, because what they did was they put in the $50 million of commonwealth and the $110 million of supplementary funding that you requested, leaving you with that $70 million shortfall.

Dr Flett: Correct.

The CHAIRMAN: Why would Treasury leave that $70 million shortfall, other than by accepting that they did not want Health to get away with not meeting the three per cent efficiency dividend, and this was their way of holding it over you that you had to deliver it?

Dr Flett: Well, I did not have that discussion with Treasury to that detail. I can only assume that Treasury considered that we probably did have capacity to meet that $70 million, and that is why they refused to give it.

The CHAIRMAN: Why I am assuming that that may have been part of the discussion is that I find it hard to believe that the Minister for Health and Treasury would leave you with a $70 million shortfall, with the probability that you are not going to pay people or will close the door on certain services.

Dr Flett: I have difficulty understanding the basis of that also. However, I did discuss it with the minister at that point and pointed out to him my concern that we had this shortfall, and indicated that I had little choice but to go to the SPA accounts to meet that shortfall. He understood and agreed with my approach to this.

The CHAIRMAN: So looking at your response to the problem that you were faced with in terms of where you could find that $70 million, again, I would like to try to get some better understanding of the legal advice or the professional advice that you were given. As you have already indicated, you do not have a long history of working in the public sector. The fact that you would take unrestricted funds perhaps is okay. Was there an all-clear on using unrestricted funds in this way?

Dr Flett: The advice that I was given was I asked my chief financial officer—the accounting people involved—and the advice I was given there was that there were funds available, and they could be used. The issue was around the fact that some were restricted. But it was considered that it was not illegal to use those funds, and being that it would be a very short period of time, the advice I was given was that we could probably go ahead and do it.

The CHAIRMAN: I want to break that down into the two subcategories—that is, restricted and unrestricted. If we deal first of all with the unrestricted funds, was there any caution or advice or problem with using the unrestricted funds?

Dr Flett: I do not recall receiving any advice along those lines.

The CHAIRMAN: What about the use of the restricted funds? What were the problems that were potentially opened up by accessing those restricted funds?

Dr Flett: My recollection is that there was just the issue of appropriateness around them—that these funds were there, but if they were managed under certain circumstances, one could use them. I do not recall any detailed directive about how they should or should not be used. I remember being uncomfortable with this process of doing it but realising that I did not have an alternative. I did not seek legal advice. I was given advice by my chief financial officer, and I was relying heavily on the appropriateness of his advice to help me in this.

The CHAIRMAN: So could some of these SPAs be classified as trust funds or trust accounts?

Dr Flett: Not in the true sense. They are not in the true sense trust accounts.

The CHAIRMAN: But the terminology "trust account" would be used for them in some cases?

[10.45 am]

Dr Flett: There may be some. I am not sure on that, to be honest. These accounts—if I could just make a comment on them—there are, first of all, about 1 200 of those accounts. They are spread across the three major teaching hospitals, mainly, but in smaller hospitals there may be some as well. They are broken up into eight different subgroups, and depending on what they are; some are, if you like, restricted, and some are not restricted. These groups do not sit as separate accounts as such. It is all consolidated up into one single bank account. When we used the funds, we knew the total amount, in dollar terms, of the total amount of funds that were in the account, and we knew roughly—well, not roughly—we knew how much was, if you like, restricted, and how much was not restricted. We used the non-restricted funds and then had to slip over into the restricted funds in the end.

The CHAIRMAN: I appreciate that, but what I am trying to get at is whether any of those restricted funds are classified as trust accounts, or actually titled trust accounts, even if there may be some uncertainty as to the status of such trust accounts.

Dr Flett: Perhaps I can read from the advice I am given, and that is that SPAs are not legally trust accounts. Western Australian Health has separately quarantined funds for trust accounts, such as patient funds and donations et cetera. Similarly, all commonwealth funds were quarantined, and so forth, as separate accounts. My advice here is: yes, there are trust accounts, but they sit outside of SPA accounts. That is the advice I have been given.

The CHAIRMAN: Can we have a list of all those accounts that have "trust" in their title that show they are a trust account—that is, accounts that were in the restricted funds that were drawn upon. You have explained how it is a global amount, but under that global amount you are saying that there are 1 200 or so different accounts.

Dr Flett: Yes, I can provide that, and some commentary as to the explanation of it, yes.

Ms R. SAFFIOTI: Back to the efficiency dividend question. We are estimating an efficiency dividend of $126 million again for 2009-10, following on from the $16 million from last year. I think you said Health only met $20 million of the efficiency dividend target of $60 million; was that right?

Dr Flett: To my recollection, I think it was $24 million.

Ms R. SAFFIOTI: Given that many of those items that would have been identified as part of that $24 million in 2008-09 would be flowing through, what is the expectation of achieving the efficiency dividend in 2009-10?

Dr Flett: Those efficiency dividends are still continuing to be driven. The issue now is, because we have a very tight budget in 2009-10, we are looking in multiple areas for savings. What we are doing has really overlaid the efficiency dividend in that sense. To clearly delineate, yes, this is an efficiency dividend, when in fact it is part of a bigger picture, is a bit difficult now because we have a requirement to—really, our target is more than the efficiency dividend.

Ms R. SAFFIOTI: What are the targeted savings for this year to achieve budget?

Dr Flett: If we were to achieve budget this year we would have to find in the vicinity of, as I mentioned at the last meeting, somewhere in the region of $200 million. Can I add that that is, at this stage, early in this financial year and it is an estimate only. That may well change because we have trends now showing savings that are coming in month by month. I would hope and expect these trends in FTEs to continue. When I speak of FTE, I am not speaking of a person; I am talking of a full-time equivalent, which may be overtime and all these other issues, but we have trends in the right direction that are working towards achieving that.

The CHAIRMAN: That $200 million worth of savings you just mentioned, is that simply the efficiency dividend, or is it made up of other components?

Dr Flett: No, it is more than the efficiency dividend. If it was the efficiency dividend, we would be talking of $120 million.

The CHAIRMAN: I presume that was just taken off your budget; cut straight off?

Dr Flett: Yes, it was. That was removed from the budget.

The CHAIRMAN: In addition to that $120 million, you have to carry, from the start of this year, what was paid from the preceding year, which you said was $70 million.

Dr Flett: Yes.

The CHAIRMAN: And $120 million plus $70 million makes $190 million. I have already asked you to provide supplementary information because there may actually be a rollover of expenditure from 2008-09, which is built into this year and which is another cost pressure you have to meet. Are there any other cost pressures you are aware of? Through the year, obviously, demand is something you cannot control, but are there other cost pressures you are currently aware of?

Dr Flett: We have cost pressures, yes, as a result of our very, very tight budget at the beginning of 2009-10; there are a list of cost pressures. If you wish, we could detail those for you.

The CHAIRMAN: That would be useful, please.

Dr Flett: Yes.

The CHAIRMAN: What was the growth of the 2009-10 budget on the actual outcome for 2008-09? Do you have the percentage growth? That is, the budget you were allocated in May for 2009-10, what percentage higher is that than the actual outcome you had for 2008-09?

Dr Flett: The growth over the 2008-09 budget into 2009-10 was 4.9 per cent.

Ms R. SAFFIOTI: That is what you have to operate within in 2009-10 in respect to the actual for 2008-09?

Dr Flett: Yes.

Ms R. SAFFIOTI: In respect to the preparation of the midyear review that Treasury is undertaking now, has Health informed DTF of the estimated increase in expenditure compared to the 2009-10 budget?

Dr Flett: We have actually been meeting with DTF every month and updating them as to our status of performance against budget in the 2009-10 budget. Clearly, they have that status every month, and clearly, with regard to the midyear review, that is part of it, and the identifying of particular issues in that midyear review.

Ms R. SAFFIOTI: Would Treasury have been told what we have been told today—that either you are going to achieve savings of $200 million, or you are going to be $200 million over budget.

Dr Flett: Yes.

Mr A. KRSTICEVIC: Dr Flett, you talked about the whole budget being in deficit for the last 10 years, at the end of each year; I am just wondering whether the health budget can actually be managed; can it come in on target; and, if it can, why, over the last 10 years, have we always found ourselves in this situation when we get to the end of the year? And, do the people who administer this below the director general actually take budgets seriously, or do they just assume that the government can—especially over the last eight years because there was so much surplus going around—throw in hundreds of million s of dollars at the drop of a hat?

Dr Flett: I am not in any position to talk about budget management of the past, because I was not in the Department of Health. I am just unable to make comment on that.

Mr A. KRSTICEVIC: Fair enough.

[10.55 am]

Dr Flett: With regard to the attitude of the current chief executives: no, they are taking it very seriously and working very hard. I cannot make comment on the past either. I have had comments made to me by some people such as, "Look, we've been here before and we've been topped up by Treasury." The problem with managing Health—we have 37 000 employees—is that you cannot manage the demand at your front door—that is, at the emergency department. What comes into the emergency department comes in. Mixed with that is demands put on Health to meet certain targets for elective surgery, which is a reasonable expectation as well. The key points in Health are elective surgery—looking after that surgery of the population—and acute health. They are the two areas.

There has been, more recently, not only state but commonwealth intervention with the management of elective surgery, with targets there, as a result of which we are more than meeting the targets. But there is a constant drive in the background for demand for health. One example in 2009-10 is swine flu. We had no extra money for that, but it was a huge demand that was placed on us, especially in our intensive care areas, which cost thousands of dollars per bed per day to run. So this is the unexpected demand that has been put upon us.

The second unexpected demand is in the north west. That is around two issues. One is the expanding activity of work in the north west and the pressure on health in that way. At the same time, Western Australia has a serious shortage of general practitioners. If it were any other state, there would be general practitioners out in the country, providing services to those people, and that would be paid for by the commonwealth government. There are not the general practitioners there; therefore, the state covers this cost. So, this is a further burden, and it is an expanding burden as the number of people who are now working and living in the north west increases. We know there is going to be further expansion, yet there is not going to be that same degree of expansion of medical practitioners to look after them. So they will come to our hospitals, and the state will be paying the extra cost. Now, it is very difficult to project and predict the extra costs. That was a substantial extra cost that we suffered in 2008-09 and that we will continue to suffer. Our biggest risk in all this is workforce—the adequacy of workforce for the future, not only in the north, but throughout the state. We are 400 GPs short per 100 000 population compared with other states. So, because of that shortage of GPs, the state is paying the health costs. It is very complex; that is what I am saying.

Mr A. KRSTICEVIC: So this year, when you asked for that $230 million, you would have expected, as in every other year, that you would put in an invoice and you would get a cheque,

without any questions at all, and all that would have been covered. What you are saying, from anecdotal evidence, is that Health and the people working in it were not worried about overspending, because there was this big pot of money called the government that was just going to give the money at the end of the day without too many questions being asked?

Dr Flett: Well, that was certainly not my assumption, because I saw that we were going into a very big ask in this 2008-09 financial year. That was not my assumption at all. My concern was that even if that was met, that was not any reason to be satisfied, because clearly it was necessary to curtail costs. What we are having in Health is no different from the rest of the world at the moment. Of that 12 per cent of growth that we had, most of it had been covered by government. But it was not a circumstance that I was at all happy with, even though others might have been.

Mr A. KRSTICEVIC: I suppose that obviously the budget was tighter this year because there was less money to hand over, and you have to manage within that tighter budget; therefore, there are pressure put on everywhere.

Ms R. SAFFIOTI: And, with respect, there was the $60 million efficiency dividend as well, which equates to the $70 million cash shortfall.

Mr A. KRSTICEVIC: I think you did exceptionally well, based on all those factors.

The CHAIRMAN: Can I bring this back, Dr Flett, to the $70 million hole and the way you have covered it. In terms of the components that you have outlined to us—that is, using cash flows in Health, and using your SPAs—in your final accounts sign off for 2008-09 do all of those numbers get picked up in your total expend, or does the fact that you have taken funds from that other account mean that it avoids that actually coming into your final accounts for 2008; and, if any of that now does not show up in 2008-09, which parts of it do not show up?

Mr Cloghan: I am not sure exactly of the question.

Dr Flett: Nor am I.

The CHAIRMAN: I will put it again. You had the $70 million hole that had to be filled by 30 June—the money had to be paid—and you used these unusual devices to do it. I am seeking confirmation as to whether all that expenditure—the full $70 million—is shown up fully in the audited accounts as expenditure for 2008-09, or will some of it be shifted into what will be the 2009-10 accounts, as expenditure?

Mr Cloghan: No. It is all reflected in the financial year, the expenditure.

Dr Flett: Yes, for that year.

The CHAIRMAN: Therefore, that means that that actually pushed you close on your Treasurer's advance. Your Treasurer's advance authorisation is about $188 million extra. Is that right? That is the authorisation to spend, as opposed to the cash that Treasury gives you. So the way I am reading it, the Treasurer's advance authorisation—the additional funding—was about $188 million. Treasury gave you $110 million of that. I am not sure whether that other $88 million covered expenditure that you had already undertaken. What I am trying to get back to is, in terms of making the decision to use restricted and restricted funds, what were the potential limitations on you legally? One set of limitations is that the funds were designated for certain purposes, and you were using them for another purpose. As you know, if lawyers take money out of a trust account, that is a capital offence, because that money has to be designated to that trust account, and they cannot shift it, for whatever good purpose, to some other account. So there were those issues around it. There was also potentially the issue that you might exceed your authorised expenditure for the year, which again I would put to you would be a breach of the accountability requirements under the act. So I am trying to find out how close you got to breaching what was your authorised expenditure for the year through both the budget and the Treasurer's advance.

Dr Flett: All I can tell you is what actually occurred, and that was that there was this gap of $70 million between the $110 million and the $180 million, and we were unable to fund that gap in any central way. Now, I cannot give you a legal opinion as to whether I have broken the law in doing that. I did not ask for, or get, a legal opinion. I got financial advice. I was in a situation of day to day trying to keep the health service moving.

Mr A. KRSTICEVIC: Just on that part, all the money sits in one account, does it not?

Dr Flett: Yes.

Mr A. KRSTICEVIC: And it has ledgers underneath it in terms of trusts and so on. So in terms of looking at the financial side of it, we are obviously talking about only a couple of days worth of money in terms of what the overspend was, or the amount that you had to draw down for that few days until early July. Was there anybody in those ledger accounts who could not do their job as a result of you drawing down that money?

Dr Flett: No; nobody was affected at all.

Mr A. KRSTICEVIC: So the health system continued to work as though nothing had happened at all?

Dr Flett: There was no impact from that drawdown for those few days when that occurred.

Mr A. KRSTICEVIC: So effectively everybody could do what they needed to do. As you said, it is one bank account, and you then manage that whole fund and distribute the money to people as they ask for it?

Dr Flett: That is correct, yes.

Mr A. KRSTICEVIC: Thank you.

The CHAIRMAN: I refer to page 3 of the written information that you have provided to us, and I will read it out so that other members will know what I am talking about. It states —

> Subsequent approved budget increases of $287 million increased the approved expenditure limit to $4.822 billion.
>
> The Department of Health's expenditure outturn was $4.906 billion, representing the expenditure in excess of final approval of $83.5 million. Additional revenue available to the Department reduced the operating deficit to $70.8 million.

[11.05 am]

Dr Flett: Yes.

The CHAIRMAN: The specific point I am trying to get an understanding of does not relate to what restrictions there might have been on your SPAs; that is one issue. Another issue is that agencies are not authorised to extend beyond the limit given to them by the Parliament. What I am trying to work out is whether you actually went beyond the limit set on your total expenditure for the 2008-09 budget.

Dr Flett: Clearly, yes, we have gone beyond that which is indicated here by that amount indicated, as has occurred in previous years with the department as well. We are going to furnish you with that information. It does not mean to say that this is correct or right, but it is a circumstance that has occurred in previous years as well.

The CHAIRMAN: I would like evidence of that, because my understanding is that that did not happen in every previous year for the last eight years; it happened in some. There is an issue between what is actually authorised and legal to be spent, and actually going over a budget because the Department of Treasury and Finance gives you extra money. There are two different issues there. You can actually overspend and your bucket is filled up; that does not breach the law in terms of expenditure. But there are, set by the Parliament, limits. That is why we have the Treasurer's

advanced authorisation, to extend that limit. What I am trying to get at is: was the law actually broken to the extent that the authorised cap on total expenditure in Health was exceeded?

Mr Cloghan: The answer to your question is simply, it was, as it had been previously, with the exception of 2005-06. The expenditure limit approved by government, with the additional amounts that flowed through during the financial year to the department, with the exception of 2005-06 that expenditure limit had been increased.

The CHAIRMAN: Can I just be clear on that?

Mr Cloghan: Sorry; it had been exceeded.

The CHAIRMAN: It had been breached?

Mr Cloghan: Yes.

Ms R. SAFFIOTI: Can I just ask for the breakdown of the over-expenditure in 2008-09, just to try to actually nail the source of funds for—I think this is where we have differing figures. I think the expenditure over the 2008-09 budget was $370 million, as described by Treasury in its annual statement of finances. Can we just have that confirmed?

Mr Cloghan: Can you just repeat that again?

Ms R. SAFFIOTI: Page 13 of the Treasury's annual statement of the state's finances, the one for 2008-09, states that the Department of Health was $370 million—or 8.2 per cent—over budget in 2008-09. That is from the 2008-09 budget to the actual, and it is expenditure, not appropriation. It states that it was $370 million.

Mr Cloghan: The opening amount in the budget papers was $4.535 billion.

Ms R. SAFFIOTI: Yes, I think it was $4.528 billion, but it was adjusted by $7 million for those liabilities.

Mr Cloghan: Yes.

Dr Flett: It was adjusted by $7 million, which took it to $4.535 billion.

Mr Cloghan: The approved budget increases throughout the year of 2008-09 were $287 million. The final budget that the department was operating was $4.822 billion. The outturn was $4.906 billion, giving over-expenditure of $84 million, which was offset by revenue that came to an outturn of a deficit of $71 million.

Dr Flett: It was $70.8 million.

Ms R. SAFFIOTI: As I understand it, if you compare the $4.535 billion to the $4.906 billion, that makes about $370 million, so that corresponds with the Treasury figure.

Dr Flett: Yes, that is the gap.

Ms R. SAFFIOTI: I want to try to break that down because I want to try to find the source of those funds, the $370 million.

Dr Flett: The components of the $370 million?

Ms R. SAFFIOTI: Yes.

Dr Flett: Okay.

Ms R. SAFFIOTI: As I understand it, you had funding for election commitments deducted by the efficiency dividend, then you had the over-expenditure that you went to Treasury for TAA. I have not seen anywhere the breakdown of that $370 million, and it would be great to have it.

Dr Flett: Part of the $370 million is approved budget increases of $287 million.

Ms R. SAFFIOTI: That was an approved budget increase of $287 million?

Dr Flett: Yes.

Ms R. SAFFIOTI: What did you get from the Treasurer's advance? Surely the Treasurer's advance for 2008-09 should correspond to $287 million.

Mr Cloghan: That figure of $287 million was provided throughout the year and was added to our initial expenditure limit for 2008-09.

Ms R. SAFFIOTI: Yes.

Dr Flett: It was individual components.

Ms R. SAFFIOTI: I can understand that the $287 million would have been election commitments extra funding that you would have got last December; it would have been when you went to Treasury to get your extra $110 million.

Dr Flett: I could give you others.

Ms R. SAFFIOTI: Sure.

Dr Flett: It is enterprise bargaining agreements, election commitments of $22 million, commonwealth grants and patient fees of $94 million, activity growth funded by EERC of $77.4 million, that sort of activity. It is ins and outs that make up this. Pilbara beds was $32 million—this came as well—and then there was some stuff taken out that finally came to $287 million, and the stuff taken out was an efficiency dividend of $60 million, there was the Royal Flying Doctor Service of $12 million and, in addition, a base commonwealth indexation of $87 million. Those ins and outs all came to $287 million.

Ms R. SAFFIOTI: I know there is a difference between appropriation of a consolidated fund and expenditure, but I am looking at the current Treasurer's advance bill, and that shows a breakdown of the approved expenditure to each agency for the 2008-09 year. I can see $188 million being provided through the Treasurer's advance; is that correct? Do you have that figure in front of you?

Dr Flett: I have not got that figure in front of me; I cannot verify that. We had an appropriation, to begin with, of $3.886 billion, and then a whole range of things cost $649 million, which basically took it up to a total cost of services of $4.535 billion, which was that starting point we mentioned before. The difference in Health is that we have appropriation, but then we have top-up of revenue and other things—own-source revenue and on forth—that bring it to that final cost of service figure.

Ms R. SAFFIOTI: Okay.

Dr Flett: Then on top of that is additional approved budget throughout the year, which takes us through to the final figure.

Ms R. SAFFIOTI: What extra revenue did you receive in 2008-09? Do you have an estimate of additional revenue above budget that helped?

Dr Flett: From the appropriation figure —

Ms R. SAFFIOTI: Sorry, not government revenue; other patient revenue.

Dr Flett: I do not have it off the top of my head, but we can give you that figure, yes.

Ms R. SAFFIOTI: That would be great. We are seeking additional non-state government, or non-government revenue.

Dr Flett: We term it "own-source revenue".

Ms R. SAFFIOTI: I would like a figure for the own-source revenue for 2008-09 actual, compared with budget.
[11.15 am]

Mr A. KRSTICEVIC: Just picking up on that, the Chairman referred to breaching the budget. That is quite a serious issue. Obviously in this case, when you went over budget you did not get the

$70 million that you needed, and I suppose the consequence of that was breaching the budget. I am just wondering whether in previous years there was any discussion about the consequences or about improving management processes because of all the breaches that were occurring over those previous years and the fact that there were always deficits going on.

Dr Flett: I understand that in previous years, there were always available funds—cash, if you like—to meet the deficit. So, from the point of view of getting to 30 June, there was never the point that I was in—the cash was able to be found to meet that cash demand to 30 June—whereas, this year, we did not have that cash.

Mr A. KRSTICEVIC: So, in effect, because of the global financial crisis and the government's revenue situation and the three per cent efficiency dividend, and all of the complications of swine flu and everything else that was occurring at the time, as well as the new financial management structures, it probably would have been almost impossible to be able to hit the target in terms of the budget?

Dr Flett: They were all contributing factors, clearly. Added to that, we did have an extra growth in FTEs during 2008-09. The reason for that is that in the first part of 2008-09, and in 2007-08, we could not keep beds open through shortage of nurses. Every day, we would be reporting on how many beds were closed through nurse shortages. Then in 2008-09, there was a downturn in the world economy, and nurses came back to their jobs, and we went from a shortage of nurses to not an excess, but an adequate number. That, in turn, had a significant impact on our constrained budget—it was in the order, I recall, of around $70 million to $80 million—and we were able to then suddenly get the nursing levels and the staff levels back to where they should have been in the past. So that was an added burden or extra load put on that budget for that year.

Mr A. KRSTICEVIC: So hospital facilities were not being utilised fully in the prior years because of the lack of staff?

Dr Flett: At any one stage, we would have up to 60 beds closed—these are tertiary beds in metropolitan Perth—because we just did not have the nurses. We are running very well at the moment, but our predictions are that in the next certainly five years, we will have this problem again through workforce reduction as the economy recovers, because nurses are readily recruited to other tasks.

Mr A. KRSTICEVIC: I can only imagine how big the deficit would have been had you been fully staffed in prior years as well.

Dr Flett: Yes.

Ms R. SAFFIOTI: You are talking about FTEs. In respect to the 2009-10 budget, I want to refer to the Treasury financial results report that was released recently. It comments on the health sector and says that there has been a seven per cent increase in the number of positions in Health, compared with the same time last year. I think it is saying that employee numbers are up seven per cent, or an additional 1 085 positions, from the same period last year. Given that you have got an expenditure limit, or your budget is increasing by 4.9 per cent from 2008-09 to 2009-10 and you are running about 1 000 positions, or seven per cent, higher than last year, and on top of that you have all the salary increases—I think three per cent for doctors and four per cent for nurses—what will you have to do to those positions to try to bring the budget on target?

Dr Flett: First of all, we find ourselves in that position as a result of my previous statement. We are now looking at and working very closely with nursing staff—it is not only nursing staff but also allied health; it is all staff throughout the hospitals—to where we now have a freeze on FTEs; there are no further FTEs to be taken on. We are now in the process of achieving—we have figures to demonstrate this—a significant reduction in overtime, and that has effectively seen a fall in FTEs. So the growth for last year—which is actually this year—shows a progressive increase. The problem is that when nurses are taken on, they are actually recruited up to six months before they

start. These are graduate nurses. So in 2009-10, we are taking on nurses for positions that were agreed to in 2008-09. That is the way it has always worked. So we have a challenge to manage FTEs. That is absolutely right. We have demonstrated already that that continued rise has plateaued and is now falling. It is a slow process. We cannot sack people in the public service. We can certainly look at their contracts, and if and when a contract ends decide whether it is necessary to replace that person, and in cases we are doing that. There is a variety of activities going on in managing FTEs, but we are constrained by the fact that even if we identify positions that are considered redundant in the future, or unnecessary, that person still remains on our books, because he or she has a job for life. Therein lies the challenge of managing FTEs in the short, sharp manner that one would like to. We have got the right trends, we are going in the right directions, and we will continue in this way, but unfortunately it is not going to turn around in the time frame that I would like to see it turned around in.

The CHAIRMAN: When you say "managing FTEs", are you implying that you are managing down the number of FTEs? Is that what you mean?

Dr Flett: Yes. We are managing down the FTEs. That is not necessarily people. This is by managing overtime. With this now adequate number of staff, we are incurring substantially less overtime. With this adequate number of staff in nursing, we are not using our nurses from Nurse West Services and other agencies, which incurs an extra 20 per cent cost. That is what I mean by "managing FTEs". It is managing the process around the FTEs.

Ms R. SAFFIOTI: In respect of this figure of 1 000 extra positions in the quarter that has just ended, compared with the same quarter in the previous year, if you are running at about 1 000 positions over, where do you want to end up at the end of this financial year?

Dr Flett: We have targets set for each month. There is what is termed, if you like, an ideal target to meet budget. There is also an affordable target, if you like. Now, somewhere in between that is what I personally believe to be the ideal. I must say that I am caught, again, between two points here. The predictions are that we are going to be short of workforce in the very near future. So the management of this has to be balanced against the knowledge that we have got an adequate number at the moment, but there is an absolute certainty of a shortage of numbers in the near future. I am not talking about five years away. I am talking about in the next two to three years. The CCI has done independent work on this, and I have consulted with them, and they confirm these figures. So it is trying to meet the best mix whereby we are not continuing to have the growth that we have had in the past, but we are not at the same time inappropriately removing FTEs throughout Health in the near future. I do not know that I have absolutely answered your question, but it is one that although we have got targets, the targets have to be realistic rather than idealistic.

Ms R. SAFFIOTI: What is the target reduction for each month, for example?

Mr Cloghan: The average for the entire year—that is, for each month—is expected to be 30 554. That corresponds to the wages and salaries component in the budget that we have been given.

[11.25 am]

Ms R. SAFFIOTI: So that is the average staffing level per month?

Mr Cloghan: Yes.

Ms R. SAFFIOTI: To achieve that, how much would you need to shed over the next six months?

Mr Cloghan: Well, the figure tracking for the first four months of this year, working from October backwards, is $31 298.

Ms R. SAFFIOTI: So that is the average staffing for October?

Mr Cloghan: For that month, for October. In September, it was 31 654; in August, it was 31 718; and in July, it was 31 601.

Ms R. SAFFIOTI: The average you want to achieve is —

Mr Cloghan: It is 30 554. That, as I have emphasised, corresponds with the slightly over $3 billion that we have been given by government for wages and salaries.

Ms R. SAFFIOTI: So, to get an average of 30 554 by the end of June you will need to be dropping to about 28 000 or 29 000? Would that be an accurate figure

Mr Cloghan: As Dr Flett said, there is a difference between what we are funded for and what, if you like, the system has the capacity to manage. Having set that figure of 30 554, I do not think it is the director general's expectation that we will meet that, because, as he said, it is a big ship to turn around. But they are the targets we have set ourselves.

Ms R. SAFFIOTI: Do you have the figure there for what it would need to be at the end of June to achieve the 30 554 average?

Mr Cloghan: It is 29 097.

Ms R. SAFFIOTI: That is the target that needs to be achieved to come in on budget?

Mr Cloghan: If nothing else changes. However, I should point out that, as you have noticed, there was an increase there in July and August . The department has yet to be funded for such things as swine flu. It has not been funded in terms of the payments it has made for redundancies in this quarter. So we would expect that the department will receive funding throughout the year, if you like, in recognition of those cost and demand pressures.

Dr Flett: And that is the issue with these FTEs. We are reporting on total FTEs. Now, buried within those are COAG funds that have been brought in. Those funds are FTEs. So, as such, this report is somewhat blurred in its content. We will be reporting—taking them out so that the report is much cleaner and related purely to activity with regard to our hospitals, rather than added activity from other sources, such as COAG funding and so forth. It is not a simple matter, looking at the full number. As we have dug into this, we have realised the detail that one risks in just taking raw numbers to interpret information.

Mr C.J. TALLENTIRE: So this discussion around FTEs is based on a hospital system that is heavily skewed towards the tertiary scale of things. How much better management and what sorts of savings could be achieved if we were to have a better matching of patient need to actual level of care? Could we have a system that has less emphasis on the tertiary level but is still a good quality health service where patients are having their needs met? I suppose my real question is: are there cases where patients are in tertiary hospitals when they do not need that level of care, and therefore we are going over budget because of that mistake?

Dr Flett: I would make two comments. The first one is that 30 per cent of our FTEs are nurses. That is a significant component of it. There is an agreed formula for the number of nurses per patient—it is termed nursing hours per patient day—and that was agreed with the unions and so forth. We are pretty well at that at the moment. Your point about tertiary and secondary hospitals is quite correct. If a patient goes to a tertiary hospital and has a relatively simple procedure, it will cost a figure in excess of $1 000 per day. If that same patient has that same procedure in a secondary hospital, with exactly the same outcome and length of stay, it will cost substantially less that. At the moment, our system has many patients who are certainly in the tertiary system, but if they were in the secondary system, it would be done at a cheaper rate. We are expanding the secondary system to take that on—for example, Rockingham hospital, with the increase in bed numbers, and the new Midland health campus in the same way. That will more appropriately distribute those patients who could be adequately cared for in a non-tertiary setting.

The CHAIRMAN: Thank you very much, Dr Flett, and Mr Cloghan. Just to formally close the meeting, thank you for your evidence. The transcript of this hearing will be forward to you for correction of minor errors. Please make these corrections and return the transcript within 10 days of

receipt. If the transcript is not returned within this period, it will be deemed to be correct. New material cannot be introduced via these corrections, and the sense of your evidence cannot be altered. Should you wish to provide additional information to elaborate on particular points, please include a supplementary submission for the committee's consideration when you return your corrected transcript of evidence. We would also appreciate, by way of supplementary information, answers to the questions that we raised and that you undertook to provide to us. We very much appreciate the time that you have given to the committee today.

Hearing concluded at 11.32 am

APPENDIX FOUR

QUESTIONS ON NOTICE ARISING FROM PUBLIC ACCOUNTS COMMITTEE HEARING ON 2 DECEMBER 2009

Government of **Western Australia**
Department of **Health**
Office of the Director General

Mr John Kobelke, MLA
Chair
Public Accounts Committee
Parliament House
PERTH WA 6000

Attention Ms Isla Macphail

Dear Mr Kobelke

QUESTIONS ON NOTICE ARISING FROM PUBLIC ACCOUNTS COMMITTEE HEARING ON 2 DECEMBER 2009

I refer to your letter of 4 December regarding the above and as requested have attached the Department's response to the 7 Questions.

Yours sincerely

Dr Peter Flett
DIRECTOR GENERAL

21 December 2009

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Response to Public Accounts Committee regarding
Questions on Notice Arising from Public Accounts Committee Hearing

1. The portion of the $70 million shortfall in funding that was covered by the deferment of payment to creditors by the Department of Health.

ANSWER:
In 2008/09 WA Health recorded a budget deficit of $70.8 million. Of the $70.8 million, $24.9 million was acquired from restricted cash holdings, $22.3 million was sourced from Special Purpose Accounts (other than restricted cash), and the balance of $23.6 million can be attributed to the deferral of payments to WA Health creditors beyond normal terms.

2. The cash reserves for the entire Department of Health at the end of the 2007-08 financial year and at the end of the 2008-2009 financial year.

ANSWER:
WA Health held general ledger cash balances of $237.418 million at 30 June 2009 and $208.981 million at 30 June 2008. Cash balances include funds set aside for capital works programs, trust accounts, restricted funds Commonwealth National Partnership Agreements and other Commonwealth programs.

3. Figures for the:
(a) deficit budget outcomes for the Department of Health for each of the previous ten years; and

ANSWER:
(a) Financial performance against the Department of Health final approved budget for the past ten years is detailed below.

There are two primary measures of financial performance. The first is expenditure outturn compared to the approved expenditure limit. The second is the Net Budget Outcome, which includes expenditure and revenue performance against budget. In nine of the past ten years, WA Health has exceeded its final approved expenditure limit. However, when additional unbudgeted revenues are taken into account, the table indicates the net operating surpluses were recorded in each of the years 2003/04 to 2006/07.

GOVERNMENT OF WESTERN AUSTRALIA

WA Health Budget Outcome	1999/00 $'m	2000/01 $'m	2001/02 $'m	2002/03 $'m	2003/04 $'m	2004/05 $'m	2005/06 $'m	2006/07 $'m	2007/08 $'m	2008/09 $'m
Expenditure Limit										
Estimated Actual (final budget as published in Budget Papers)	2,129	2,357	2,651	2,841	3,046	3,340	3,648	3,996	4,288	4,817
Actual Outturn	2,198	2,382	2,698	2,930	3,073	3,348	3,648	4,048	4,370	4,906
Under (over) expenditure - Outturn versus final published budget	(69)	(26)	(47)	(89)	(27)	(8)	0	(52)	(82)	(89)
Own Source Revenue in excess of Estimated Actual (deficit)	15	31	31	13	26	36	35	40	46	10
Revenue from Government in excess of Estimated Actual (deficit)	17	(13)	9	26	5	(5)	(27)	22	(1)	8
Net Budget Outcome	(38)	(8)	(7)	(50)	4	22	9	9	(36)	(71)

(b) additional allocations requested from the EERC or other 'top up funds' requested or any other additional allocations made during each of the previous ten years.

ANSWER:
(b) A consolidated list of requests for additional funding to EERC over the previous ten years is not available. The final approved expenditure limit for the Department of Health is published each year in the Budget Statements, and Health's final expenditure outturn is assessed against the approved final position.

4. A list of all accounts within the Special Purpose Accounts with the word 'trust' in the title.

ANSWER:

A list of all Special Purpose Accounts with the word "trust" in the title is provided below:

Paediatric Dermatology Trust (CAHS)
Palliative Care Services Trust (SMAHS)
Neurology Trust - HOD (SMAHS)

5. A list of cost pressures identified by the Department of Health for the 2009-2010 financial year.

ANSWER:
Major cost pressures indentified by WA Health for 2009/10 include:

- Increased hospital activity
- Additional investment in ICT programs (including the ICT business case "refresh");
- PMH Cardiology;
- Anticipated blood contract cost growth
- RiskCover (insurance) net increase;
- Electricity cost increases;
- Increased rent for the Department of Health's Royal Street offices;
- Increased intake of interns;

- Rockingham General Hospital transition costs;
- Indexation adjustments sought regarding the Joondalup Health Campus; and
- St John's Ambulance inquiry and contract negotiations.

6. Details of previous years, within the preceding ten years, in which the Department of Health exceeded the limits set by the Parliament on its total expenditure.

ANSWER:
Please refer to the response to 3.(a).

7. Figures for actual own-source revenue for the 2008-2009 financial year compared with budget projections.

ANSWER:
2008/09 total own source revenue was $878.1 million, $9.9 million in excess of the final approved budget of $868.2 million.