

**Extract from Hansard**

[ASSEMBLY — Tuesday, 18 February 2014]

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**MR B.S. WYATT (Victoria Park)** [4.14 pm]: I rise to respond to the Premier's Statement. What a summer it has been! One would have thought from the Premier's speech that it has been a lovely summer without discontent and without incident. I note that the Minister for Corrective Services is in the chamber. I will come to you very shortly "Schmackos"; do not worry! What a summer it has been. I think back and I cannot believe that the midyear review was so far away. It is almost forgotten that the document that highlighted the fully funded, fully costed lie came after we rose. So much has happened since then that I almost forgot all about the midyear review. The Minister for Culture and the Arts is back! I thought about him a bit over the summer. I went to a lot of the Fringe World Festival events and some of the Perth International Arts Festival events, and they were fantastic, but the best fringe show in town was the performance of the government. The best fringe show in town is what you guys were up to! I could not tear myself away from the train wreck every night. There were prisoners escaping every single day; it seemed to never, ever end. Then there was the shark cull strategy, which I thought was a wonderful example of how not to go about implementing policy. It was a tremendous example of how not to go about making a decision and having it implemented. Premier, I must admit that it was a pearler. When I saw the lovely photo of the Premier and the shark hook—the Premier remembers the photo—I thought the Fringe festival had got some pirates of Penzance! There was certainly an element of that. All the Premier needed was an eye patch to go with his look of glee at his big hook, which he then firmly stuck in his foot when he ran around actually implementing the policy.

**Mr C.J. Barnett:** Can I have a look at that photo?

**Mr B.S. WYATT:** Yes, I will see whether I can get it to the Premier. I will need it again, but I will give it to the Premier in a minute.

**Mr C.J. Barnett** interjected.

**Mr B.S. WYATT:** I will need to use it again.

Another highlight of the summer is the Public Transport Authority phone app. Now, because none of the things in the fully funded, fully costed promises are being built, the government is giving us a virtual response. People get in their car, get on the app and it refers to maps. Riverside Drive is still open on the government's app. As I think I said on Twitter, the problem with the app is that there are two versions—the "election 2013" version and the "reality 2014" version. The Premier has to update the app to the "reality 2014" version, because now we have not only an app that tells us, "Guess what, you're stuck in traffic"—thank you for that very useful information!—but also the designer himself said on Twitter how wonderful it was and that now the ability for a person to add routes as they drive has been added. The Premier nods his head, but for some reason I thought that there was something wrong these days with someone driving their car with their phone in hand changing the route on an app. I heard the Minister for Police saying how outrageous it was for a person to drive while playing on their phone. I knew the revenue issues were problematic in government, but now it has a policy deliberately designed for Western Australians to get on their phones while they drive their cars.

The Minister for Tourism's comments last weekend were tremendous: "You know what? This whole tourism thing is way too hard; get out there and do it yourselves, Western Australians. I am sick of doing everything with no money; get out there and do it yourselves!" Apparently Western Australians are travelling the world saying, "Gee, we live in a crap place." That is the whole premise of the tourism minister's policy. We all have to go out and promote Western Australia because it is way too hard for the government. What an extraordinary time it has been over the summer.

Then of course there was the Minister for Corrective Services. I want to reflect on this issue, because I heard the Premier say that the Liberal–National government was proud to be tough on crime. Let me reflect on one thing for a minute. There is a guy doing 15 years for a serious drug offence; this is a bad guy. He is not an exemplary prisoner 14 and a half years into his sentence. He was sentenced for 15 years and he escaped while walking a puppy in Wilson. Let us reflect on that. When I think “tough on crime”, I think of people doing hard labour. I do not think of a guy doing 15 years who escapes while walking a puppy. Wilson used to be in my electorate and it is a lovely part of the world to go for a stroll. The best thing about it is that he still has not been found. We still do not know where he is. Did we find the puppy?

**Mr J.M. Francis:** Yes.

**Mr B.S. WYATT:** Thank God! I am a massive fan of *The Great Escape* with Steve McQueen and that Triumph motorcycle. He escapes on it by jumping over the fence and away he goes. Who would have thought that a puppy would be the latest version of the Triumph! Here it is. When my daughter heard that the guy who was serving a jail term of 15 years escaped while walking a puppy, she went and got this toy puppy.

*Several members interjected.*

**The ACTING SPEAKER (Mr N.W. Morton):** Member for Victoria Park!

**Mr B.S. WYATT:** I will leave the toy puppy here because all around Western Australia the families of prisoners are cooking cakes so they can put toy dogs in them because that is how prisoners escape now—they take a dog for a walk! Yet here the Premier is saying that his government is tough on crime and tough on canines. What an extraordinary summer we have had. I could not believe it.

Then, of course, right at the end of summer, Parliament is about to resume. The Premier would have been thinking, “Oh, God, it must be over.” Then Tim Marney goes before a couple of committees and pulls down the pants of the government yet again. That showed me—before I come back to that in detail, and deal with some of the issues the shadow Minister for Health, the member for Kwinana, outlined—that when government is failing in policy implementation, it is decaying. When it cannot get right what its members say and what it does on just those key issues, we know there are some problems. I know it is tough for the Premier doing it all by himself; I understand that. He sits up there at Hale House demanding this and demanding that. Cabinet members are running around in circles in the cabinet room. I do not understand how he gets things done.

There have been a number of examples in which policy implementation has failed fundamentally, and I want to go through six or seven of them. I will start with the wages policy, because I have spent a long time in this place talking about the first-term wages policy. The Treasurer stood up and said, “I’m in charge of wages policy; I am the tough Treasurer, so I’m going to make sure that wage increases will be kept to either CPI or, at a maximum, WPI, and there is an FTE cap.” That policy should have delivered a maximum growth in wages of 2.1.2 per cent, but instead that failure of the first-term wages policy delivered a growth in wages of 37 per cent.

Do members remember the Premier’s net debt cap of \$20 billion announced just after the 2010 budget? What has happened since then? Unbudgeted extra revenue since the cap was imposed by the Premier has been more than \$6 billion. It is not for want of revenue; it is a problem with the spending side of things. I will quickly respond to the issue raised again by the Premier because, as I knew he would, he has been blaming the need for spending cuts on the GST. There has never been a budget shock from GST, members, as I have said before. The difference between what the government had budgeted for GST return and what the actual GST return was over four full financial years has been \$22 million or 0.02 per cent of our revenue base. There has never been a GST shock. The Premier has always known what our GST returns will be. The Premier’s problem has been that he has always spent money on the revenue he wished he had, not the revenue he actually has.

Therein lies the problem and why he has four strategies to deal with spending. There is the capital works audit. Incredibly, after designing a capital works program for six years, the Treasurer says that it is now no longer affordable. Over the past six years, the Treasurer and the Premier have been designing it. Now the capital works program is no longer affordable. I did not hear about the sale of assets when the Treasurer spoke of the fully funded, fully costed component of the election campaign. We know how successful wages policy was in the government's first term and farming it out to the Industrial Relations Commission is likely to have some more success, but we will see how that goes. The final strategy is to identify ways to increase the performance and efficiency of the not-for-profit sector and the economy. I thought that area involved "putting people first" and in 2008 the Economic Audit Committee was supposed to do all that, but we have walked away from that and moved on from it. Members should not let the Premier bluff them about there being a budget shock because of GST revenue. We always know how much GST we will get; the Premier's problem is that he always spends according to the revenue he wishes he had. If that is the case, members opposite should admit that this is a massive spending government; they should not run around pretending they are a bunch of conservatives.

Another example is the 457 visa school fees policy. What an extraordinary failure of public policy implementation. In its budget the government shows \$122 million of revenue, but three or four months later, in the midyear review, the government takes it all out again. What an appalling failure of public policy management. I refer to evidence given by Hon Peter Collier to the Standing Committee on Estimates and Financial Operations on 24 September 2013. The chair of the committee asked the Minister for Education the following question:

What role did the department have in developing the figures? Earlier you said that there are 4 500, but the budget said 8 600. What role has your agency had in developing these figures in the budget papers?

**Hon PETER COLLIER:** None.

He was sitting in Cabinet, of course, but we know that that is not relevant any more. He said, "None." Then the Premier wonders why he had to take \$120 million of revenue from the budget. We all remember the debacle around the reduction in the feed-in tariff—that key strategy, the fiscal action plan—which lasted a total of, from memory, about 15 hours. Despite the government specifically rejecting funding for particular programs, the Department of the Attorney General says, "Oh, what do we care; they'll back us up with money anyway", and it still entered into contracts. What culture is being created in government from cabinet down? It is extraordinary to think that a government department could ignore a specific decision of government. The Treasurer said that leave liabilities would be capped at September 2010 levels, but it has continued to increase and increase. As the former Under Treasurer said in evidence last week to an upper house committee, "Well, that's what happens if you don't do anything about it."

Big announcements and bad delivery have always been the way of the government. No-one takes charge of the delivery of what is announced from cabinet. That has always been the fundamental problem of the Barnett government. I quote Tim Marney,

"If you do not do anything about it, nothing happens."

What the Treasurer and Premier have never understood is that the job does not finish when they crack a gag in here or spit out a media release. They have to then go to departments and do the hard work. That is what they do not do; that is why the finances are in such diabolical shape.

I have to talk about the Metro Area Express—the fully funded, fully costed MAX—which was to be operating in 2018 but has been deferred to the never-never. I want to remind members how appallingly badly the MAX strategy and development policy has been handled. I say to members opposite who came into Parliament in the last election that the Premier rushed out to announce MAX on 2 September 2012. Do those members know why? The Bigger Picture advertisements were about to start about a nice light rail, so the announcement had to be made very quickly. That was on 2 September and on 3 September, the Treasurer was interviewed on 720 ABC radio. The first question he was asked was: how are you going to pay for it? The answer from the Treasurer was—“It’ll be paid for by—I’m assuming, or I imagine ...” The presenter interrupted with his next question, “Has cabinet endorsed it?” to which he replied he did not know. When asked how long it would take, the Treasurer said, “12 to 18 months I’d imagine.” In 2012 it was going to take only “12 to 18 months I’d imagine”, said the Treasurer and Minister for Transport. The questions continued with: what is it going to cost? I quote the Treasurer, who said on radio —“I think it will be over a billion dollars or at least a billion dollars or more than a billion dollars ...” That is the hard work that went into MAX by the Treasurer and transport minister. Ultimately, like the shark cull strategy, which probably did not go beyond more than a picture of the Premier holding a big hook, the media strategy was far more important than the actual delivery of the policy. That is why MAX has failed. I again remind members of the tremendous dorothy work from the Minister for Transport. After MAX was announced in September 2012, on 18 September he came into the chamber and was asked by the member for Morley a dorothy dixer about MAX. In September 2012, the transport minister said the following about MAX — “There is a lot of positive support for it right across the community. There is some frustration that it will take some time to get off the ground.” When the Leader of the Opposition asked when it would start, the transport minister replied, “Once again, it will start in 2016.” He then went on to attack the Labor Party’s light rail proposal by saying that it is fully funded from a funding source that has no money in it. That was the Treasurer. Perhaps instead of coming in here and enjoying the punchline he should have been wondering how he would pay for MAX light rail. Again, he had no focus on delivery. Again, in June 2012, he attacked Hon Ken Travers, which the Treasurer likes to do, when he stated —“When Hon Ken Travers was asked when he would start work on this plan for a light rail, he said that how quickly it can be built comes down to the state of finances. The fully funded plan now has no money.” It says something when the Treasurer of the day critiques the opposition for saying that it depends on the finances of the state. The problem is that the government made fully funded, fully costed election promises that it ultimately had no intention of delivering.

I remember distinctly the Premier’s statement following the Labor Party’s press conference in February last year, Valentine’s Day, in which the opposition announced its savings to help pay for its Metronet proposal. Out popped the Premier saying, “These are important projects. The opposition is just walking away from important projects that we are going to do.” I can tell the Premier what the opposition did. It was honest with the people of Western Australia. The opposition realised that not everything could be done because debt is at a level which means it cannot be done. If I as shadow Treasurer knew that, the Premier and the Treasurer surely knew. If I knew, the Premier knew and, therefore, he deliberately deceived the people of Western Australia.

**Mr C.J. Barnett:** No.

**Mr B.S. WYATT:** Yes, absolutely. The government cannot say something is fully funded and fully costed and then suddenly walk away from it when it gets re-elected.

*Withdrawal of Remark*

**The ACTING SPEAKER (Mr N.W. Morton):** I ask the member for Victoria Park to withdraw his comment “deliberately mislead”.

**Mr B.S. WYATT:** I think I said “deceived”. I withdraw.

*Debate Resumed*

**Mr B.S. WYATT:** When the Liberal Party tells a lie at the election, it has to be held to account. That is exactly what the opposition intends to do. I will remind members of the words “fully funded, fully costed” in every speech I make between now and 2017.

**Mr C.J. Barnett:** You have three years to do it.

**Mr B.S. WYATT:** Squawk, squawk, squawk! You will be gone.

**Mr C.J. Barnett** interjected.

**Mr B.S. WYATT:** Squawk, squawk, squawk! Come on, pirate!

[Member’s time extended.]

**Mr B.S. WYATT:** When MAX is dead, we get the line to the airport, Mr Acting Speaker, which the Treasurer is no doubt familiar with. The Treasurer pops up and says, “You know what? It’s going to be all underground. We are going to do a 12 kilometre tunnel out to Forrestfield.” That is his response to the crumbling ruin of the government’s credibility in respect of public transport. I remind members of what the Treasurer has committed to over the years. I am still waiting for the floating of Orrong Road. It is still not floating and congestion is getting worse. The Treasurer promised \$100 million for the Busselton airport. We are waiting for the Busselton airport upgrade. I remember a speech to the Committee for the Economic Development of Australia in which he promised, as opposition leader, a state-based maternity leave program. He has promised the lot, colleagues. Do not believe a word he says because he never intends to deliver on them.

I want to spend the better part of my last 13 minutes talking about risk, something that the member for Kwinana has spent some time on. Ultimately, I want to tell the Minister for Health about the problems he will have with the Serco contract. For the life of me, I do not understand, when the Premier says it is the most complicated contract in the history of Western Australia, why it is a 20-year contract.

**Dr K.D. Hames:** I don’t think he said that.

**Mr B.S. WYATT:** I wrote it down. He did.

**Dr K.D. Hames** interjected.

**Mr B.S. WYATT:** Shush! No! It is the most complex contract in the history of Western Australia yet it is for 20 years. Any right-minded government or private sector organisation would give a shorter period to see how it operates. The government has locked away a 20-year contract based on a flawed public sector comparator. The public sector comparator is in the report referred to by the shadow Minister for Health, and that is the sixteenth report of the Public Accounts Committee, dated June 2012 and titled “Building Foundations for Value”. It is a bipartisan report with no dissenting report. Labor and Liberal members all agreed with this particular report. Interestingly, the committee looked at how the Department of Health formulated the public sector comparator. The PAC found that there were four versions of the public sector comparator. They all depended on length of contracts and what was included in that particular public sector comparator. If the public sector comparator is wrong, the contract will be wrong. I make that point now. One of the key intellectual principles underpinning the use of PPP-type contracts is the notion that project risks can be transferred to parties best able to manage those risks. Mr Sebbes from the Department of Health

made the key point in evidence to the Public Accounts Committee on 24 April 2012 when he answered this specific question that was put to him, which stated —

“In order to handle that complex integration of the two systems, my understanding from talking to IT people is that you would have a detailed contractual arrangement to know how you share the risks by integrating the two systems.”

“Can you provide us with a copy of that? Is it in the major contract, is it a separate document, or is it a document that is still being worked up?”

Mr Sebbes replies—

“It is incorporated into the contract. The principle of that is that Serco need to match up with whatever system we provide on the day.”

The chairman of the committee responds —

“So what you are saying is that you will be able to shift the risk totally to Serco with them having to match to your patient administrations system.”

Mr Sebbes’ answer is, “Yes”.

The Department of Health was fundamentally wrong, and I will take members through a couple of issues. A complicated part of that PAC report is about what is known as asset betas. According to the PAC report —

“Asset betas are used in some finance calculations as a measure of systematic risk and they are central to the development of the discount rate to be applied to the private sector bids. Asset betas are defined in the IA Guidelines, which provides for a consistent approach to the application of systematic risk in PPPs in Australia. The asset beta defines asset types according to ‘very low’, ‘low’ or ‘medium’ risks. Medium is the highest form of risk available. It has become less complicated because they are all formulated by Infrastructure Australia on an agreed set of principles across the country. The information and communications technology risk was medium, at 0.9. The very highest level of risk was allocated to ICT. There were the two final public sector comparators. There was August 2010 and June 2011. That is the same month the contract was signed and the same month the Minister for Health put out his media statement saying that the Serco contract would save hundreds of millions of dollars.

Stick with me, members, it is complicated. In August 2010 the public sector comparator excluded ICT. It was not there; it was not part of the deal. The June 2011 comparator obviously included it. For some reason, the commercial advisors, Paxon Group, came to the conclusion that when the ICT components were included in the public sector comparator, developed in July 2011, an asset beta of 0.3 was utilised, indicating that Paxon Group—commercial advisors—took the view that the risk profile of the project had decreased despite the inclusion of the ICT components. Health was operating under the assumption that if the ICT components are included in the public sector comparator, and therefore in the contract with Serco, the risk was lower than if they were excluded. It is a perverse suggestion. Everyone in this house must recognise that, and the PAC report made that point. The report states at page 94 —

“This is a counter-intuitive shift that is not supported by the evidence or the guidance contained in the IA Guidelines. “

That means that the Department of Health never understood what it was doing or the level of risk in the public sector comparator and, therefore, it never understood what it was trying to achieve in the contract with Serco that the minister rushed to sign in July 2011, and then claimed in his media statement it was going to save Western Australians hundreds of the millions of dollars. We just do not know whether that is true, which is why Tim Marney made this point in his evidence in response to a question from the member for West Swan, which states—

“... one could argue that the Serco contract has complicated things to such an extent that it has increased the risks and increased costs to government.”

Mr Marney responds—

“One could argue that. Whether or not one is correct, you would have to actually go back and I think re-run the public sector comparator on the actual contract that is now in place.”

Remember that the public sector comparator assumed by Health is different from the risk allocation that was signed in the contract with Serco. Mr Marney’s answer continues —

But it would be fair to say that the extent of risk transfer and therefore the extent of benefit of going down this path has changed relative to the original public sector comparator. Not only the extent of risk but also the level of risk has changed. In my view the Department of Health, to be frank, was advised hopelessly by the Paxon Group, and it was ultimately out there alone because Treasury was not involved to the extent necessary. As I said, that is why in a unanimous report the Public Accounts Committee, which comprises both Liberal and Labor members of Parliament, agreed to the finding at page 94, which reads —

“... the Department of Health did not have sufficient understanding of the work of its commercial advisor ...”

Therefore —

“... Treasury needs to apply a greater level of scrutiny to the work being carried out by commercial advisors ...”

Minister for Health, that finding was made with bipartisan support. Finding 47 reads —

“... the ICT components were not taken into account when calculating the discount rate used to analyse bids.”

Members should think about that. The Department of Health had no idea of the actual risk profile of the information and communications technology components it was seeking to transfer to Serco. Serco hopelessly, completely and utterly out-negotiated the government on the ICT risk. Hence recommendation 4 reads —

“... Treasury needs to ensure that the asset beta” —

That is the risk measurement —

“used for projects ... reflect the risk associated with ICT projects when calculating discount rates.”

The Minister for Health now says that we will get \$500 million in savings from the Serco contract. The government has already lost \$330 million, right? But the reality is —

**Dr K.D. Hames** interjected

**Mr B.S. WYATT:** Already \$330 million has been spent. The savings are disappearing.

**Dr K.D. Hames** interjected.

**Mr B.S. WYATT:** Shoosh! The minister will get a chance to get up. The savings are disappearing rapidly. The minister does not seem to accept that the public sector comparator was flawed and therefore the contract with Serco was also flawed. Taxpayers are on the hook because the very base work was not done correctly. What worries me is that the Minister for Health does not seem to understand that. The Public Accounts Committee worked all this out in 2012. The government is saying that it takes responsibility, but it will be a big new hospital that everyone will love. If the government is not going to learn from its mistakes and get the basic stuff with the public sector comparator right, this situation is doomed to be repeated. Members opposite can say that it will all be okay when we cut the ribbon and put up the plaque and that it will all be wonderful, but that is an appalling way to manage the state’s finances. It is not because of goods and services tax, members, and it is not because of any external issue with the economy. The reality is that revenue

has increased by nearly 40 per cent since the Liberals have been in power. The problem is that its expenses have increased by 53 per cent. If the government is to average recurrent expense growth at 10 per cent a year, keep doing it and debt will keep going up, but do not come in here and pretend for a minute that it is all because of the GST. As I said at the very beginning, there has not been a GST shock.

Yesterday Tim Marney highlighted the fact that the Premier's career-long antagonism towards Treasury is now destroying the way this government goes about implementing public policy. This is all about the Premier's career-long antagonism towards Treasury. I go back to the letter from John Langoulant that I have quoted time and again. In 1998, John Langoulant, the then Under Treasurer, wrote to the Premier and Treasurer, Richard Court, fingering the member for Cottesloe for his slack attitude towards finances and because he made promises regardless of the state of the budget and regardless of what cabinet said. The same thing is happening now but on a much larger scale. The member for Cottesloe has form. If members opposite are going to silently lead from behind, at some point these chickens will come home to roost. I can tell members now that regardless of which party wins in 2017, it will be a couple of tough terms because the government cannot destroy the flexibility of future governments to the extent it has done so without a reckoning. The government should not think for one minute that it can sell this and that to get away with it. The government's problem is a bad governance process that is centralised in Hale House. Cabinet is not involved and does not care. Treasury is finally trying to flex some muscle to get back in on the game. But I tell you what, members—that horse has bolted.