

**Centre for Regulatory Studies**

Tuesday, 26 June 2007

Inquiry Into Strengthening Government and Parliamentary Accountability in Victoria  
Public Accounts and Estimates Committee  
Victorian Parliamentary Committees  
36 Spring Street,  
MELBOURNE

Dear Chairman Stensholt,

Following a conversation with Ms Karen Taylor (on behalf of your Assistant Executive Officer, Jennifer Nathan), I am most grateful for the opportunity to make this late submission to your Committee. I would like to congratulate the Parliament on undertaking this Inquiry. In addition to comments made by the Australasian Study of Parliament Accountability Working Party, of which I am a member, I wish to make a few small additional comments.

I have for some time been involved in research into matters of governance in Victoria and in particular, have been investigating public private partnerships, privatisation and government contracting. I believe that the notion of 'options for the next phase of strengthening government and parliamentary accountability in Victoria' has been narrowly conceived in your terms of reference, but I nonetheless wish to make a few comments relating specifically to items:

- a) Parliamentary Committees, and
- e) Modernisation of Parliament.

There has, since the Kennett Government in Victoria, been a gradual transition of public sector officials from providing 'free and fearless advice' to Ministers, towards a role better described as 'policy advocacy'. This has, in my judgement, seen a change in the public realm where citizens now regard bureaucrats not as neutral stewards of their taxes, but as policy advocates on behalf of current government masters. The contractualisation of senior public officials has strengthened this trend. The consequence of this is that Parliament itself, in my view, now struggles to see free and fearless advice, and can even be captured by advocates, whether fellow Ministers, bureaucrats or commercial consulting companies! One way out of this dilemma is to be better informed and supported by a more carefully defined range of Parliamentary Committees to cope with today's events. I therefore recommend a quantum strengthening of state Parliamentary Committees.

The place of the Parliament in oversighting public infrastructure works is an example. On this matter, I make the following points:

- a. Since the abolition of the old Public Works Committee, there appears to have been little systematic Parliamentary oversight of infrastructure works, no central works program available to the Parliament or to citizens, and little independent up-front evaluation of such public works. This absence of works program knowledge continues to leave the state open to deal-making for individual projects which are a priority for either bankers or special interest groups rather than a priority for the public interest. (This is particularly the case with toll roads, where governments are now able to sign up private citizens and their children to pay

for works which have not been of high enough priority to fund through the state's public funding mechanisms.)

- b. With PPPs, as well, I have been personally amazed at how few Parliamentarians know even a basic summary of the deals that are being entered into by the state on behalf of citizens. The fact that PPP deals are not subject to any independent regulation (like electricity assets, ports assets or gas assets) is also a concern – the state now risks lurching from one private consortium-government deal (which usually ties the next ten to fifteen state governments) to another! In terms of planning, too, it appears to me that there is a chasm in the planning for such projects, with lots of 'planning' appearing to go on after the decision to proceed rather than before it.
- c. There are now multiple options for funding infrastructure between the traditional public budget funding mode at one extreme and the private merchant bankers' funds at the other, yet there has been no public discussions of these options to date. Despite it being in the Parliament's interest, and the interests of citizens, it does not appear to be a priority for PPP advocates.

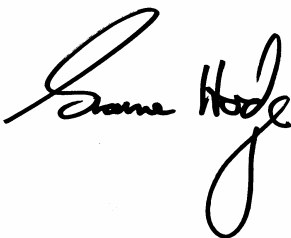
The place of the Parliament in overseeing major events is another example. On this matter, a Parliamentary Committee on major events may also be a possibility given that such events are subject to huge spin and independent assessments are almost non-existent. How else might Parliament be reliably informed on these matters? This issue has been covered in the daily press several times, and has also been the subject of a recent Auditor General's report.

It seems difficult nowadays to distinguish whose interests are at the centre of financial and economic analyses, whether the advice comes from our Department of Treasury and Finance, or from the Departments of PriceWaterhouseCoopers, KPMG or Ernst and Young (as three randomly chosen examples of the now AUS \$170billion worldwide network of consultants). There is again a risk to the public interest itself in failing to recognize and debate the serious conflicts of interest which can occur between firms providing policy or financial advice on the one hand and firms such as these often then going on to profit from the financial transactions that governments approve.

Overall, then, I believe that in the arena of public works, the operation of the Parliament of Victoria would be assisted by the initiation of a Parliamentary Committee on Public Works and a Parliamentary Committee on Major Events, with both supported by strong resources and accessing a range of truly independent voices.

More broadly, we might also consider the place of the Parliament within the today's regulatory state, and suggest strengthening the roles of the Auditor General (as an independent evaluator on behalf of Parliament), along with expanding the scope and roles of independent regulators such as the Essential Services Commission (to regulate infrastructure and long term major events contracts, and consumer interests such as pricing and service quality), and the Ombudsman.

Best Regards,



(Professor) Graeme Hodge