

Annual Report

- 1.1 Under Section 16 of the *Public Works Committee Act 1969* (the Act), the Parliamentary Standing Committee on Public Works must table in each House of the Parliament a report of its proceedings during the calendar year just ended.
- 1.2 All public works that have an estimated cost exceeding \$15 million must be referred to the Committee and cannot be commenced until the Committee has made its report to Parliament, and the House of Representatives resolves that it is expedient to carry out the work.¹
- 1.3 The Act states that in considering and reporting on a public work, the Committee shall have regard to:
 - the stated purpose of the work and its suitability for that purpose;
 - the necessity for, or the advisability of, carrying out the work;
 - the most effective use that can be made, in the carrying out of the work, of the moneys to be expended on the work;
 - where the work purports to be of a revenue-producing character, the amount of revenue that it may reasonably be expected to produce; and
 - the present and prospective public value of the work.²
- 1.4 During 2012 the Committee reported on 20 works.³ The combined cost of works approved in 2012 was \$3.25 billion. A list of the works and their individual costs is at Appendix A.

1 The Act, Part III, Section 18 (8). Exemptions from this requirement are provided for work of an urgent nature, defence work contrary to the public interest, repetitive work, and work by prescribed authorities listed in the *Regulations*.

2 The Act, Part III, Section 17 (3).

3 The reports dealt with works referred in 2011 and 2012. Some referrals made in 2012 will be reported on in 2013. Only 19 of the 20 reports recommended expediency.

- 1.5 The Committee also approved 31 medium works notifications (those valued between \$2 million and \$15 million), with a combined value of \$248.5 million. A list of medium works approved by the Committee can be found at Appendix B.
- 1.6 The Committee's reports, submissions to each inquiry and transcripts of associated public hearings for 2012 are available on the Committee's website.⁴ A list of all Committee meetings and hearings held during 2012 is at Appendix C.
- 1.7 The Committee's website also provides previously tabled reports, and the procedure manual which assists agencies to prepare projects for Committee review.

Inquiries and reports

- 1.8 The Act requires the Committee to consider and report on each referred work 'as expeditiously as is practicable'.⁵ Therefore the Committee endeavours to ensure that all inquiries are completed as quickly as possible, without compromising the rigour of scrutiny.
- 1.9 The standard inquiry process allows time for public comment on proposed works, and for the Committee to inspect the proposed work site(s) prior to holding public and private hearings to take evidence about the works. When planning inquiry timetables the Committee and proponent agencies must consider the parliamentary sitting calendar as generally referrals are initiated only when the House is sitting and reports need to be tabled in both houses of the Parliament.⁶
- 1.10 In 2012 the average time from referral of works to report tabling was around 17 weeks. However timeframes varied considerably between individual projects, with the Committee completing an inquiry in as little as 10 weeks for some, with 30 weeks being the maximum time from referral to tabling. Given this variation the median timeframe of around 15 weeks is more representative of typical inquiry duration.
- 1.11 In addition to the constraints on timing of referrals and reporting outlined above, the time taken by the Committee to complete an inquiry can also be

4 <www.aph.gov.au/pwc>.

5 The Act, Section 17(1).

6 In any event, a work cannot commence until after the Committee has reported to both houses and the House of Representatives has resolved that the work can commence – the latter of which can only occur when the House is sitting.

affected by the quality of information provided by proponent agencies in their statements of evidence. Delays in completing inquiries are more likely to occur if the Committee has to go back to agencies to seek more detailed information or clarification in order to satisfy its legislative responsibilities. While generally speaking the Committee was pleased by the quality of information provided by most agencies in 2012, there was in some cases room for significant improvement.

- 1.12 As noted in previous Annual Reports, substantial breaks in the parliamentary sittings and federal elections can delay projects timeframes. On 30 January 2013 the Prime Minister announced that an election would be held on 14 September 2013, with the writs to be issued and the House dissolved on 12 August 2013. All Committee business would cease at this time, and would resume following the election when the government has been established and committee members have been appointed. The Committee takes this opportunity to remind agencies currently considering projects for referral over the coming months that it is important to consider implications of the election and to plan accordingly.

Medium works

- 1.13 The Committee publishes a list of medium works notifications on its website. The current list includes works approved since the beginning of the 43rd Parliament.
- 1.14 In accordance with previous advice, the Committee reminds Australian Government departments, agencies and authorities of their obligations under the medium works process. This Committee emphasises that the medium works process forms an important part of the parliamentary scrutiny of Commonwealth public works expenditure.
- 1.15 The Committee approved 31 medium works in 2012. However, some notifications did not receive immediate approval.
- 1.16 A number received approval after providing additional information at the Committee's request, either in writing or via a private briefing. Approval for some medium works projects was conditional subject to the proponent agency submitting regular progress reports and/or inspection by the Committee.
- 1.17 Four medium works notifications received in 2012 have not progressed to approval by the Committee. In one case the Committee sought further information, and was subsequently advised by the proponent agency that

following internal review of the associated costs and benefits, a decision was made not to progress with the project.⁷

- 1.18 In another case, the medium work notification was part of a larger project to be funded with contributions from a number of Commonwealth government sources, and with additional financial contributions from state government sources. As the proposed total cost to Commonwealth exceeded \$15 million, the Committee sought referral of the project for full inquiry.⁸ The agency has advised that it will not refer the project.⁹
- 1.19 In the third case, the medium work was notified to the Committee and approved. However, subsequent advice from the agency indicated that the project would exceed \$15 million threshold and the work would be referred.¹⁰ The referral is expected in 2013.
- 1.20 Approval for the remaining medium work project, which was notified to the Committee late in 2012, was deferred pending additional information to be provided by the agency.¹¹

Cost estimates

- 1.21 Accurate cost estimates for public works projects are essential if the Committee is to effectively exercise its legislative responsibility. The Committee makes many of its determinations on the basis of information provided by the proponent agencies. In doing so it relies on the accuracy of the information provided with regard to cost estimates. If there are significant changes to project costs during the delivery phase agencies are required to advise the Committee and seek further approval.
- 1.22 During 2012 the Committee received a number of notifications detailing significant increases to project costs (cost overruns). For two projects that were initially notified to the Committee as medium works in 2010, the

7 Correspondence to the Committee dated 24 April 2012.

8 Correspondence from the Committee dated 14 September 2012.

9 Correspondence to the Committee dated 7 March 2013.

10 Correspondence to the Committee dated 4 February 2013. As this is now an expected referral, it has not been included in the list of approved medium works at Appendix B.

11 Additional information was provided to the Committee in 2013 and the medium works was approved on 7 February 2013.

increase was such that the threshold for referral was exceeded. Both projects were referred to the Committee in 2012 for full inquiry.¹²

- 1.23 On another occasion in 2012, the Committee was advised of a significant increase in the cost estimate for a referral only one month after expediency. In this case, as the project design progressed unanticipated technical challenges were encountered.¹³
- 1.24 The Committee recognises that estimating project costs is not an exact science. The actual cost of a project is not known until the project has been completed. A level of uncertainty is necessarily attached to cost estimates. Generally, the level of uncertainty is greater for estimates made earlier in the project development life cycle, and reduces over time as the project progresses to completion. This uncertainty should be accounted for by a robust assessment of risk, and offset by the inclusion of adequate contingency.
- 1.25 During the year, the Committee was notified of a number of cost overruns occurring (at least in part) as a result of labour shortages and the increased costs of labour associated with the mining boom. Additional labour costs were also a factor associated with some cost overruns for projects located in remote locations.
- 1.26 Although optimism bias (i.e. the tendency to underestimate risk and therefore the level of contingency needed) is a well-recognised phenomenon, the Committee is concerned about cost overruns, particularly when these relate to prevailing market conditions which should have been accounted for. Therefore, the Committee reminds agencies that robust assessment of risks and the provision of adequate contingencies should be applied to reduce the risk of cost overruns.

Post-implementation reports

- 1.27 In accordance with a recommendation of the ANAO, all public works projects that fall within the Committee's purview must provide a post-implementation report on completion. The purpose of the report is to inform the Committee whether the project remained within the advised scope, cost and timeframe. Information on the following should also be included in the report:

12 Defence Housing Australia referrals for proposed upgrades of on-base housing for Defence at Larrakeyah Barracks, Darwin, NT, and RAAF Base Tindal, NT. See Report 6/2012.

13 The proponent agency provided a private briefing to the Committee on 22 August 2012.

- the extent to which the expected business benefits, including environmental benefits, have been or are expected to be achieved;
 - user satisfaction with the delivered works;
 - consultations with neighbouring communities that may be impacted by the works; and
 - lessons learned.
- 1.28 In 2012 post-implementation reports were received for three projects.¹⁴ Although it is still early days, the Committee acknowledges the potential for post-implementation reports to provide benefit to agencies and the Committee, by promoting a more rigorous approach to the quality of information provided to the Committee by agencies, and highlighting matters which may warrant particular scrutiny in future referrals.
- 1.29 The Committee has provided a post-implementation report template which is available on the Committee's website to act as a guide.¹⁵

Review of the *Public Works Committee Act 1969*

- 1.30 In its 2011 Annual Report, the Committee reported that it had liaised with representatives of the Department of Finance and Deregulation (DoFD) to consider amending the *Public Works Committee Act 1969* to enhance the utility of certain provisions and update others.
- 1.31 Particular consideration was given to the Section 18(8)(b) of the Act which allows for the Minister for Finance and Deregulation to move an expediency motion in the House of Representatives for works that are deemed urgent without the need to first refer the work to the Committee for inquiry. As currently framed this provision fails to provide for urgent works that may arise when the Parliament is not in session. Furthermore, once expediency on the basis of urgency has been passed by the House the Committee has no role in scrutinising the works.
- 1.32 Consideration was given to proposals to amend the Act so as to establish a mechanism for commencement of urgent works when the Parliament is not in session and to enhance scrutiny and accountability of works not

14 Defence, HMAS Butterworth; DHA, Gordon Olive Estate; FaHCSIA, Tuggeranong Office Park. Similar information was also provided by some agencies in relation to medium works projects notified to the Committee (e.g. ANSTO, Environmental Radioactive Measurement Centre).

15 <http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committees?url=pmc/index.htm>

referred for inquiry on the basis of urgency by mandating minimum reporting requirements to the Committee.

- 1.33 In May 2012 the Special Minister of State, The Hon Gary Gray MP and representatives of DoFD accepted an invitation to brief the Committee and explain in more detail the rationale and implications of proposed amendments to the Act. In September 2012 the Committee received further correspondence on the matter from the Special Minister of State. However, due to a heavy workload in the second half of 2012 the Committee has not been able to significantly progress with its consideration of the proposed amendments.

Enhancing scrutiny and accountability for urgent works

- 1.34 The Committee has previously stated that urgency provisions in the Act should only be used in exceptional circumstances. Importantly, the Committee has emphasised that the urgency provision should not be abused or misused, for example as a mechanism to avoid scrutiny.
- 1.35 In November 2012 the Department of Immigration and Citizenship (DIAC) sought expediency on the basis of urgency to commence works without referral to the Committee for regional processing facilities on Nauru, and Manus Island, Papua New Guinea to house irregular maritime arrivals (IMAs). The need for urgency was on the basis that IMAs and staff were already housed in temporary facilities with little amenity on sites in Nauru.
- 1.36 While cognisant of the urgent need to undertake work immediately, the Committee was nevertheless also keen to investigate options to support to greatest extent possible the principles of parliamentary scrutiny of proposed government expenditure on public works and of accountability.
- 1.37 On 1 November 2012 an urgency motion was passed by the House which allowed for the commencement of 'preliminary capital works' on Nauru, comprising basic site preparation, waste water treatment plants, septic systems and power generators. Importantly, in moving the urgency motion the Special Minister of State indicated:

I am mindful that projects of this magnitude should be put forward for a full referral. The government very much supports the work of the Public Works Committee and has not taken this decision lightly. Therefore, as soon as possible, the Department of Immigration and Citizenship will arrange for the remainder of the

infrastructure and upgrade works for the regional processing centre on Nauru to be referred to the Public Works Committee for scrutiny.¹⁶

- 1.38 On 29 November 2012 a second urgency motion was passed by the House to allow for the continuation of works on two sites in Nauru, commencement of work on a third site and for preliminary works to commence on Manus. In this motion, The Hon Peter Garrett MP, representing the Special Minister of State, reiterated the intent that the remainder of the works be referred noting:

The Department of Immigration and Citizenship has consulted with the Chair of the Public Works Committee, who has supported continuation of the works, given their urgent nature. During the exemption period, DIAC will report fortnightly to the Public Works Committee on progress and will arrange for the remainder of the works to be referred to the Public Works Committee for scrutiny.¹⁷

- 1.39 Since late November 2012 the Committee has received regular progress reports from DIAC. Furthermore, the Committee expects that that any portion of the project not granted expediency on the basis of urgency will be referred to the Committee for full inquiry.

Conclusion

- 1.40 The Committee thanks everyone who has assisted or participated in the Committee's inquiries in 2012. In particular, the Committee appreciates input from all interested parties, including members of the public.
- 1.41 The Committee makes particular acknowledgement of the contribution made by the Special Claims and Land Policy Branch, DoFD. This branch assists agencies with their preparation of proposals for consideration by the Committee, and assists the Minister in his management of the *Public Works Committee Act 1969*.
- 1.42 The Committee thanks Ms Janelle Saffin MP for chairing the Committee from the start of the 43rd Parliament to last sitting week of 2012. As Committee Chair Ms Saffin has shown her commitment to the work of the Committee and displayed exemplary integrity at all times.

16 *House of Representatives Hansard*, 1 November 2012, p. 12919.

17 *House of Representatives Hansard*, 29 November 2012, p 13903.

- 1.43 The Committee also thanks Mr Steve Georganas MP and Mr Bernie Ripoll MP for their service on the Committee.

Ms Kirsten Livermore MP

Chair

18 March 2013

